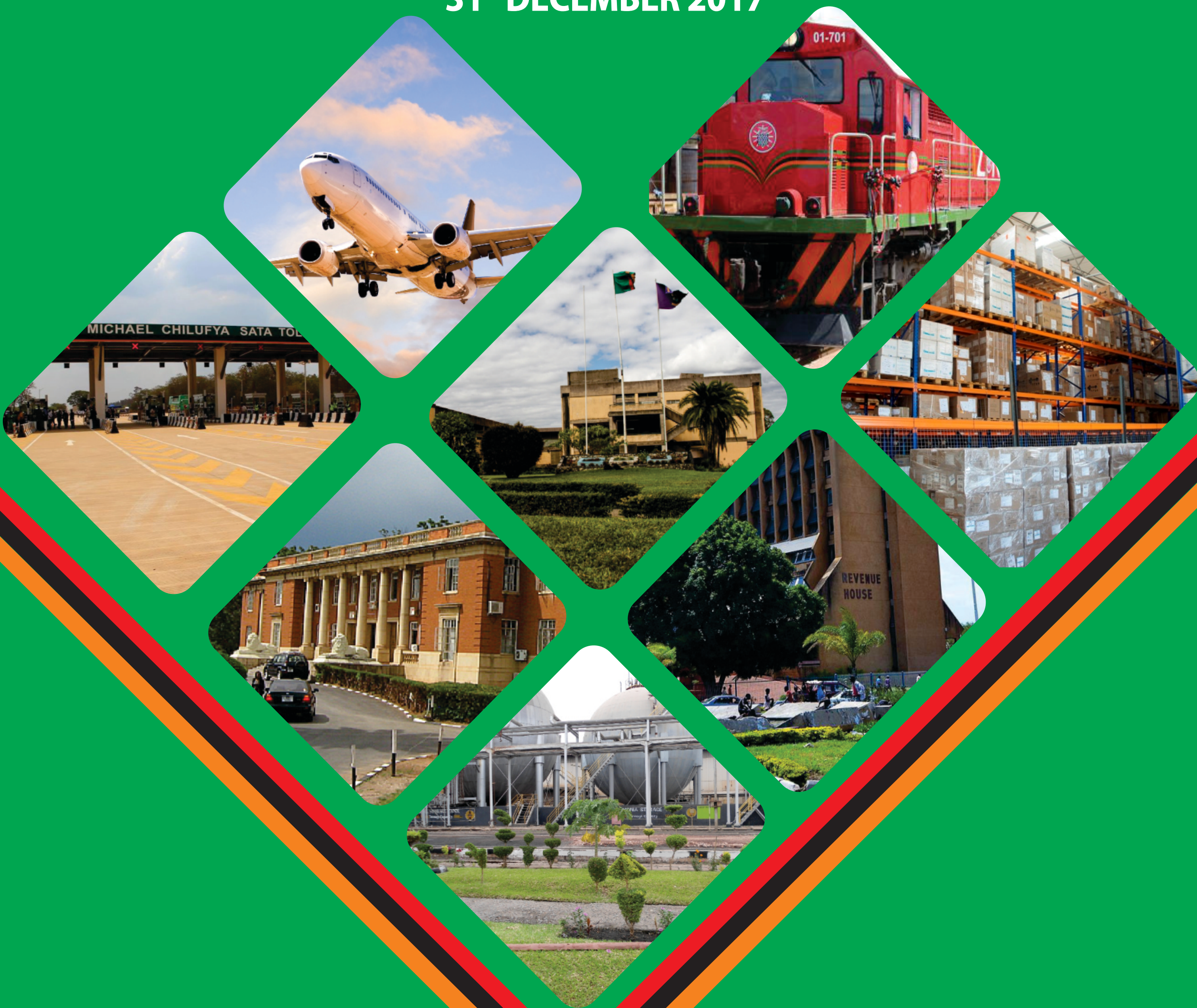
Republic of Zambia

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF PARASTATAL BODIES AND OTHER STATUTORY INSTITUTIONS FOR THE FINANCIAL YEAR ENDED 31st DECEMBER 2017



REPUBLIC OF ZAMBIA

REPORT OF THE

AUDITOR GENERAL

ON THE

ACCOUNTS OF PARASTATAL BODIES

AND OTHER STATUTORY INSTITUTIONS

FOR THE

FINANCIAL YEAR ENDED

31st DECEMBER 2017

OFFICE OF THE AUDITOR GENERAL

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

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

CORE VALUES:

Integrity

Professionalism

Objectivity

Teamwork

Confidentiality

Excellence

Innovation

Respect

PREFACE

The audit and review of operations of Parastatal Bodies and Other Statutory Institutions for the financial years ended 31st December 2014, 2015, 2016 and 2017 was conducted in accordance with the Provisions of Article 250 of the Constitution of Zambia (Amendment) Act No.2 of 2016, the Public Audit Act No.13 of 1994 and the Public Finance Act No.15 of 2004.

This report highlights matters concerning the management and financial performance of selected Parastatal and Statutory Bodies. These matters include failure to prepare and have accounts audited, implement approved governance structures, implement National Policies and Board approved plans and failings in internal control systems resulting in unsupported and irregular 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 such as internal control, leadership, financial and performance management and governance.

Davison K. Mendamenda

ACTING AUDITOR GENERAL

Table of Contents

Executive Summary

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

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

This Report contains paragraphs on Sixteen (16) Parastatal Bodies and Other Statutory Institutions that were audited and remained with unresolved issues as at 31st December 2018. Seven (7) of the institutions are under the Industrial Development Corporation (IDC).

The Sixteen (16) institutions that appear in this Report either had their operations reviewed or accounts audited for periods longer than one financial year as in most cases, their books of accounts are primarily audited by appointed private audit firms in line with the appropriate pieces of legislation. However, it is necessary that such accounts are reviewed and the results of such reviews submitted in compliance with the Republican Constitution, Public Finance Act and Public Audit Act.

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

Some of the issues raised in this Report are:

i. Weaknesses in corporate governance,

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

iii. Failure to produce financial statements,

iv. Poor financial and operational performance,

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

vi. Weaknesses in contract management.

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

Summary of Findings	**Amount K**
Failure to Settle Statutory Obligations	1,739,263,975
Unsupported Payments	13,164,165
Unaccounted for Stores	4,760,991
Unretired Imprest	781,004
Missing Payment Vouchers	5,546,688
Wasteful Expenditure	438,978,870
Irregular Issuance of Fuel	79,629
Undelivered Stores	821,700
Irregular Payments	293,037
Failure to Recover Loans	53,525,650

Introduction

1. The roles and responsibilities of the Auditor General as regards the management of public resources, reporting and accountability are as contained in the Constitution of Zambia (Amendment) Act No. 2 of 2016, the Public Finance Act No. 15 of 2004 and the Public Audit Act No. 13 of 1994. In addition, each Parastatal body and Statutory Institution is governed in accordance with appropriate enabling Legislation.

The Report on the Accounts of Parastatal Bodies and Other Statutory Institutions covering financial years ended 31st December 2014 to 2017 contains paragraphs on sixteen (16) 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 audits and reviews of operations of selected Parastatal Bodies and Other Statutory Institutions for the financial years ended 31st December 2014 to 2017.

Internal Control

3. In this Report, specific mention is made of non-preparation of financial statements, 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.

Copperbelt University

Background

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

The principal activities of the University are to:

- Provide university education,
- Promote research and advancement of learning,
- Disseminate knowledge without discrimination, and
- Hold out to all persons, who meet all the stipulated academic or professional qualifications, the opportunity of acquiring university education.

The University Council

The Higher Education Act No. 4 of 2013 provides for the establishment of the University Council which is a body corporate with powers, subject to the provisions of the Act, and is responsible for the governance, control and administration of the University and shall at all times, act in the best interest of the University.

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

i. The Vice Chancellor

ii. The Deputy Vice Chancellor

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

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

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

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

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

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

ix. One member of the academic staff of the higher education institution, elected by the academic staff of the higher education institution in accordance with such election procedure as the academic staff may determine;

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

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

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

xiii. One representative each from the Ministries responsible for higher education and finance.

Further, members of the Council shall elect the Chairperson and the Vice Chairperson of the Council from among themselves.

Senate

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

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

Sources of Funds

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

i. be appropriated by Parliament;

ii. be paid to the public higher education institution by way of fees, subscriptions, contributions, grants or donations; and

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

Further;

iv. the University may, with the approval of the Minister, accept monies by way of grants or donations from any source in or outside Zambia,

v. may borrow, by way of loan or otherwise such sums as it may require for meeting its obligations and discharging its functions, after obtaining prior consent of the Minister of Finance.

Income

In the Estimates of Revenue and Expenditure for the financial years ended 31st December 2015, 2016 and 2017, provisions in amounts totalling K290,427,483 were made to cater for various activities against which amounts totalling K196,182,908 were released resulting in underfunding of K94,244,575. See table below.

YEAR	Budget K	Released K	Under Funding K
2015	102,820,000	63,787,000	(39,033,000)
2016	123,820,000	72,472,000	(51,348,000)
2017	63,787,483	59,923,908	(3,863,575)
TOTAL	**290,427,483**	**196,182,908**	**(94,244,575)**

In addition, the University raised amounts totalling K516,854,000 from tuition and accommodation fees and other sources as shown below.

SOURCE	2017 K	2016 K	2015 K	Total K
Tuition	137,548,000	201,635,000	128,635,000	467,818,000
Accommodation	5,687,000	5,811,000	6,185,000	17,683,000
Other	8,478,000	11,174,000	11,701,000	31,353,000
TOTAL	**151,713,000**	**218,620,000**	**146,521,000**	**516,854,000**

Information Systems

During the period under review, the University operated the following IT systems:

i. **OPUS**

This is an in-house developed software that is used for managing student records and information such as applications, registration, accommodation and result management. The application runs on windows sever 2012.

ii. **Access Dimensions**

This is an off the shelf package that is used for managing finances and accounting. The application runs on windows server 2012.

iii. **Pay Master General**

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

iv. **Human Resources System**

This is the system that is used for all human resource management e.g. leave computation, maintenance of staff listing

v. **Procurement Management System**

This is an in-house system that is used for administration of procurement transactions.

A review of accounting, Management Information Systems (MIS) and other records maintained at the Copperbelt University Main Campus in October 2018, revealed the following:

a. **Lack of Implementation Plan for COBIT Adoption**

In 2015, management adopted COBIT to be used in the implementation, operation, management and auditing of Information and Communication Technology (ICT) environments.

However, a review of the ICT annual plans and other related documentation revealed that as at 31st October 2018, the University had no implementation road map for COBIT since its adoption in 2015. It was further observed that the University had neither commenced using COBIT nor had it trained any of its staff in COBIT.

b. Lack of an Approved ICT Strategic Plan

According to COBIT APO 02.05, an organization should define the strategic plan and road map in co-operation with relevant stakeholders on how IT- related goals will contribute to the enterprise strategic goals. The plan should describe how IT will support IT-enabled investment programs, business processes, IT services and IT assets.

However, it was observed that as at 31st October 2018, CBU was operating without an approved ICT Strategic Plan. It was therefore difficult to establish whether IT investments and activities such as the procurement of computers and accessories and maintenance of management systems were being driven by a clear business objective in the Strategic plan.

c. System Crash

A review of the incident report revealed that on 28th June 2018, the Copperbelt University experienced a system crash as a result of the ICT Network being attacked by Ransomware. According to the incident report, the attack originated internally within CBU from the test server belonging to the development team then spread to the Domain Controllers that authenticate users of networked computers. The infrastructure that was affected by the crash included:

- Access Accounts Database
- Liberty
- Email Server
- Test Servers
- Domain Controllers
- Student Information system database

The crash resulted in the non-preparation of financial statements for the year ended 31st December 2017.

In November 2018, CBU engaged an investigator to establish the cause of the crash.

d. Irregularities in Student Registrations

According to the University procedures on student registration, a student, once admitted is invoiced by Student Finance manually before being registered for the academic year.

Additionally, the Copperbelt University Financial Regulations of 2013 require that any student owing the University tuition and other fees shall be prevented from re-enrolling at the University and from using the university facilities unless appropriate arrangements have been made to liquidate the debt.

The following were however observed:

i. **Results Issued to Registered Student not Invoiced**

A comparison of the registered student database to the invoiced students' database revealed that two hundred and seventy two (272) students were registered without being invoiced during the period under review. A further scrutiny of the 272 registered students revealed that they were given their results despite not having been invoiced for the academic years. See table below.

Year	Registered without invoices	Not invoiced but got Results
2015	119	119
2016	122	122
2017	31	31
	272	**272**

It was therefore not clear why management issued results to students who had registered but with no evidence of them having been invoiced and from whom no payments were received.

ii. **Registered Students not on 100% Sponsorship with Zero Tuition Fees**

According to the University guidelines, students would be invoiced for tuition fees based on their various levels of government sponsorship. Those on 100 % government sponsorship would have zero tuition fees while those not on 100 % would be invoiced based on the level of sponsorship.

A scrutiny of the invoices that were raised during the period under review revealed that one hundred and eighty one (181) registered students not on 100% government sponsorship had zero charge for tuition. A further scrutiny revealed that all the one hundred and eighty one (181) registered students obtained their results. Management had not provided any evidence why the students were not charged tuition fees in amounts totalling K3,462,985. See the table below.

Year	Registered without Invoices	Tuition Fees not Charged K
2015	67	1,094,325
2016	114	2,368,660
	181	**3,462,985**

e. Irregular Changes to the Results on the System

According to the University procedures, once results are released, only the Head of Department can make changes to the results and the changed results would appear as moderated results. During the period under review, the University had results appearing on the system as moderated implying they were amended from the original results. Specifically, the following observations were made:

i. A review of the system logs for the years 2016 and 2017 revealed that there were five hundred and seventy nine (579) favourable changes to students' results after having been officially published. As at 31st December 2018, no documentation to support the above changes to students' results were availed for audit.

ii. There were seventeen (17) results that were changed on the system by unidentified persons.

iii. There were twelve (12) results that were questionably moderated by the ICT Operations Manager without authority.

f. Operating without a Full Council

Section 24 of the Higher Education Act No. 4 of 2013, provides that a public institution of higher learning shall have a Council, which shall be responsible for the governance, control and administration of a higher education institution. Further, Section No. 1 of the second schedule of the Act provides for the composition of the Council.

During the period from August 2015 to September 2018, the University operated using a caretaker Council which comprised of eight (8) members. However, there were no appointment letters availed for audit and therefore, the tenure of office of the caretaker Council was not known.

Further, the caretaker Council did not have representation from the following sectors provided for in the Act:

- A local authority
- A member associated with higher education from outside the Republic,

- Non - academic member of staff,
- Member of the National Assembly and;
- Representative from the Ministry of Finance.

As at 31st December 2018, there was no evidence of appointment of a full Council.

g. Failure to Prepare Annual Reports

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

It was however, observed that the University did not prepare annual reports for the years 2015, 2016 and 2017. Further, although the University had audited financial statements for financial years ended 31st December 2015 and 2016, the financial statements for the year ended 31st December 2017 had not been prepared as at 31st December 2018.

h. Statement of Comprehensive Income

The Statement of Comprehensive Income for the years ended 31st December 2015 and 2016 were as follows:

STATEMENT OF COMPREHENSIVE INCOME	2016 - Audited K`000	2015 - Audited K`000
Grants	72,472	63,787
Revenue Collections	218,620	146,521
Total Income	**291,092**	**210,308**
Expenditure		
Staff Salaries	312,630	312,661
Building, Vehicles and grounds maintenance	23,866	27,062
Examination and Graduation Expenses	811	594
Impairment loss on assets	-	698
Repairs and Maintenance of Equipment	834	355
Student Welfare and Equipment	1,458	994
General Expenses	60,263	55,711
Penalties and Interest on Unremitted Statutory Obligations	26,764	27,038
Research	590	221
Staff Training	6,518	6,660
Total Expenditure	**433,734**	**431,994**
Total comprehensive loss for the year	**(142,642)**	**(221,686)**

The following were observed:

i. Operating Deficits

As can be seen from the table above, the University had a deficit of K221,686,000 in 2015 and K142,642,000 in 2016. This was due to high costs and low revenue.

ii. Operating Expenses as a Percentage of Revenue

The Operating Expense Ratio (OER) is a measure of what it costs to operate a business compared to the income that a business generates. It is an important determinant of the operational efficiency of an organization. A ratio of more than 100% denotes operational inefficiency. The ratios for the University for 2015 and 2016 were as shown in the table below:

Financial Year Ended 31 December	2016	2015
Operating Expenses (K)	433,734,000	431,994,000
Revenue (K)	291,092,000	210,308,000
Operating Expenses as% of revenue	**149%**	**205%**

As can be seen from the table above, the operating expenses as a percentage of revenue was 205% in 2015 and 149% in 2016 which were above the benchmark of 100%.

iii. Staff Costs to Income Ratio

A scrutiny of the financial statements revealed that during the period under review the income generated by the University was not adequate to meet staff costs as shown in the table below.

	Yr to Dec 2016	Yr to Dec 2015
Income (K)	291,092,000	210,308,000
Total Staff costs (K)	312,631,000	312,661,000
Excess Staff costs over Revenue (K)	21,539,000	102,353,000
Staff Cost as % of Revenue	**107%**	**149%**

As can be seen from the table above, although the ratio improved from 149% in 2015 to 107% in 2016, the income generated by the University was still not sufficient to meet staff costs.

i. Statements of Financial Position

The Statements of Financial Position for the University as at 31st December 2015 and 2016 were as follows:

	2016 K`000	2015 K`000
ASSETS		
Non current assets		
Property, plant and equipment	363,798	366,794
Investments	4,167	4,354
	367,965	**371,148**
Current assets		
Inventories	2,371	1,441
Trade and other receivables	15,328	33,245
Held to maturity financial assets	0	0
Cash and Cash equivalents	19,405	22,088
	37,104	**56,774**
TOTAL ASSETS	**405,069**	**427,922**
EQUITY AND LIABILITIES		
Funds and reserves		
Capital funds	165	165
Grants	75,905	73,512
Donations	0	0
Revaluation reserves	276,316	280,013
Accumulated deficits	(989,295)	(850,144)
	(636,909)	**(496,454)**
Non Current liabilities		
Long term portion of interest bearing loan	-	1,391
Deferred Income	2,946	2,695
	2,946	**4,086**
Current liabilities		
Short term portion of interest bearing loan	427	1,799
Bankoverdrafts	3,310	0
Trade and other payables	49,394	60,443
Statutory deductions	700,658	609,890
Provision for contract gratuity	285,242	248,158
	1,039,031	**920,290**
Total equity and liabilities	**405,069**	**427,922**

i. Working Capital

Working capital is the difference between current assets and current liabilities. The working capital of the University as at 31st December 2015 and 2016 was negative as can be seen in the table below.

Financial year ended 31 December	2016 K	2015 K
Current Assets	37,104,000	56,774,000
Current Liabilities	1,039,134,000	920,290,000
Working Capital/Liquidity	**(1,002,030,000)**	**(863,516,000)**

The negative working capital implied that the University could not settle its short term obligations using its current assets.

ii. Current Ratio

A current ratio measures the ability of the entity to settle its short term obligations as and when they fall due. It measures the liquidity of the entity. As at 31st December 2015 and 2016 the current ratio of the University was as shown in the table below:

Current Ratio = Current Assets / Current Liabilities

Financial year ended 31 December	2016	2015
Current Assets (K)	37,104,000	56,774,000
Current Liabilities (K)	1,039,031,000	920,290,000
Current Ratio	**0.04**	**0.06**

As can be been seen from the table above, the current ratio was below the recommended ratio of 1.5 for both years. This implied that the University had no capacity to meet its short term obligations.

iii. Poor Performance of Investment

On 16th October 2013, the University purchased Africanza Restaurant and Guest House at a cost of K3,850,000. A review of the financial records revealed that the Guest House made losses of K191,761 in 2015, K37,579 in 2016 and K78,179 in 2017. Consequently, the value of the investment reduced from K4,354,000 in 2015 to K4,167,000 in 2016.

iv. Failure to Remit Statutory Obligations – NAPSA & PAYE

The University owed amounts totalling K686,848,082 in respect of outstanding statutory contributions as at 30th November 2018. See table below.

Institutions	Details	Amount K
Zambia Revenue Authority	PAYE	524,270,408
NAPSA	NAPSA	162,577,674
Total		**686,848,082**

The amounts had been outstanding for periods ranging from 1 to 56 months.

j. Staff Related Matters

i. Inadequate Staffing Levels

An analysis of the Copperbelt University staff establishment records revealed that out of one thousand three hundred and thirty four (1,334) positions, eight hundred and forty seven (847) had been filled as of December 2017 leaving a balance of four hundred and eighty seven (487) vacant. It was observed that the institution had been operating without some key personnel such as Senior Librarian, Professors and Associate Professors, Senior Lecturers, Lecturers, Senior ICT Security Officer and Network Administrator among others.

ii. Failure to Recover Funds – Students Tour to Israel

According to the Memorandum of Understanding between the Copperbelt University and the International Centre for Agricultural Studies in Israel on Co-operation and training for Students in Educational Project in Agriculture, eligible students were to meet their own tuition fees, return tickets and any other fees payable.

On 22nd August 2017, the University spent K303,900 on airfares on behalf of twenty (20) students that travelled to Israel under the Co-operation and training for Students in Educational Project in Agriculture. However, the modalities of how the funds were supposed to be recovered were not defined. Consequently, as at 31st December 2018, the funds had not been recovered from the students.

iii. Irregular Payment of Medical Refunds

Section 13.10 of the 2014 Staff Development Programme, Policy & Regulations Governing Training, states that "the university shall pay textbook allowance at existing rates and full tuition on receipt of an official invoice. However, food, medical bills and accommodation charges shall be the responsibility of the fellow".

Contrary to the clause, it was observed that during the period under review, two (2) payments amounting to K18,074 were paid for medical insurance for two (2) officers while studying abroad.

iv. Irregularities in Administration of Housing Facilities /Housing Allowances

The Collective Agreements for the three (3) University Unions in use during the period 1st January 2015 to December 2017, provided that employees shall be entitled to housing allowance at the rate of twenty percent (20%) of the basic salary. Further, the Terms of Contracts for Principals and Senior Management staff entitles the officers to housing allowance at the rate of twenty percent (20%) of the basic salary.

The following were however observed:

- **Failure to Charge Economic Rent**

  A review of the payroll system and the inventory records for the University houses and discussions with the payroll officers revealed that the rentals paid were charged based on the sections of staff residential areas as indicated below:

  - Section A was K500 for a three (3) bedroom house and K450 for a two (2) bedroom house,
  - Section B was K1,800 for 4 bedroom, K1,200 for 3 bedroom and K800 for a two (2) bedroomed house and K200 for a one (1) bedroomed house,
  - Section C was K900,
  - Section D was K1,000
  - Section H was K300 and
  - Section J was K450 per house.

  Best practice requires that the determination of rentals should consider the values of the properties being rented out. However, there was no evidence availed that the University had conducted any such valuation to help in determining the economic rental fee to be charged.

- **Rental Charges below the Minimum Charge**

  According to the rental fee chart, the minimum charge for a house was K300 with a maximum of K1,800. A review of the rentals paid by staff revealed that forty eight (48) officers were paying rentals below the minimum charge in that their rental payments ranged from K16 to K291. In this regard, the University was deprived of revenue amounting to K88,512.

k. Procurement of Goods and Services

There were weaknesses in the procurement system at the University. In particular the following were observed:

i. Failure to Produce Procurement Plans

Public Procurement Regulation 26 (1) states that "A Procurement Unit shall, in consultation with a user department, prepare a procurement plan for the procuring entity, for each financial year, containing the information required under regulation 27."

Further, Regulation 27 requires, among others, that an entity should include in its Procurement Plan:

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

However, it was observed that during the period under review, the University did not have procurement plans in place.

ii. Uncompetitive Procurements

Section 108 (2), of the Public Procurement Guidelines states that, "a procurement unit shall include sufficient bidders in a shortlist of bidders to ensure effective competition, but in any case, shall obtain no less than three quotations". However, contrary to the guidelines, during the period under review, amounts totalling K335,981 involving six (6) transactions were paid to various suppliers for the supply of goods and services by the University, without following the above procedure.

iii. Unsupported Payments

Contrary to CBU Financial Regulations No. 6.5.7, there were four (4) payments in amounts totalling K133,135 that were not supported with relevant documentation such as receipts, acquittal sheets, invoices and interim payment certificates among others.

iv. Unretired Accountable Imprest

Contrary to CBU Financial Regulation No. 6.5.9.6, accountable imprest in amounts totalling K105,172 issued to various officers during the period under review had not been retired as at 31st December 2018.

Development Bank of Zambia

Background

5. The Development Bank of Zambia (DBZ) was incorporated as a Development Finance Institution by an Act of Parliament No. 35 of 1972 which was later amended by Act No. 11 of 2001 and Act No. 24 of 2005. The Bank started its operations in 1974 initially as a joint venture with the Government and parastatal financial institutions on one hand; and local private sector, foreign bilateral and multilateral institutions on the other.

The authorised share capital of DBZ is US$700,000,000 divided into 700,000 ordinary shares, each having a par value of the Kwacha equivalent of US$1,000 per share. The distribution of shares is as shown in the table below.

Type of Shares	Number of Shares	Shareholding Percentage
Class 'A' Share Capital		
GRZ	56,967	95.654%
NAPSA	9	0.015%
ZANACO	5	0.008%
ZSIC	500	0.840%
Class 'B' Share Capital		
Valentine Chitalu	3	0.005%
European Investment Bank	1	0.002%
Eximbank of India	1,400	2.351%
Development Bank of South Africa	670	1.125%
	59,555	**100%**

The principal functions of the Bank are to:

(a) Make available long, medium and short term finance and equity investment for economic development;

(b) Provide technical assistance and advisory services for the purpose of promoting economic development and, at the discretion of the Board, to charge fees for such services;

(c) Assist in obtaining and placing foreign investment for the purpose of promoting economic development;

(d) Administer on such terms and conditions as may be approved by the Board such special funds as may from time to time be placed at the disposal of the Bank;

(e) Borrow funds in Zambia and elsewhere;

(f) Buy and sell securities, including securities which the Bank has issued or guaranteed;

(g) Study and promote investment opportunities; and

(h) Do all other matters and things incidental to or connected with the foregoing.

Administration

The Development Bank of Zambia is governed by a Board of Directors comprising a Chairperson and nine (9) other members and together they hold office for a period of three (3) years. The Chairperson and five (5) other members are appointed by the Minister responsible for finance while the other four (4) members including the Deputy Chairperson are appointed by the class 'B' shareholders. The current Board was appointed in June 2018 when the tenure of the previous Board came to an end.

The day-to-day administration of the Bank is vested in the Managing Director who is assisted by Directors and support staff.

Sources of Funds

According to the provisions of the Act, the funds of the Bank shall consist of:

(a) Such sums of money as the Bank may acquire by virtue of grants or raise by means of loans;

(b) Such sums of money as may be appropriated by Parliament; and

(c) Such other sums of money as may accrue to it in the course and on account of its business.

Review of Operations

An examination of accounting and other records for the financial years ended 31st December 2015, 2016 and 2017 carried out in July 2018 revealed the following:

a. Statement of Comprehensive Income for the financial years ended 31st December 2015 to 2017

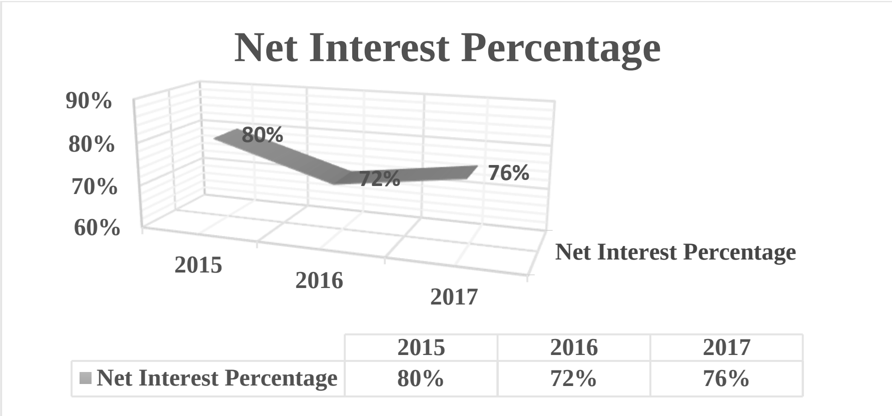
	2017 K'000	2016 K'000	2015 K'000
Interest income	123,127	81,531	62,615
Interest expense	(29,303)	(22,630)	(12,295)
Net interest income	**93,824**	**58,901**	**50,320**
Impairment charges for credit losses	(171,320)	(19,852)	(13,416)
Net income after impairment charges for credit losses	**(77,496)**	**39,049**	**36,904**
Fee and commission income	10,495	5,958	6,520
Fee and commission expense	(161)	(54)	(311)
Net fee and commission income	**10,334**	**5,904**	**6,209**
Other operating income			
Investment income	1,025	6,030	1,125
Share of profits of associates	419	2,220	8,821
Other income	2,909	4,345	709
Net foreign exchange gains	3,291	15,295	71,711
	7,644	27,890	82,366
Total operating income	**(59,518)**	**72,843**	**125,479**
Employee benefits expenses	(62,808)	(45,832)	(57,297)
Other expenses	(20,340)	(14,609)	(8,850)
Impairment of equity investment	-	(8,709)	-
Depreciation and amortisation	(2,282)	(1,989)	(1,491)
	(85,430)	**(71,139)**	**(67,638)**
Profit before taxation	**(144,948)**	**1,704**	**57,841**
Taxation	48,652	(830)	(16,913)
Profit after taxation	**(96,296)**	**874**	**40,928**
Other comprehensive income			
Items that will not be reclassified to profit or loss	-	-	-
Fair value gain on Equity Investments	2,613	4,620	-
Total other comprehensive income	**2,613**	**4,620**	**-**
Total comprehensive income for the year	**(93,683)**	**5,494**	**40,928**

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

i. Fluctuating Net Interest Percentage

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

It was observed that net interest percentage fluctuated between 72 and 80% over the period under review as can be seen in the chart below.

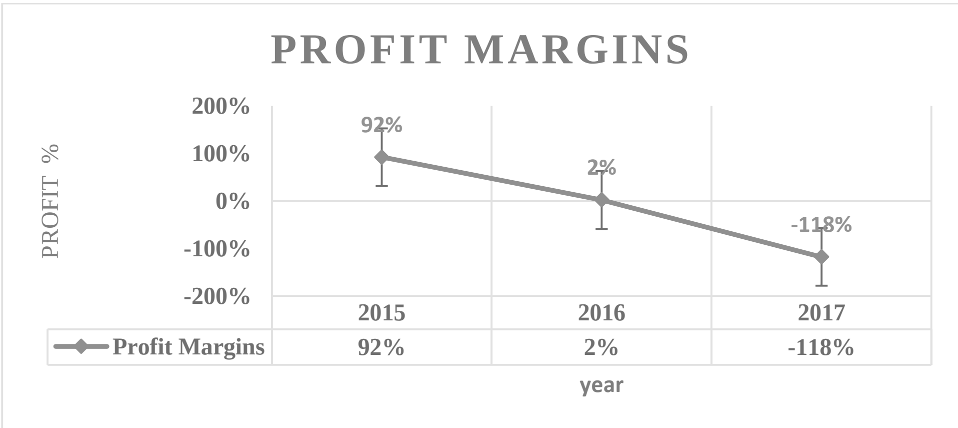


As can be seen in chart above, the net interest percentage dropped from 80% in 2015 to 72% in 2016 reflecting an erosion in profit margins. However, there was an improvement in 2017 when interest income percentage increased from 72% in 2016 to 76% in 2017.

ii. Declining Profit Margins

Profit Margins expresses profits before taxation as a percentage of interest income. It measures how much profit is generated for shareholders and taxation after all expenditure is removed except tax.

Profits margins in the period under review is as depicted in chart below.



As can be seen in chart above, the Bank's profit margins declined over the period under review. In 2015, the margin was 92% but reduced to 2% in the following year before deteriorating even further to negative 118% in 2017, reflecting the Bank's failure to generate adequate income to meet its expenditure in full. Increase in impairments of loans issued out to poor performing customers contributed significantly to the decline in profits.

Further, although the Bank recorded a profit margin of 92% in 2015 and 2% in 2016, an analysis of the 2015 and 2016 Statements of Comprehensive Income revealed that the Bank's source of positive profit margin was due to exchange gains realised in that year. See table below.

	2016 K'000	2015 K'000
Total operating income	72,843	125,479
Less Exchange Gains	(15,295)	(71,711)
Total operating income without exchange gains	57,548	53,768
Less other expenses before taxation	(71,139)	(67,638)
Loss Before Taxation	**(13,591)**	**(13,870)**
Interest Income	81,531	62,615
Net profit Margin	**-17%**	**-22%**

As can be seen in the table above, without exchange gains, DBZ could have incurred losses in 2015 and 2016. Included in a total operating income of K125,479,000 in 2015 and K72,843,000 in 2016 was K71,711,000 and K15,295,000 respectively generated from exchange rate gains without which the bank would have suffered a negative profit margin of 22% and 17% in 2015 and 2016 respectively.

iii. Impairment Losses and Charges

International Accounting Standard (IAS 39), Financial Instruments – Recognition and Measurement, requires that financial assets should be impaired when the present value of future cash flows of the financial asset is less than its carrying amount in the books of the entity. Under the IAS, when a financial asset is impaired, it means the entity will not recover the entire value of the financial asset resulting in an impairment loss. Financial assets of DBZ exposed to such impairment losses included loans and advances to other banks and to customers.

A scrutiny of the Statements of Comprehensive Income (SCI) for DBZ revealed increases in impairment charges and losses. See table below.

	2017 K'000	2016 K'000	2015 K'000	2014 K'000
Impairments of loans and advances to other banks	43	2,436	2,710	26,206
Impairments of customers	171,277	17,416	10,706	(5,418)
Impairment losses per SCI	**171,320**	**19,852**	**13,416**	**20,788**
Increase in impairments (K'000)	**151,468**	**6,436**	**(7,372)**	
Increase in %	**763%**	**48%**	**-35%**	

As can be seen in the table above, impairment losses decreased by K7,372,000 in 2015 representing 35% improvement on the 2014 amount. However, the improvement was not sustained as the losses increased by K6,436,000 representing 48% from K13,416,000 in 2015 to K19,852,000 in 2016, before increasing further by K151,468,000 to K171,320,000 in 2017 representing 763%. The increase in impairments in 2017 depleted income after impairment to negative K77,496,000 thereby contributing significantly to net loss recorded in the year.

b. Statement of Financial Position as at 31st December 2015 to 2017

The financial position of DBZ for the period under review was as shown in the table below.

	2017 K'000	**2016 K'000**	**2015 K'000**
Assets			
Cash and cash equivalents	164,064	68,128	34,347
Loans and advances to other banks	2,090	3,664	15,411
Loans and advances to customers	626,095	645,655	490,615
Equity investments	90,792	86,524	72,572
Investment in associates	28,221	27,802	25,582
Investment properties	20,200	20,200	15,341
Property and equipment	22,358	22,106	21,209
Intangible assets	915	359	610
Deferred tax	30,590	-	-
Other assets	78,483	74,453	57,796
Total assets	**1,063,808**	**948,891**	**733,483**
Liabilities			
Trade and other payables	19,304	22,541	23,810
Loans and borrowings	428,769	192,887	161,311
Deferred tax liabilities	-	18,216	31,685
Current tax liabilities	15,471	15,317	1,723
Other liabilities	51,897	57,964	26,834
Total liabilities	**515,441**	**306,925**	**245,363**
Equity			
Share capital	299,160	299,160	33,471
Funds awaiting allotment of shares	236,176	236,176	353,715
Statutory reserves	72,798	26,915	2,941
Fair value reserve	19,192	19,192	18,990
Revaluation reserve	17,929	17,929	17,929
Retained earnings	(96,888)	42,594	61,074
Total equity	**548,367**	**641,966**	**488,120**
Total liabilities and equity	**1,063,808**	**948,891**	**733,483**

The following were observed:

i. Weaknesses in Managing Equity and Return on Equity

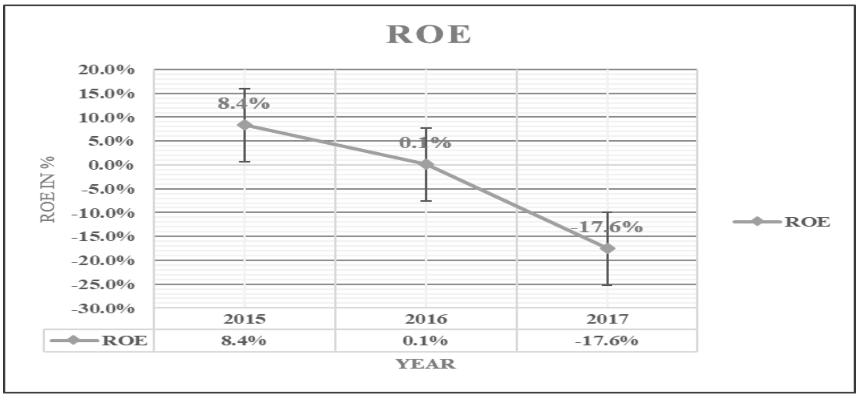
The Conceptual Framework of International Financial Reporting Standards (IFRSs) define Equity as residual value of assets after deduction of all liabilities. Equity measures the value of assets that remain exclusively for shareholders. On the other hand, Return on Equity (ROE) measures how much profits the Bank generated for the benefit of the shareholders. ROE expresses profit after taxation (PAT) as a percentage of equity.

During the period under review, DBZ had equity totals of K548,367,000 in 2017, K641,966,000 in 2016 and K488,120,000 in 2015 and their corresponding ROE amounts as tabulated below.

The following were observed in relation to Equity and ROE:

- **Declining Return On Equity**

  An analysis of ROE for the period under review revealed that the Bank's ROE was declining as shown in the chart below:



  As can be seen in chart 3 above, the Bank achieved its highest ROE in the three (3) years of 8.4% in 2015 which, however, reduced to 0.1% in 2016 before further plummeting to negative 17.6% in 2017. The comparatively higher ROE in 2015 was due to factors not related to performance but due to exchange gains.

- **Depletion of Retained Earnings**

  As can be seen in the table above, retained earnings in 2017 were depleted resulting in an accumulated retained loss of K96,888,000 as at the end of the year. This depletion was caused by a loss after tax of K96,296,000 incurred in that year. The accumulated retained loss in 2017 eroded overall equity by K93,683,000 from K641,966,000 in 2016 to K548,367,000 in 2017 reflecting a loss in the value of investments of shareholders including the Government.

ii. Failure to Utilise Additional Government Capital Injection to Improve ROE

In 2013, DBZ signed an agreement with the Government for a US$20 million (K104,511,200) loan called Eurobond line of credit. The purpose of the line of credit was to support small and medium enterprises and was repayable in ten (10) years effective 27th March, 2013. Interest was charged at 7.3% per annum.

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

It was however, observed that although Government had been increasing its equity investment into DBZ, the Bank had not managed to utilise this extra financing to improve ROEs. As can be seen in the Statement of Financial Position, shareholders increased their investment by 794% from a share capital of K33,471,000 in 2015 to K299,160,000 in 2016 and 2017. However, in the same period, ROE declined from 8.4% in 2015 to negative 17.6% in 2017. Further, the bank failed to utilise interest cost savings of approximately K8.03 million (7.3% of K110 million) per year that arose on conversion of the Eurobond Loan to equity to boost its ROEs.

iii. Deteriorating Interest Margins

DBZ calculates interest margin as Profit before Taxation (PBT) as a percentage of total assets. It helps to determine how much profit is generated on every K100 of assets the Bank holds. It, therefore, helps to reveal the efficiency with which total assets are being utilised to generate profits. The table below shows the movements in interest margins generated by DBZ during the period under review.

	2017 K'000	2016 K'000	2015 K'000
Profit Before Taxation	(144,948)	1,704	57,841
Total Assets	1,063,808	948,891	733,483
Net Profit Margin	-13.6%	0.2%	7.9%

As can be seen in the table above, interest margins reduced from 7.9% in 2015 to 0.2% in 2016 and further down to negative 13.6% in 2017 because of declining profits in 2016 and the losses incurred in 2017. Deteriorating interest margins are an indication of reduced efficiency with which the bank's assets were managed in the period under review. With an interest margin of 7.9% in 2015, DBZ was on average generating K7.90 per every K100 it invested in its assets which reduced to K2 in 2016. However, by the end of 2017, DBZ was on average, losing K13.6 per every K100 of assets it held.

c. Weaknesses in Managing Credit Appraisal, Monitoring of Projects and Loan Recoveries

Credit management deals with how the Bank goes about lending or providing financial support on credit to its target customers in their various business projects. Once financed, projects are subjected to portfolio management and monitoring.

The following were observed:

i. Non - Performing Loans

Statutory Instrument No. 142 of the Banking and Financial Services Act 1996 classifies loans as shown in the table below:

Loan Classification	Provision Required	Arrears as to Principal and Interest
Pass	Nil	Nil under 89 days
Substandard	20%	90 - 119 days
Doubtful	50%	120 - 179 days
Loss	100%	180 days plus

A review of the Portfolio Management Report for the month ended 30th November, 2017 revealed that thirty six (36) out of ninety one (91) loan accounts were categorized as losses. See table below:

Year	Total Portfolio	Doubtful and Loss accounts (Defaulting clients)	Doubtful and loss accounts value K	% of total portfolio
2015	535,318,828	15	127,775,838	24
2016	682,413,006	31	235,231,830	34
2017	760,706,713	36	237,791,373	31

As the table above shows, fifteen (15) customer accounts with total outstanding balances of K127,775,838 representing 24% of the total loan portfolio were doubtful and loss accounts. This increased to thirty one (31) accounts with total account value of K235,231,830 representing 34% of the loan portfolio in 2016. Further, doubtful and loss customer accounts increased to thirty six (36) accounts in 2017 with values in amounts totalling K237,791,373 representing 31% of the total portfolio.

Further, Section 5.1 of the DBZ Monitoring of Projects under Commercial Operation's Manual recognizes Non-Performing loans (NPLs) as loans whose principal and or interest repayments are past their due dates for more than ninety (90) days.

ii. Delayed Disbursement of Loans

A review of the Portfolio Schedule for the period under review revealed that DBZ delayed to disburse funds to four (4) approved projects. See table below.

CUSTOMER	Disbursed Amount K	Date Approved	Date of First Disbursement	Delay
Shimaini Investments Limited 1st Loan	2,900,000	29.06.2016	25.07.2017	11 months
Shimaini Investments Limited - 2nd Loan	2,981,536	29.06.2016	25.07.2017	11 months
African Transmission	857,182	01.04.2016	24.08.2017	16 months
Chrismar Hotel Limited	1,853,979	01.04.2016	16.11.2017	19 months
TOTAL	8,592,697			

As can be seen in the table above, DBZ delayed disbursing approved loan funds to four (4) projects for periods ranging from eleven (11) to nineteen (19) months exposing affected projects to changes in business conditions brought about by passage of time such as price escalations and changes in seasons.

iii. Chasasa Farms

On 2nd September 2013, DBZ agreed to provide a medium-term loan facility of K3,109,617 to Chasasa farms in Namwala District, under the Eurobond credit line facility. The loan was to support an integrated fish farming project which involved rearing of livestock and fish culture simultaneously. Among the terms of the loan were the following:

- Interest was to be charged at a rate of 9.3% per annum compounded daily on a 365-day year.
- The loan was secured with security which included one property in Namwala and another in Lusaka, debentures and livestock among others.
- Borrower would access the loan in a series of disbursements called drawdowns with the last drawdown being made on 8th January 2014.
- The loan was repayable in eight (8) equal semi-annual instalments of K388,702 each within sixty (60) months commencing twelve months after the date of the first disbursement.

By the end of October 2014, DBZ had fully disbursed the loan amount to the project.

However, the following were observed:

- **Lack of Proof of Existence of Equity Contribution**

  According to documentation pertaining to Chasasa Farm Project such as Call Reports, project status reports and internal audit reports, DBZ agreed to fund the project on condition that the project promoter would inject an equity contribution of K265,050. However, as at 31st October 2018, there was no evidence availed for audit scrutiny that the promoter had contributed the K265,050 as required.

- **Utilising Loan Proceeds on Ineligible Expenditure**

  According to DBZ Call Report dated 30th June 2015, the promoter's own equity contribution was meant to meet certain project capital expenditure such as erecting of a pump house and operational expenses such as fuel and fish reproduction expenses. However, a scrutiny of the Call Report revealed that the promoter utilised K635,536 of the DBZ loan proceeds to fund works that were outside the agreed project cost and to meet farm operational expenses which included salaries and wages. Further, a scrutiny of the 43rd Audit & Risk Committee minutes dated 24th November 2015, revealed that the Committee was concerned that management of DBZ had continued to disburse funds to the project despite becoming aware of the anomalies in the implementation of the project and the utilization of the project funds.

- **Loan Repayments and Outstanding Balances**

  A review of the Loan client statement dated May 2018, revealed that Chasasa Farms Limited had not serviced its loan since January 2015. In this regard, the loan balance had increased from the borrowed amount of K3,109,617 to K6,777,847 through unpaid interest as at 30th April, 2018.

iv. Yalelo Limited

On 31st July 2013, DBZ entered into a shareholders' agreement with Liongate Venture Fund I SPC (LVFI) of Cayman Islands and Yalelo Limited, a fish farming company incorporated in Zambia.

Under the agreement the following took place:

- DBZ immediately acquired 1,245 preferential redeemable shares in Yalelo Limited at a total fully paid up value of K12,500,000
- DBZ became entitled to fixed dividends of K4,000,000 in 2014 and K7,500,000 each year from 2015 onwards as long as the dividends were not above DBZ's proportional ownership in Yalelo Limited. Where this was not the case, the dividend would be equal to DBZ's proportional shareholding.
- The size of the Board of Yalelo was set at five (5) members with a three (3) year renewable tenure of office.
- DBZ became entitled to appoint one Director to the Board while the rest of the Board members were appointed by LVFI.

On 25th August 2014, the parties amended the agreement and agreed that DBZ would be entitled to a share of profits of K4,000,000 in 2014 and K7,500,000 each year from 2015 onwards. In 2015, the two parties further amended the agreement and provided that DBZ would be entitled to a dividend calculated at 23 percent per annum of K12,500,000 payable every 31st July.

During the period under review, DBZ recognized the following incomes from Yalelo Limited:

Year to 31st July	Opening Dividend Balance K	Dividend Recognised in the Year K	Accumulated Dividend Receivable K
2013 - 2014		2,443,750	2,443,750
2014 - 2015	2,443,750	2,443,750	4,887,500
2015 - 2016	4,887,500	2,443,750	7,331,250
2016 - 2017	7,331,250	2,443,750	9,775,000

The following were observed:

- **Understatement of Dividends Receivable**

  As can be seen in the table below, DBZ understated the dividends receivable from Yalelo Limited for the period from 2013 to 2017 by amounts totalling K7,475,000 contrary to provisions of the original shareholders' agreement and its subsequent amendments. See table below.

Year to 31st July	Dividend Calculation	Annual Dividend as per Agreement K	Actual Dividend Recognised in the Period K	Understatement K
2013 - 2014		4,000,000	2,443,750	1,556,250
2014 - 2015		7,500,000	2,443,750	5,056,250
2015 - 2016	23% of K12.5m	2,875,000	2,443,750	431,250
2016 - 2017	23% of K12.5m	2,875,000	2,443,750	431,250
Total			**9,775,000**	**7,475,000**

  As can be seen in the table above, DBZ understated the share of profit receivable from Yalelo Limited in each year under review. As at the end of 2017, the understatement accumulated to K7,475,000 contrary to the provisions of the amended Shareholders' Agreement.

- **Accrued Dividends and Interest Receivable**

  DBZ invested in Yalelo Ltd to receive dividends on its preferred shares. Further, the amendment to the shareholders' agreement made in 2015 provided that unpaid dividends would attract interest payable to DBZ at floating interest rate based on the DBZ Kwacha lending rate. However, a scrutiny of statement of account for the month of November 2018 revealed that the investment had failed to generate desired returns for the period under review. See table below.

Year to 31st July	Dividend Receivable K	Interest Receivable K	Outstanding K
2013-2014	4,000,000	-	4,000,000
2014-2015	7,500,000	511,782	8,011,782
2015-2016	2,875,000	1,053,691	3,928,691
2016-2017	2,875,000	1,796,156	4,671,156
2017-2018	2,875,000	2,639,250	5,514,250
30-Nov-18		1,057,507	1,057,507
Total	**17,250,000**	**7,058,386**	**27,183,386**

As can be seen from the table above, from 2013 the investment in Yalelo Ltd failed to generate dividends for DBZ in amounts totalling K17,250,000 as of November 2018. Further, the unpaid dividends attracted interest receivable in amounts totalling K7,058,386 which also remained unpaid as of November 2018. As of the same date, the total outstanding income receivable from Yalelo Ltd had accumulated to K27,183,386 contrary to the DBZ Investment Policy of 2015 that requires that DBZ should prudently hold investments that generate maximum returns.

Industrial Development Corporation

Background

6. The Industrial Development Corporation (IDC) Limited is a State-Owned Enterprise (SOE) charged with the mandate to spearhead the Government's commercial investments agenda aimed at strengthening Zambia's industrial base and job creation. The IDC was incorporated on 21st January 2014 and is wholly owned by the Government through the Minister of Finance pursuant to the Minister of Finance (Incorporation) Act Cap 349 of the Laws of Zambia. The IDC was established to create and maximise long term shareholder value as an active investor and shareholder of state-owned enterprises, as well as undertake industrialisation and rural development activities through the creation of new industries.

The IDC was incorporated as a company limited by shares with a share capital made up of 20,000,000 ordinary shares of K1.00 each. Further, in approving the establishment of the IDC, Cabinet facilitated the establishment by making available funds from the Privatisation Trust Fund with an initial amount of K10,000,000 in accordance with section 53 of the Zambia Development Act No. 11 of 2006.

In this regard, on 24th August 2015, the Government transferred its interests in twenty-nine (29) enterprises to the IDC. These comprised of twenty-two (22) subsidiaries and seven (7) associates. See table below.

Subsidiaries

No.	Name of an Entity	Shareholding
1	Engineering Services Corporation	100%
2	Indeni Petroleum Refinery Limited	100%
3	NIEC School of business Trust	100%
4	Lusaka South Multi Facility Economic Zone Limited	100%
5	Medical Stores Limited	100%
6	Mpulugu Harbour Corporation Limited	100%
7	Mukuba Hotel Limited	100%
8	Mulungushi International Conference Centre	100%
9	Mulungushi Village Complex Limited	100%
10	Mupepetwe Development Company	100%
11	Nitrogen Chemicals of Zambia Limited	100%
12	Zambia Daily Mail Limited	100%
13	Zambia Electricity Supply Corporation (ZESCO)	100%
14	Zambia Forestry and Forestry Industries Company	100%
15	Zambia International Trade Fair	100%
16	Zambia Printing Company	100%
17	Times Printpak Zambia Limited	100%
18	Zambia Railways Limited	100%
19	Zambia State Insurance Corporation	100%
20	Zamcapital Enterprises Limited	100%
21	Zamtel Limited	100%
22	ZCCM Investment Holdings PLC	60.28%

Associates

No.	Name of an Entity	Shareholding
1	Afrox Zambia Limited	30%
2	Indo - Zambia Bank Limited	40%
3	Kagem Minerals Limited	25%
4	Lusaka Trust Hospital	50%
5	Zambia - China Mulungushi Textiles Limited	36%
6	ZANACO PLC	25%
7	Nanga Farms	14.27%

The strategic objectives of the Corporation include, among others, to:

(i) Reposition all SOEs through improved management, financial viability and sustainability and bring loss-making entities to profitability;

(ii) Catalyse sector investment by co-investing in business ventures with the private sector across the forestry, fisheries, agro-processing, renewable energy, mining value addition and tourism sectors;

(iii) Identify and undertake high risk investments that add value to the country's natural resources;

(iv) Ensure a balanced and secured return on investment and enhance the capacity of the Corporation to deliver growth to the portfolio

(v) Enhance the legal, institutional and group oversight framework in accordance with tenets of good corporate governance; and

(vi) Identify and mitigate risks in the group portfolio and strengthen the credibility and creditworthiness of the Corporation.

The Board of Directors

The Governing Board of Directors oversees the operations of the Corporation and as of 2018 the Board comprised of thirteen (13) members. According to Part 12 clause 57 of the Articles of Association of the IDC, the Board of Directors shall consist of the following members:

i) His Excellency, the President of the Republic of Zambia, who shall be Chairman of the Board of Directors;

ii) Three (3) Cabinet Ministers;

iii) Two (2) officials from the Civil Service; and

iv) Seven (7) persons from the Civil Society.

Further, Part 14 clause 65 (1) of the Articles of Association, states that the Directors shall elect one (1) member of the Board who is from the private sector as Vice Chairman for their meetings and determine the period for which he shall hold office.

Management

The Group Chief Executive Officer (CEO) who is appointed by the Board of Directors is responsible for the day-to-day operations of the Corporation. The Chief Executive Officer is assisted by the Chief Corporate Services Officer, Chief Financial Officer, Legal Counsel/ Company Secretary, Chief Portfolio Officer and Chief Investments Officer, who are appointed on three (3) year contracts.

Sources of Funds

According to the Incorporation Act 349 of the Laws of Zambia, IDC is a self-funding institution which draws its funds from leveraging its founding portfolio of companies and access some of its funds from project finance which consist of such moneys as:

i) Income from the sale of shares in investments

ii) Dividends received from profitable state enterprises

iii) Interest of Placed Deposits; and

iv) Other Income such as Development of Finance Institutions and debt issuance in capital markets among others.

Income

During the financial years ended 31st December 2014, 2015, 2016 and 2017, budget provisions in amounts totalling K332,160,279 were made to cater for various activities, against which amounts totalling K236,494,718 were received resulting in a deficit of K95,665,561. See table below.

Year	Budgeted Revenue K	Actual Revenue K	Variance K
2014	-	92,261	92,261
2015	-	43,785,693	43,785,693
2016	141,800,000	98,421,097	(43,378,903)
2017	190,360,279	94,195,667	(96,164,612)
	332,160,279	**236,494,718**	**(95,665,561)**

The revenue received by the Corporation comprised of dividends, interest earned and sale of tender documents as shown in the table below.

Income Source	2014 K	2015 K	2016 K	2017 K	Total K
Dividends	-	43,466,500	95,219,407	91,420,356	230,106,263
Interest from fixed Deposit Placements	92,261	197,369	1,220,637	1,951,966	3,462,233
Sale of tender Documents		121,824			121,824
Other Income			1,981,053	459,096	2,440,149
Sale of Shares				364,250	364,250
	92,261	**43,785,693**	**98,421,097**	**94,195,667**	**236,494,718**

Further, Zambia Development Agency (ZDA) remitted a total amount of K9,000,000 in 2014 to IDC as initial capital.

Review of Operations

A review of operations of the Corporation for the financial years ended 31st December 2014, 2015, 2016 and 2017 revealed the following:

a. Failure to Produce Annual Report

According to the Articles of Association, the Corporation is supposed to produce an annual report for each financial year. The annual report includes financial statements and other information on the Corporation's performance. However, the annual report for the financial year ended 31st December 2017 had not been prepared as at 31st December 2018.

b. Lack of Financial Policies and Procedures Manual

A financial policies and procedures manual forms a basis for evaluating the accounting control procedures within an organisation, provides guidance and information to assist in the preparation of accounts and ensures that accounting personnel effectively and efficiently perform their responsibilities so as to achieve the set objectives.

However, as at 31st December 2018, the Corporation did not have a financial policies and procedures manual in place.

c. Statement of Comprehensive Income

The Statement of Comprehensive Income for the years ended 31st December 2014, 2015 and 2016 were as follows:

	2016 K	2015 K	2014 K
Income Statement			
Interest on funds placed on deposit	1,220,637	197,369	92,261
Dividends Received	95,219,407	43,466,500	-
Sale of Tender Documents	-	121,824	-
Other Income	1,981,053	-	-
Total Revenue	**98,421,097**	**43,785,693**	**92,261**
Expenditure			
External Audit	416,560	7,656	91,740
Bank Charges	345,588	8,050	3,112
Depreciation	1,622,428	665,375	75,831
Fuel and Oils	1,121,179	35,090	4,840
ICT Services	157,090	16,569	19,678
Insurance	251,256	39,396	9,939
Office Consumables	41,033	48,378	37,124
Operationalisation of IDC	249,318	759,868	609,612
Postage	7,926	3,292	4,896
Staff Welfare	46,500	-	-
Professional Membership - Staff	12,809	-	-
Procurement committee meetings	-	135,100	10,150
Publication of Corporate promotional materials	254,035	30,951	2,668
Salaries	12,573,033	6,884,149	1,739,282
Other Staff Costs	5,363,928	4,520,568	-
Telephone	473,654	28,728	2,489
Tender evaluation	-	77,358	3,750
Motor Vehicle Expenses	432,713	32,625	-
Transport Expenses	3,632	3,081	-
Computer and office accessories	34,917	7,028	-
Stationary and printing	212,831	44,827	-
Water	-	3,441	-
Newspaper and periodicals	42,760	34,920	-
Office Rentals	211,200	233,950	-
Office Cleaning	115,230	22,300	-
Repairs and Maintenance	2,436	5,482	-
Foreign travel expenses	259,527	47,443	-
Exchange Losses	6,155,285	4,416,993	-
Company Secretarial costs	6,498	158,284	-
Website development	-	23,200	-
Project development	-	500,572	-
General Expenses	109,503	19,558	-
Security	20,850	-	-
Director's Fees	1,149,800	-	-
Tax Penalties	79,800	-	-
Local Travel	144,068	-	-
Situtional Review	3,574,166	-	-
Seminars	115,130	-	-
Training	132,307	-	1,050
Board Expenses	748,381	-	-
Total Expenses	**36,487,371**	**18,814,232**	**2,616,161**
Operating Profit/ (Loss)	**61,933,726**	**24,971,461**	**(2,523,900)**
Net Profit/ (Loss) for the period	**39,999,237**	**16,228,634**	**(2,523,900)**

d. Statement of Financial Position

The Statement of Financial Position for the Corporation as at 31st December 2014, 2015 and 2016 were as follows:

Statement of Financial Position	2016 K	2015 K	2014 K
Assets			
Non Current			
Property, plant and equipment	4,321,286	4,444,152	1,055,867
Investments in Subsidiaries	14,493,294,000	14,493,294,000	-
Investments in associates	1,211,748,000	1,211,748,000	-
Other Investments	10,523,878	1,066,980	-
Deferred Tax asset	-	469,295	-
	15,719,887,164	**15,711,022,427**	**1,055,867**
Current Assets			
Short Term Deposits	76,862,500	10,980,600	3,460,000
Trade and other recievables	1,673,325	50,971	127,262
Amounts due from related parties	10,567,500	-	-
Bank and Cash balances	1,813,243	29,356,807	2,924,711
	90,916,568	**40,388,378**	**6,511,973**
Total Assets	**15,810,803,732**	**15,751,410,805**	**7,567,840**
EQUITY AND LIABILITIES			
Capital and Reserves			
Share Capital	10,000,000	10,000,000	10,000,000
Capital Reserve	15,705,042,000	15,705,042,000	
Retained Profit	53,703,971	13,704,734	- 2,523,900
	15,768,745,971	**15,728,746,734**	**7,476,100**
Non Current Liabilities			
Capital grant	5,920,084	5,920,084	-
Deffered tax liability	294,548	-	-
	6,214,632	**5,920,084**	**-**
Current Liabilities			
Trade and other payables	5,460,361	7,531,865	91,740
Taxation payable	30,382,768	9,212,122	-
	35,843,129	**16,743,987**	**91,740**
Total Equity and Liabilities	**15,810,803,732**	**15,751,410,805**	**7,567,840**

An analysis of the audited financial statements as at 31st December 2016 revealed that included in the value of investments in the portfolio of subsidiaries of K14,493,294,000 were a total of three (3) state owned enterprises whose values of the investments valued at K717,768,000 were negative. See table below.

Company	% Held	Value of the Company K	Profit/(Loss) K
Zamtel	100	(206,686,000)	(272,349,000)
Zambia Printing Company	100	(4,256,000)	(5,026,000)
Times Printpark (Z) Ltd	100	(506,826,000)	(62,986,000)
		(717,768,000)	**(340,361,000)**

e. Staff Issues

i. Inadequate Staffing Levels.

An analysis of the Corporation's staff establishment revealed that out of seventy one (71) positions, thirty nine (39) had been filled as of December 2017, leaving thirty two (32) positions vacant. It was observed that the Corporation had been operating without some key personnel such as Chief Investments Officer, Manager ICT, Manager Risk, Manager Strategy & Research, Manager Treasury and Equity, as at 31st December 2018.

ii. Unsupported Payments of Leave Pay

Terms and Conditions of Service for IDC No. 12, provides guidance on the types of leave and when an individual is entitled to leave. An examination of the payroll records revealed that during the period under review, amounts totalling K1,415,383 were paid to various officers as leave pay. However, approved leave forms were not availed for audit.

iii. Irregular Increment of Salaries

Terms and Conditions of Service for IDC No. 10, states that an employee's salary shall be reviewed annually in line with the Performance Management Appraisal System (PMAS) and implemented from 1st January.

However, on 16th January 2017, the Manager, Human Resources and Administration made a proposal to the Chief Executive Officer, for notch increment for ten (10) officers without carrying out performance management appraisals.

In this regard, salary increments in amounts totalling K154,776 paid to the officers in 2017 were irregular.

f. Failure to Implement Board Resolutions

A review of the minutes of the 1st ordinary meeting of the Board of Directors held on 12th May 2017, revealed that the Board resolved as follows:

- That ESCO be transferred to Ministry of Works and Supply.
- That Lusaka Trust Hospital be removed from the portfolio of IDC as it was considered to be a health care facility.

In addition, the Board resolved that the shareholding in Kagem Mining Limited be sold to ZCCM-IH PLC to avoid the potential duplication of IDC holding of ZCCM IH PLC.

However**,** management failed to implement the resolutions of the Board as these entities continued to appear on the IDC portfolio as at 31st December 2018.

g. Unsupported Payments

Twelve (12) payments in amounts totalling K72,801 made during the period under review were not supported with relevant documents such as receipts and invoices.

h. **Unaccounted for Stores**

Stores items costing K44,566 procured during the period under review were unaccounted for in that there were no receipt and disposal details.

i. **Lack of Transport Policy**

During the period under review, IDC had a total of fourteen (14) pool vehicles for its operations and each vehicle had its own fuel Tom Card and account. Each vehicle was allocated 250 litres per month according to the fuel type (diesel or petrol) and this was paid to the filling station.

However, it was observed that the Corporation operated without a transport policy in place. Consequently, there were no guidelines on how to draw fuel, when to replenish fuel levels, and in most instances, fuel drawings were not supported by authorized issue notes.

The Judiciary

Background

7. 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
- Protecting human rights of individuals and groups

The Judiciary 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 Judiciary and the implementation of resolutions of the Judicial Service Commission.

Sources of Funds

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

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

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 Judiciary or any part thereof.

Funding

In the Estimates of Revenue and Expenditure for the financial year ended 31st December 2017, a total provision of K450,290,735 was made to cater for various activities of the Judiciary against which amounts totalling K428,087,485 were released resulting in an underfunding of K22,203,250.

Accounting and Other Irregularities

An examination of accounting and other records maintained at the Judiciary Headquarters and selected stations carried out in September 2018 revealed the following:

a. Failure to Produce Financial Statements

According to Section 20 of the Judiciary Administration Act of 2016, the Chief Administrator shall as soon as practicable, but not later than six (6) months after the expiry of the financial year submit an annual report to the National Assembly on the activities of the Judiciary during the financial year. The annual report shall include information on the financial affairs of the Judiciary and shall include:

(i) an audited statement of financial position of the Judiciary;

(ii) an audited statement of comprehensive income; and

(iii) such other information as the National Assembly may require.

However, as at 31st December 2018, the Judiciary had not prepared any financial statements.

b. Failure to Produce Title Deeds

An examination of records revealed that during the period under review, the Judiciary had a total of six hundred and seventeen (617) properties across the country. See table below.

Province	No. of Properties
Lusaka	51
Copperbelt	60
Central	40
Luapula	60
Northern	61
North – Western	54
Southern	63
Eastern	90
Muchinga	47
Western	91
Total	**617**

However, there were no Title Deeds produced for audit to confirm ownership of the properties. Further, as at 31st December 2018, the properties had not been insured.

c. Failure to Fill Vacant Positions

A scrutiny of the staff establishment register for the Judiciary revealed that there were six thousand five hundred and eighty five (6,585) approved positions out of which a total number of four thousand four hundred and ninety nine (4,499) were filled up, leaving a total of two thousand and eighty six (2,086) positions vacant as at 31st December, 2018. See table below.

Province	Establishment Register	Filled Positions	Vacant Positions
Headquarters and Lusaka	1,934	1,503	431
Eastern	626	450	176
Southern	616	433	183
Western	728	374	354
Copperbelt	731	650	81
Central	455	274	181
Northwestern	467	270	197
Northern	549	226	323
Luapula	479	319	160
Total	**6,585**	**4,499**	**2,086**

Further, it was observed that among the unfilled positions were six hundred and eighty five (685) positions that related to key positions as shown in the table below;

Department	Position	Establishment	Actual	Vacant
Supreme Court	Judges	13	13	0
Constitutional Court	Judges	13	7	6
Court of Appeal	Judges	19	12	7
High Court	Judges	48	37	11
Subordinate Court	Magistrates	248	193	55
Local Court	Magistrate/ Local Court Justices	1,143	537	606
Total		**1,484**	**799**	**685**

d. Misplacement of Payroll Area

A reconciliation of the payroll and staff returns of the Judiciary, revealed that there were eighty two (82) officers who drew salaries in amounts totalling K2,863,043 from pay points which were different from their physical stations. See table below.

Station	No. of Officers	Amount Paid K
Chipata	9	368,687
Mongu	25	878,149
Livingstone	37	1,227,118
Chinsali	11	389,089
	82	**2,863,043**

e. Irregular Payment of Remote Hardship Allowances

According to the Terms and Conditions of Service No. 166 and Cabinet Office Circular No. B2 of 2010 an officer serving in an area declared to be in a remote area shall be entitled to receive a remote hardship allowance at a rate as may be determined by Government from time to time.

During the period under review, amounts totalling K134,963 were paid as hardship allowances to twenty one (21) officers who were working at stations which did not qualify for the allowance.

As at 31st December 2018, the irregularly paid allowances had not been recovered.

f. Payment of Remote instead of Rural Hardship Allowance – Chipata

According to the Terms and Conditions of Service No. 166 and Cabinet Circular No. B2 of 2010 an officer serving in an area declared to be in a remote area shall be entitled to receive a hardship allowance at a rate as may be determined by Government from time to time. Further, PSMD Circular No. B6 of 2010, prescribed the applicable rates as Rural hardship allowance at 20% while Remote was to be paid at 25% to eligible officers.

However, during the period under review, five (5) officers were paid remote hardship allowances in amounts totalling K41,350 instead of being paid rural hardship allowances of K33,080 resulting in an overpayment of K8,270. As at 31st December 2018, the overpayments had not been recovered.

g. Irregular Use of Imprest

Contrary to Financial Regulation No. 86 (c) which states that, accountable imprest shall be issued to facilitate the purchase of goods and services whose value cannot be ascertained at the time of issue, imprest in amounts totalling K79,629 was issued to various officers at four (4) stations to procure goods and services whose value could be ascertained at the time of purchase**.** See table below.

Station	No. of Transactions	Amount K
Mongu	4	35,095
Livingstone	5	17,634
Kasama	3	12,100
Solwezi	3	14,800
Total	**15**	**79,629**

h. Unaccounted for Stores

Contrary to Public Stores Regulation No. 16, various stores items costing K14,535 (General Stores – K8,535 and Fuel – K6,000) procured at Mansa Office during the period under review were not accounted for in that there were no disposal details.

i. Infrastructure Development

A physical verification of projects and infrastructure in selected districts revealed the following:

i. Construction of Litoya Local Court

On 30th October 2012, Jasto Suppliers was engaged to construct Litoya Local Court in Kaoma District at a contract sum of K1,084,079 with a completion period of one hundred and ninety six (196) days commencing on 8th November 2012 and to be completed by 29th April 2013.

The scope of works included construction of a Court building, two (2) VIP toilets, holding cells and a witness shelter. As of July 2018, amounts totalling K674,900 being 62% of the contract price had been paid to the contractor leaving a balance of K409,179.

A physical inspection of the project carried out in July 2018, revealed the following:

- **Incomplete Court Building**

  The building had been roofed, painted, plastered, floored, fitted with burglar bars and grille gates and the glazing had been done while electricals such as fitting of bulb holders, switches were still outstanding. See picture below.

  Inquiries and physical inspection revealed that the delayed completion of works had made the delivery of justice a challenge in that court cases were heard in a dilapidated court room that posed a risk to people. See pictures below.

Cracked Court Room in Use

- **Incomplete Holding Cells**

  The structure had been roofed and fitted with grille doors. However, plastering of both the interior and exterior walls, painting, flooring and fitting of burglar bars on the windows were still outstanding. See picture below.

Incomplete Holding Cells

ii. Construction of Chinsali Subordinate Court

On 31st December 2013, the Judiciary engaged Golden Horse Investment Ltd to construct Chinsali Subordinate Court in Chinsali District at a contract sum of K9,179,000. The construction works were scheduled to commence on 5th March 2014 with an expected completion date of 5th March, 2015.

The scope of the works included the construction of the main building of the Subordinate Court, the office block, the ablution block and external works.

As at 31st October 2018, amounts totalling K659,800 being 7% of the contract price had been paid to the contractor leaving a balance of K8,519,200. See table below.

Date Certified	IPC No.	Date Paid	Document No.	Amount K
31.12.2014	1	06.03.2017	4500069947	500,000
31.12.2014	1	06.09.2017	10097448	159,800
Total				**659,800**

However, the following were observed:

- **Loss of Funds through Interest Charges on Delayed Payment of Certified Works**

  On 18th April 2018, Interim Payment Certificate (IPC) No.02 amounting to K2,044,318 was recommended for payment in respect of works done. However, as of July 2018, the IPC had not been paid.

Further, a scrutiny of the IPC No. 2 revealed an interest charge amounting to K369,084 relating to delayed payment of IPC No. 1 that was issued on 31st December 2014 and was only fully paid on 6th September 2017. This resulted in a delay of thirty three (33) months, contrary to Sub-clause 40.1 of the General Conditions of the contract.

- **Failure to Complete Construction Works as per Contract Agreement**

  A physical inspection of the construction works carried out in July 2018, revealed that the contractor had not completed construction works, forty (40) months after the expected date of completion of 15th March 2015. Further, although the works had been extended for five (5) months on two separate occasions, that is 15th March to August 2015 and October 2017 to March 2018, the works had not been completed as detailed below:

  - **Subordinate Court** – as at 31st October 2018, only the slab had been constructed with the rest of the works still outstanding. See picture below.

Incomplete Subordinate Court Building at Slab Level

  - **Provincial Local Court Office** – the structure was at window level with the rest of the works still outstanding. Further, it was observed that the slabs for the Provincial Local and Subordinate Courts had developed cracks. Inquiries with the care taker of the construction site revealed that the contractor demobilized from site in September 2017. See pictures below.

Incomplete Provincial Local Court Office Block with Cracks on the Slab

- **Ablution Block** – only the slab had been constructed as can be seen from the picture below.

Unfinished Ablution Block at Slab Level

- **Failure to Provide Revised Programme of Works and Status Report**

In a letter dated 26th August 2016, the Judiciary requested the contractor to submit the underlisted documents not later than 18th November 2016 in order to ascertain the status and possible completion date of the works, following the expiry of the contract on 5th March 2015:

- Status report on partial completed works
- Revised Programme of works for the remaining works
- Claims for all the completed Works

However, it was observed that as of July 2018, the revised programme of remaining works and status reports of works done had not been submitted contrary to Sub-clause 25.2 and 25.3 of the contract. In this regard, it was difficult to ascertain when the construction works would be completed as the works had stalled for forty (40) months from the initial expected completion date of 15th March 2015, despite the extensions.

iii. Construction of Munkonge Local Court - Kasama

On 25th November 2012, the Judiciary engaged Wilkinson Construction Ltd to construct Munkonge Local Court in Kasama District at a total contract sum of K676,575 with a completion period of 125 days. The construction works were scheduled to commence on 25th November 2012 with the expected completion date of 30th March 2013.

The scope of works included construction of the main court building, VIP latrines, holding cells, water reticulation system, drainage system and supply of furniture for the local court.

As of July 2018, amounts totalling K477,095 representing 70.5% had been paid leaving a balance of K199,479 of the contract sum. See table below.

Date Paid	Date Certified	Details	Amount K
07/05/2013	15/03/2013	IPC # 1	169,825
18/02/2014	20/09/2013	Part Payment (IPC # 2)	150,000
30/09/2014	20/09/2013	Part Payment (IPC # 2)	78,635
02/08/2016	20/09/2013	Part Payment (IPC # 2)	78,635
Total Amount Paid to date			**477,095**
Contract Sum			**676,575**
Outstanding Balance			**199,479**

The following observations were made:

- **Lack of Terms and Conditions – Contract Document**

  Contrary to Section 137(3) of the Zambia Public Procurement Regulations of 2011, the signed contract did not have some of the terms and conditions such as clauses on liquidated damages and securities.

- **Delayed Completion of the Local Court and Ancillary Works**

  Although the Judiciary had paid 70.5% of the contract price, there were delays of up to thirty five (35) months in settling IPC 2. A physical inspection of the works carried out in July 2018, revealed that the following works were still outstanding sixty three (63) months after the expected completion date:

  - Completion of the Magistrate's bench in the Court Room. See picture below.

- Completion of the closet and shelves for the Magistrate’s Chamber. See picture below.

- Supply of furniture for the Local Court
- Light fittings for the Court Room, Magistrate’s Chamber and Clerks Office
- Electrical switches for the Magistrate’s Chamber
- Air vents and ceiling for the holding cells
- Fitting of ventilation pipes for staff and litigants’ toilets
- Water Supply System (tank stand, reservoir tank and water pipes)

- **Poor Workmanship**

  A physical inspection of the construction works of the Local Court carried out in July, 2018 revealed that there were cracks in the Court room, the Chamber and the Clerk’s Office and the ceiling was damaged due to leakages in the Chamber.

- **Use of Open Air for Court Sessions**

  Furthermore, inquiries with court officers on the ground revealed that the delayed completion of works had posed the following challenges, among others:

- Lack of detention facilities for remandees awaiting on-going cases
- Lack of Water Supply
- Court sessions were being conducted in open air as the old building was dilapidated. See picture below.

Open Air where Court Sessions are held

iv. Construction of Mukuka Mfumu Local Court - Mungwi

On 22nd November 2012, the Judiciary engaged Wilkinson Construction Ltd to construct Mukuka Mfumu Local Court in Mungwi District at a contract sum of K602,587 with a completion period of one hundred and fifty five (155) days, commencing on 22ndNovember 2012 and ending by 23rd April 2013.

The scope of works included construction of the main court building, VIP latrines, holding cells, water reticulation system, drainage system and supply of furniture for the local court.

As of July 2018, amounts totalling K381,311 representing 63% had been paid to the contractor leaving a balance of K221,275 of the contract sum. See table below.

Date Paid	Date Certified	Details	Amount K
27/12/2012	26/11/2012	Advance Payment (IPC # 1)	120,517
27/02/2013	12/'02/2013	Payment (IPC # 2)	89,529
11/'06/2013	12/'05/2013	Part Payment (IPC # 3)	69,264
14/'03/2017	21/11/2016	Part Payment (IPC # 4)	80,000
30/08/2017	21/11/2016	Part Payment (IPC # 4)	22,001
Total Paid to date			**381,311**
Contract Sum			**602,587**

However, the following observations were made;

- **Failure to Provide Performance Security against the Contract**

  Contrary to section 127 (1) of the Public Procurement Regulations of 2011, the contractor did not provide performance security despite the contract sum being in excess of K500,000.

- **Delayed Completion of the Local Court and Ancillary Works**

  Physical inspection of the works carried out in July 2018, revealed that works had not been completed as the following were still outstanding:

  - The closet and shelves for the Magistrate's Chambers
  - Supply of furniture for the Local Court
  - Light fittings for the Court Room, Magistrate's Chambers and Clerks Office
  - Water Supply System (tank stand, reservoir tank and water pipes)
  - Construction of soak pit
  - Drainage connecting soak pit to main building.

  Further, as at 31st October 2018, at the time of audit verification, the contractor was not on site.

Medical Stores Limited (MSL)

Background

8. Medical Stores Limited (MSL) was established in 1976 to carry out procurement, storage and distribution of all essential drugs for Zambia's Public Health Sector. It is wholly owned by the Government through the Industrial Development Corporation (IDC) which holds 100% of the company's shares.

The Board of Directors

According to the Company's Articles of Association, the Company shall be governed by a Board of Directors appointed by the IDC, for a term of four (4) years with maximum of two (2) tenures, that is, eight (8) consecutive years.

The Board of Directors shall consist of seven (7) Directors comprising the following:

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

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

iii. The Managing Director.

Management of the Company

MSL is headed by the Managing Director and is assisted by six (6) Directors for Pharmaceutical Standards and Quality Assurance, Logistics, Programmes, Finance and Commercial, Procurement and the Company Secretary. The officers are appointed on renewable three (3) year contracts.

Sources of Funds

The sources of funds of the Company are as follows:

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

ii. Donors providing Technical and Financial support to MSL.

Income

During the period under review, the Company received income totalling K275,233,201. See table below.

Income	2017 K	2016 K	2015 K	2014 K	Total K
Government Appropriations	38,177,368	24,177,000	24,177,000	24,000,000	110,531,368
International Donor Funding	35,144,952	45,319,000	58,747,000	12,013,000	151,223,952
Other Income	4,138,881	364,000	5,625,000	3,350,000	13,477,881
Total Income	**77,461,201**	**69,860,000**	**88,549,000**	**39,363,000**	**275,233,201**

Review of Operations

An examination of accounting and other relevant records for the financial years ended 31st December 2014 to 2017 revealed the following:

a. Corporate Governance Matters

i. Irregular Appointment of Board Members

Although the Company's Articles of Association provided for the appointment of Board of Directors comprising of not more than seven (7) members, the Company's Board during the period under review had a total of eleven (11) members.

Consequently, during the years 2015 to 2017 there was excess expenditure on board related expenses in amounts totalling K249,377. See Table Below.

Year	Budgeted Amount K	Amount Paid K	Excess Expenditure K
2015	59,840	121,822	(61,982)
2016	57,596	214,951	(157,355)
2017	121,115	151,155	(30,040)
Total	**238,551**	**487,928**	**(249,377)**

ii. Uncertainty on the Transformation of MSL

On 24th August 2015, the Minister of Finance transferred the shares of MSL to the Industrial Development Corporation (IDC). Inquiries made with MSL management revealed that there was uncertainty on the shareholding of MSL by IDC in that a review of the minutes of the MSL's Annual General Meeting held on 24th November 2017 revealed that IDC had resolved to transform MSL into a statutory body due to the fact that MSL was a social enterprise and could therefore not fit into the business model of the IDC. However, as at 31st December 2018, MSL had not been transformed into a Statutory Body.

iii. Failure to Adhere to the Approved Staff Establishment

In April 2012, the Board approved the organisation structure of Medical Stores Limited. A review of the staff listing and staff establishment revealed that management did not follow the approved organisation structure. In this regard, management employed one hundred and ninety five (195) staff when the approved establishment was one hundred and nineteen (119) employees resulting in an over-employment of seventy six (76) employees. Among positions not approved were the Customer Care Manager, Project Support Specialist and Project Officer which positions were not provided for on the approved organisation structure and were not approved by the Board.

iv. Lack of Risk Management Policy

The MSL had no risk management policy in place. As a result, risk management processes were not institutionalized.

v. Lack of Disaster Recovery Site (DRS)

Disaster recovery and IT continuity planning are processes that help institutions prepare for and resume operations in the event of disruptive events – whether an event is a power outage, fire destroying equipment, or system failure. It was, however, observed that during the period under review, MSL did not have a DRS to be used in case of disaster.

b. Delayed Preparation of Financial Statements

Section 265 (1)-(2) of the Companies Act provides that the Board of Directors shall ensure that within three (3) months following the end of the financial year submit audited financial statements to the Registrar, within thirty (30) days of it being adopted by shareholders.

Contrary to the provision, it was observed that the Financial Statements for 2017 were still in draft form and had not been presented as at 31st December, 2018.

c. Statement of Comprehensive Income for the years ended 31st December 2014 to 2016

	2016 K'000	2015 K'000	2014 K'000
INCOMING RESOURCES			
Income from operating activities			
Contracted income	39,315	43,747	5,709
Grant income	28,885	46,972	36,626
Investment income			
Interest income	303	159	71
Non -operating income			
Other income	61	5,466	3,279
Total incoming resources	**68,564**	**96,344**	**45,685**
RESOURCES EXPENDED			
Amortization	67	38	39
Depreciation / impairment	9,139	8,230	7,929
Distribution expenses	6,197	4,758	4,411
Employee costs	40,252	27,372	17,821
Non -Recurrent items		445	
Recurrent Expenditure	26,214	20,683	14,546
Total expenses	**81,869**	**61,526**	**44,747**
(Loss) /Profit before tax	**(13,305)**	**34,818**	**938**
Taxation	(106)	(55)	(34)
(Loss) /Profit after tax	**(13,411)**	**34,763**	**904**
Total comprehensive (loss)/income	**(13,411)**	**34,763**	**904**
Total comprehensive income (loss)/income attributed to controlling interests	(13,143)	34,068	886
No controlling interests	(268)	695	18
Total comprehensive (loss)/income	**(13,411)**	**34,763**	**904**

As can be seen from the table above, the total income increased from K45,685,000 in 2014 to K96,344,000 in 2015. However, the increase could not be sustained as the income sharply decreased by K27,780,000 from K96,344,000 in 2015 to K68,564,000 in 2016 representing a 28 % reduction.

The total expenses increased by K37,122,000 from K44,747,000 in 2014 to K81,869,000 in 2016. The increased expenses were largely because of the employee costs which increased from K17,821,000 in 2014 to K40,252,000 in 2016.

d. Statement of Financial Position for the Year Ended 31st December, 2016, 2015 and 2014

	2016 K'000	2015 K'000	2014 K'000
Non-Current Assets			
Property, Plant & Equipment	52,873	47,142	49,121
Intangible assets	116	28	67
	52,989	**47,170**	**49,188**
Current Assets			
Inventories	886	622	555
Government medical stocks	1,597,205	1,006,752	
Trade receivables	16,394	23,545	1,996
Other Receivables	7,447	3,356	3,100
Corporate cash and cash equivalents	9,478	3,474	(1,298)
Restricted cash balances	3,212	15,088	15,290
Total Current Assets	**1,634,622**	**1,052,837**	**19,643**
Total Assets	**1,687,611**	**1,100,007**	**68,831**
Funds and Liabilities			
Equity			
Share Capital	1,549	1,549	1,549
Retained Earnings	41,497	53,939	18,448
Revaluation reserves	13,879	14,418	14,957
	56,925	**69,906**	**34,954**
Liabilities			
Non-Current Liabilities			
Deferred Income	16,181	8,212	21,191
Retirement benefits	277	208	239
Deferred tax	7,917	8,347	8,536
	24,375	**16,767**	**8,775**
Current Liabilities			
Employee benefits	2,324	2,429	883
Payables,accruals and provisions	6,643	4,064	2,995
GRZ Balances	1,597,205	1,006,752	
Tax payable	139	89	34
	1,606,311	**1,013,334**	**3,912**
Total Funds and Liabilities	**1,687,611**	**1,100,007**	**68,831**

The following were observed:

i. Failure to Collect Service Fees

A review of the MSL agreements signed on 27th January 2015 and 29th September 2015 with UNDP and Global Fund revealed that a 4% service fee of the total invoice relating to receipt of consignment at the warehouse, storage of consignment and loading and distribution to the districts shall be paid. An examination of the receivables records revealed that MSL was owed a total of K1,885,985 by Global Fund as at 31st December 2018.

ii. Non Remittance of Statutory Obligations

As at 31st December 2017, Medical Stores was owing the Zambia Revenue Authority (ZRA) and the National Pensions Scheme Authority (NAPSA) amounts totalling K9,702,685 in unremitted statutory obligations as tabulated below.

Institution	Amount Owed K
ZRA (PAYE)	6,142,384
NAPSA	3,560,301
Total	**9,702,685**

e. Returned Medicines and Medical Supplies Due to Wrong/Excess Supply, Short Expiry or Product Not Ordered

An inspection of stock records at various health facilities revealed that 4,650 packets of assorted medicines and medical supplies valued at K615,169 dispatched between November 2014 and August 2017 to the health facilities were rejected due to MSL supplying wrong products, excess supply of products, supply of products with short expiry period and supply of products not ordered.

f. Failure to Commercialise MSL

A review of the minutes of the 44th Board Meeting held on 11th June 2015 revealed that MSL Board approved amounts totalling K21,800,000 (US$2 million) to support the development of a business model that was to serve as a guide to the process of transforming MSL into a commercial enterprise by the end of December 2015.

The business model would result in generating of revenue for MSL, sufficient to provide services to the public health sector, while its extra capacity would be offered to private clients on a commercial basis.

A review of Board minutes revealed that MSL commercialization road map was approved by the MSL Board on 12th May 2016. The MSL was supposed to implement the following:

- To start operating retail pharmacies to raise own finances.
- Ensure the MSL Laboratory to be operationalized and open to private clients.
- Organisation review which would anchor implementation of the business plan once approved.

- Engage with IDC to ensure that there was a transfer of procurement function on drugs from the Ministry of Health (MOH) to Medical Stores (MSL).

Although the commercialisation road map was approved in May 2016 and K21,800,000 was spent on its development, MSL had not commenced the implementation of the commercialisation as at 31st December, 2018.

National Housing Authority

Background

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

The Authority also provides accommodation by:

i. The erection of houses on any land acquired

ii. The conversion of any building into houses

iii. Acquiring, enlarging and repairing any house or building

iv. Management and control of houses owned by any person

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

Administration

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

- the Commissioner for Town and Country Planning;
- two members from the Local Government Association of Zambia;
- one member representing the Ministry responsible for local government;

- two District Secretaries;
- one member representing the Zambia National Building Society;
- one member representing the University of Zambia;
- one member representing the National Council for Scientific Research;
- one member from the Zambia Federation of Building Co-operatives; and
- one other member who is not a public officer.

The Minister shall designate one member as Chairperson and one member as Vice-chairperson of the Authority.

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

Sources of Funds

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

i. Payable to the NHA from moneys appropriated by Parliament for the NHA; and

ii. Vest in or accrue to the NHA, whether in the course of its operations or otherwise.

Accounting and Other Irregularities

A review of accounting and other records for NHA for the financial years ended 31st December 2015, 2016 and 2017 revealed the following:

a. Failure to Raise Budgeted for Revenues.

NHA failed to raise the budgeted revenues in 2016 and 2017 as per the approved budget and work plan for the two years. This in turn affected the entity's operations. See table below.

Year	2017 K' 000	2016 K' 000	2015 K' 000
Budgeted Revenue	116,453	75,776	142,452
Actual Revenue	58,756	48,605	298,987
Surplus/(Deficit)	(57,697)	(27,171)	156,535

b. Operating without a Strategic Plan

NHA operated without a strategic plan for four (4) years covering the period from January 2015 to December 2018.

c. Weaknesses in Discharging Statutory Mandate

Section 19 (1) of the Act states that "It shall, subject to the provisions of this Act, be the object and general duty of the Authority to keep under continuous review housing conditions in the Republic and the needs of the Republic with respect to the provision of further housing accommodation and to provide, or to secure and promote the provision of, such housing accommodation for the Republic and to take all such steps as it may appear to the Authority requisite or expedient in those respects." It was, however, observed that the NHA had not discharged this responsibility during the period under review. In particular, the following matters were observed:

i. Failure to Produce Annual Housing Report

Section 19 (2) (*b*) and (c) of the Act states that it shall be the duty of the NHA "to carry out surveys of housing requirements of any place, district or local authority area or of any part of such place, district or local authority area, and to advise the Minister or local authorities or persons thereon; (*c*) to submit to the Minister before 30th June in each year a report on current and future requirements of housing accommodation throughout the Republic, the extent to which such requirements are being met, programmes of construction of houses and the estimated cost of such programmes.

For the period under review, the NHA had not produced any annual Housing report as required by the Act.

ii. Failure to Establish Housing Revolving Fund

Section 19 (2) (k) of the Act states that the functions of the NHA shall be "to establish a National Housing Revolving Fund to provide finance for housing throughout the Republic." It was, however, observed that the NHA had not established such a Fund as at 31st December, 2018.

d. Impact of Presale Scheme on the Income of the NHA

During the period under review, the NHA had a scheme called the Presale Scheme where it built one hundred and eighty (180) houses on its land for customers at agreed prices.

The houses would be built upon customers making payments in the following instalments:

- 60% advance payment of the total sale price of the house,
- 30% when the house would reach roof level and
- 10% upon completion of the house.

The duration of construction works for each house contracted was ten (10) months. The scheme provided that NHA would refund the customer equivalent to what the NHA would charge for rent on houses similar to its own in the event that the house was not completed within the agreed time. As at 31st December 2018, all the houses had been handed over to the customers.

However, the following were observed:

i. Wasteful Expenditure – Rent Refunds

Due to failure to deliver houses as per the contracts, NHA made forty four (44) payments totalling K4,290,923 in the period under review as rent refunds besides still having the obligation to deliver the houses to customers. In this regard, this expenditure was wasteful as it should not have been incurred if NHA had adhered to contractual obligations.

Further, a review of transactions pertaining to six (6) of the properties revealed that a total of K5,002,312 was incurred as construction (K1,546,653) and rental refunds (K3,455,659) against the total sale price of K2,740,200 resulting in a loss of K2,262,112.

ii. Wasteful Expenditure – Legal and Interest Costs

A review of the NHA Report on litigations dated July 2018 revealed that six (6) of its customers under the Presale Scheme had commenced legal action during the period under review against the NHA for failure to deliver completed houses.

In this regard, the NHA was ordered by the Courts of Law to pay amounts totalling K776,000 in respect of legal and interest costs. Refer to table below.

Client/ Property No.	Legal Costs K	Interest K	Total K
J C M	194,000	250,000	444,000
C C	-	36,000	36,000
K G	-	168,000	168,000
M K K	17,000	-	17,000
B M	11,000	65,000	76,000
S/D 19 of Stand 34872	35,000	-	35,000
Total	**257,000**	**519,000**	**776,000**

e. Poor Performance of Revenue Generating Departments and Units

i. Direct Building Organisation (DBO).

The DBO Department's main function is the construction of houses for sale. It is the mainstay for NHA. It was however observed that in the three years under review the Department's revenues reduced by 94.65% between 2015 and 2016 and increased by 22.59% between 2016 and 2017. This contributed to NHA's poor financial performance. See table below.

Year	2017	2016	2015
DBO Income (K)	13,837,726	11,288,161	211,120,522
Increase/(Decrease) in %	22.59	(94.65)	-

ii. Consultancy Department

The Consultancy Department's main role is to offer consultancy services in the field of construction to both NHA's DBO and the public. It was however observed that in the three years under review the Department's expenditure was in excess of the revenue it generated. In this regard, the Department failed to meet its expenditure needs using its own revenues. This contributed to NHA's poor financial performance. See table below.

Year	2017 K	2016 K	2015 K	Total K
Income	267,169	1,172,817	664,693	2,104,679
Expenditure	3,006,878	2,696,795	2,748,795	8,452,468
Over expenditure	(2,739,709)	(1,523,978)	(2,084,102)	(6,347,789)

iii. Block Making Unit - Failure to Sustain the Block Making Business

Section 21 (2) of the NHA Act, states that the NHA may sell at reasonable price building materials and ensure that there is a sufficient supply of building materials available to meet the needs of the building industry in the Republic.

During its meeting of 22nd December 2015, the Authority directed management to start a block making business which would also be selling timber and cement. The Block Making unit was established in 2015 and was located at stand number 10230 in Nyumba Yanga, Lusaka. However, a review of its performance revealed that it made a negligible profit of K929 in 2015 and losses of K348,761 in 2016 and K174,835 in 2017. This contributed to NHA's poor financial performance. See table below.

	2017 K	2016 K	2015 K	Total K
Income	191,074	461,699	21,626	674,399
Expenditure	365,909	810,460	20,697	1,197,066
Profit/(Loss)	**(174,835)**	**(348,761)**	**929**	**(522,667)**

A physical inspection conducted in August 2018, revealed that the block making business had collapsed and was no longer in operation. See pictures below.

Idle Block Making machine *Remains of blocks at the Block Yard*

f. Staff Costs Related Matters

i. Outstanding Salaries

NHA had accumulated salary arrears to employees amounting to K29,993,579 which translated to thirteen (13) months of unpaid salaries as at 31st December 2018.

ii. Failure to Timely Settle Statutory Obligations

During the period under review, NHA accumulated amounts totalling K35,685,023 in 2015 which increased to K42,148,531 in 2016 and K49,613,344 in 2017 in unremitted statutory obligations to the Zambia Revenue Authority (ZRA), the National Pensions Scheme Authority (NAPSA), the Workers Compensation Fund Control Board (WCFCB) and the Local Authority Superannuation Fund (LASF) as shown in the table below.

Institution	2017 K	2016 K	2015 K
ZRA	33,870,117	29,817,671	26,385,634
NAPSA	10,558,860	8,646,604	6,720,461
WCFCB	1,469,047	891,395	476,676
LASF	3,715,320	2,792,861	2,102,253
Total	**49,613,344**	**42,148,531**	**35,685,023**

iii. Gratuity

As at 31st December 2017, NHA was owing a total of K2,857,576 as outstanding gratuity payments to members of staff.

g. Procurement of Goods and Services

i. Unsupported Payments

Contrary to the Financial Regulation No. 52(1) of 2006, sixty seven (67) payments in amounts totalling K706,796 made during the period under review were not supported with relevant documents such as receipts, utilisation schedules and invoices.

ii. Unretired Accountable Imprest

Contrary to Financial Regulation No. 96, accountable imprest in amounts totalling K533,239 issued to various officers during the period under review had not been retired as at 31st December 2018.

iii. Un-acquitted Payments

Contrary to Financial Regulation No. 45 of 2006, thirty eight (38) payments in amounts totalling K714,387 paid as allowances during the period under review were not acquitted.

It was further observed that various payments such as salary advances, commutation of leave days and gratuity totalling K928,247 drawn in the cashiers' name were not acquitted.

h. Asset Management

i. Failure to Acquire Title Deeds and Insure Authority's Asset

The Lands Act No. 29 of 1995 provides that institutions or individuals owning land and properties should have or possess title deeds as proof of ownership. NHA had a huge portfolio of assets in land and buildings and property investments in various parts of the Country. It was however observed that NHA did not have title deeds for these assets. It was further observed that these assets were not covered by insurance against loss.

ii. Lack of Asset Management Policy

An Asset Management Policy provides guidance on the acquisition, use and disposal of non-current assets, method of valuing assets, depreciation methods and rates and the treatment of fully depreciated assets, among others. It was however observed that NHA did not have an Asset Management Policy.

i. Failure to Maintain Sondashi Flats – Ndola

The NHA owns a block of flats in Ndola known as Sondashi flats, that consist of six (6) by three (3) bedroomed flats situated in the Town Centre area. A physical inspection of the building revealed that although the flats were occupied, they were in a very poor state and needed urgent attention. See pictures below.

Cracks on the Walls

Dilapidated Ceiling

National Road Fund Agency

Background

10. The National Road Fund Agency (NRFA) was established under the National Road Fund Act No. 13 of 2002 to mobilize, administer and manage all financial resources in the road sector. Its functions are to:

a) Administer and manage the National Road Fund (NRF)

b) Prepare and publish audited annual accounts of the NRF.

c) Recommend to the Minister of Finance fuel levy and other road user charges and tariffs,

d) Recommend to the Minister projects for funding

e) Allocate resources;

- for the construction, maintenance and rehabilitation of roads based on a percentage of the annual work plan of the Road Development Agency (RDA)
- for road transport, traffic and safety management based on a percentage of the annual work plan of the Road Transport and Safety Agency (RTSA)
- in consultation with the RDA, recommend funding for development of new roads; and
- undertake such other activities as are conducive or incidental to its functions.

Board of Directors

The National Road Fund Act No. 13 of 2002 provides that the Board shall consist of fourteen (14) part-time members appointed by the Minister responsible for Finance as follows:

i. one representative of the Zambia Association of Chambers of Commerce and Industry,

ii. one representative of the National Council for Construction;

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

iv. one representative of the Economics Association of Zambia;

v. one representative of the Transporters Associations;

vi. one representative from the Law Association of Zambia;

vii. one representative from the Chartered Institute of Transport;

viii. one representative of the Attorney-General;

ix. one representative from—

- the Ministry responsible for finance;
- the Ministry responsible for communications and transport; and
- the Ministry responsible for works and supply;

x. the Director of the Road Development Agency;

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

xii. one other person.

The Chairperson of the Board is appointed by the Minister responsible for finance while the Vice Chairperson is elected from among the members.

Management

The day to day management of the NRFA is the responsibility of the Director and Chief Executive Officer who is appointed by the Board and is assisted by the Directors of Fund Management, Planning, Monitoring and Evaluation, Corporate Services and Internal Audit.

The Director and Chief Executive Officer and Directors are appointed on renewable three (3) year contracts.

Sources of Funds

Section 18 of the National Road Fund Act No. 13 of 2002 states that the funds of NRFA shall consist of such moneys as;

a) Funds appropriated by Parliament,

b) Funds allocated to the Agency from the Road Fund by the Minister,

c) Loans, grants and contributions by donors, and

d) Bank interest.

Review of Operations

A review of operations of NRFA for the period 1st January 2013 to 31st December 2017, revealed the following:

a. Deteriorating Operational and Road Sector Funding

A review of the annual budgetary provisions and the actual funding revealed that although the annual provisions for operations of the NRFA increased from K12,581,870 in 2013 to K67,609,959 in 2017, the actual funding remained stagnant at around K12,682,000 throughout the period. See table below.

Year	Total Provision K	Funding K	Over/(Under) Funding K
2017	67,609,959	12,682,525	(54,927,434)
2016	42,143,574	12,682,525	(29,461,049)
2015	20,185,024	12,682,525	(7,502,499)
2014	12,682,524	12,682,525	-
2013	12,581,870	12,581,870	-
Total	**155,202,951**	**63,311,970**	**(91,890,982)**

Further, a review of the total road sector budget and the releases in the period under review, revealed that while the total road sector budget increased from K3,288,928,000 in 2013 to K8,623,995,000 in 2017, the total releases reduced from K3,441,261,000 in 2013 to K2,501,007,000 in 2017. This resulted in underfunding of K1,824,853,000 in 2014 which increased to K6,122,988,000 in 2017 as shown in the table below.

	2013 K'000	2014 K'000	2015 K'000	2016 K'000	2017 K'000
Funding Source					
GRZ	1,590,039.15	1,236,138.54	1,877,834.56	1,584,223.00	-
Road User Charges	886,718.82	1,664,361.46	1,348,503.53	1,829,615.12	2,682,795.10
External	812,170.41	2,042,695.03	2,235,825.39	3,216,100.66	2,518,300.00
Public Private Partnerships (PPP)					400,000.00
Contractor Facilitated Financing					3,022,900.00
TOTAL ROAD SECTOR BUDGET	**3,288,928.38**	**4,943,195.03**	**5,462,163.48**	**6,629,938.78**	**8,623,995.10**
Total Releases	**3,441,261.50**	**3,118,341.98**	**4,335,883.47**	**1,997,321.54**	**2,501,007.45**
Over/ (Under)funding	**152,333.11**	**(1,824,853.05)**	**(1,126,280.01)**	**(4,632,617.23)**	**(6,122,987.65)**

b. Lack of Board of Directors

On 16th June 2013, the sitting Board was dissolved. NRFA had no Board for a period of two (2) years ten (10) months, from 16th June 2013 to 27th April 2016. In the minutes for the meeting held on 7th November 2014, the Permanent Secretary (EMF) in the Ministry of Finance appointed seven (7) members of staff in the Ministry of Finance to act as Board members of the NRFA.

The appointment of seven (7) members of staff in the Ministry of Finance by the Permanent Secretary for Economic Management and Finance as Board Members, was irregular in that the National Road Fund Act No. 13 of 2002 provided for the appointment of one representative from various institutions as outlined in the Act. In addition, the appointment was irregular as the appointing authority is the Minister, not the Permanent Secretary.

Consequently, the payment of sitting and quarterly fees in amounts totalling K563,860 was irregular. See table below

Details	Amount K
Board sitting allowance	176,760
Board quarterly fees	108,000
Board Committee allowance	279,100
Total	**563,860**

c. Failure to Acquire Title Deeds

NRFA did not have title deeds for its Headquarters building estimated at K57,905,305 located at plot 33 Fairley road in Lusaka.

d. NAPSA Corridor Project Agreement

On 24th June 2017, NRFA and National Pensions Authority (NAPSA) entered into a financing agreement for the financing and management of the construction and rehabilitation of the Ndola – Kitwe dual carriageway – Chingola dual carriageway – Solwezi single carriageway road and Toll Plazas thereon called the NAPSA Corridor. The Toll Plazas on the NAPSA Corridor are; Michael Chilufya Sata and Gerneton toll plazas.

NAPSA agreed to make available a secured loan totalling K2,126,552,026 with a repayment period of ten (10) years. The interest rate was at a margin of 1.5% plus the prevailing 10 years Government Bond Yield Rate as per Bank of Zambia announcements. Under the agreement, it was decided that in the event NRFA failed to fulfil its obligations under this agreement, NAPSA would manage and directly receive the monies from the Toll gates on the corridor, including the Shimabala, Manyumbi, Kafulafuta, and Katuba toll plazas. As at 31st December 2018, a total of K474,763,824 had been repaid leaving a balance of K1,745,538,395.

The contractors under the NAPSA Corridor were;

- China Jiangxi Corporation for International Technical and Economic Cooperation Limited for the periodic maintenance of 60Km of the Ndola – Kitwe road,
- China Geo Engineering Corporation Southern African Limited for the rehabilitation of 108Km of the Chingola to Solwezi road – Lot 1 and 3

- Buildcon Investments Limited for the rehabilitation of 40Km of the Chingola to Solwezi road – Lot 2
- Sinohydro Zambia Limited for the upgrading of 91km of the Kitwe to Chingola road

The following were observed:

i. Penalty Payments made to NAPSA

According to the signed agreement, the borrower was to make monthly repayments of the principal amount on the 15th day of every month, failure to which interest charges would be claimed by NAPSA. It was observed that a total of K1,319,255 was deducted by NAPSA from the disbursements in order to cover penalties during the period from December 2017 to October 2018 due to delayed remittance of loan repayment instalments. Consequently, there were less funds available to NRFA to finance the project.

ii. Wasteful Expenditure – Penalty Claims by Contractors

The General Conditions (GCC) in the signed contracts with the four (4) contractors stated that certified Interim Payment Certificates (IPC) shall be paid within 28 to 56 days of submission of the IPCs. It was however observed that, contrary to this general condition, NRFA had been failing to pay contractors on time.

In this regard, a total of K35,052,442 was claimed as penalties by two (2) contractors for delayed payments as of October 2018, as shown in the table below.

Contractor	Contract sum K	Claimed Interest K
Sinohydro Zambia Limited	844,912,167	15,055,412
Jx International Engineering Ltd	400,821,712	19,997,029
Total		**35,052,442**

iii. Failure to Secure Funds for increased Contract Sums

It was observed that as of October 2018, the NAPSA Corridor contracts increased in contract sums by an average of 27.57% due to variations in scope of works and price adjustments translating to an increase of K684,244,657. The total value of the contracts therefore increased to K3,165,970,476 from the original combined total figure of K2,481,725,819 for the four (4) contracts. This increase was more than the K2,126,552,026 loan secured from NAPSA. There was no evidence that the difference in funding had been secured.

e. Other Road Projects

i. Wasteful Expenditure - Penalty charges

During the period under review, NRFA delayed in settling claims made by forty-six (46) contractors. Consequently, the contractors claimed penalty charges amounting to K400,785,163.

In addition, it was observed that a further US$4,535,052 in penalty charges was outstanding on the Mansa – Luwingu road project**.** This was despite the project being funded through a loan from the EXIM Bank of China.

ii. Failure to pay Contractors on Time

As of November 2018, there were 139 signed contracts for road infrastructure and related projects countrywide. These contracts were signed between contractors for works, supervising consultants and the Road Development Agency.

It was however observed that, as of November 2018, NRFA had only managed to pay K1,230,721,923 to various contractors and consultants out of certified interim payment certificates and fee notes valued at K12,140,479,049 (K11,341,277,405 owed to contractors and K799,201,644 owed to consultants). This translated to only paying 10.14% of certified works and consultancy.

In addition, as a result of the delay in paying contractors on time, some contractors had suspended or terminated contracts with RDA. Among the contractors that had suspended or terminated contracts are as shown in the table below:

Contractor	Project	Time Taken (Months)	Un paid Certified Amount K	Status
Steffanuti Stocks	Kalabo-Sikongo	85	274,793,185	suspended
Zhongmei Engineering	Chongwe Hospital to Katoba	61	124,304,826	suspended
Steffanuti Stocks	Chabbboboma to Bottom road	107	296,819,564	suspended
Safricas (Z) Ltd	KK airport through to Great North road	75	229,691,966	Terminated
Sable Transport	Kabwe - Chibombo	30	46,582,236	Terminated

iii. **Increase in Time Related Obligations**

Time Related Obligations are those contractual costs affected by the time the contractor is on site, such as accommodation, staff, and electricity costs which are incurred on a monthly basis.

During the period under review, a sample of time related obligations for eight (8) road works revealed high claims due to contractors. A total of K349,641,455 had been claimed by these contractors as at 1st January 2017, and as at 31st January, 2018 the claims had increased to K560,059,503, an increase of 60.18% in twelve months. It was also observed that all these sampled contracts were beyond the contract completion period by an average of one (1) year and had physical works progress of less than 20%.

iv. **Failure to Pay Contractor on Time – Toll Plazas**

On 10th July 2017, the Road Development Agency (RDA) engaged AVIC International Zambia Limited for the construction of the Michael Chilufya Sata, Choma, and Kafulafuta Toll Plazas at a total cost of K120,510,272 (US$12,051,027.20) with a completion period of seven (7) months.

As at October 2018, the contractor had claimed an amount of K31,860,090 (US$3,186,009) on certified works out of which amounts totalling K23,268,040 (US$2,326,804) had been paid, leaving a balance of K8,412,050 (US$841,205). Consequently, the contractor had abandoned works at Choma and Kafulafuta Toll Plazas.

Times Printpak Zambia Limited

Background

11. The Times Printpak Zambia Limited was established under the Companies Act of 1994. The share capital of the company is 200,000 shares. All the shares of the company are held by Industrial Development Corporation (IDC).

The Company’s core business includes the following:

i. Printing newspapers.

ii. Newspaper publishing and distribution,

iii. Sale of advertising space, commercial printing,

iv. Publishing books and

v. Courier services.

Board of Directors

According to the Articles of Association, Times Printpak is governed by a Board of Directors whose members are appointed by the Minister responsible for Information and Broadcasting Services. It also states that unless otherwise determined by ordinary resolution, the number of directors shall not be less than two (2) and not more than eight (8) and shall hold office for a term of three (3) years and are eligible for re-appointment upon retirement.

Management

The Board appoints the Managing Director, who is the Chief Executive Officer on a renewable three (3) year contract. The Managing Director is responsible for the day to day operations of the company and is assisted by the Deputy Editor in Chief, Finance Manager, Manpower and Human Development Manager, Legal Counsel and Human Resource Manager.

Sources of Funds

The sources of funds for the Company include, among others, such sums of money as may be raised from its daily sales of newspapers, publishing of media advertisements, provision of printing and courier services. The Company also receives its other income in form of grants from the Government.

Review of Operations

A review of operations for Times Printpak Zambia Limited for the financial years ended 31st December 2015, 2016 and 2017 revealed the following:

a. Failure to Fill Key Management Positions

A review of the approved organization structure revealed that key management positions of Director Finance and Director Commercial were vacant as at 30th November 2018. The positions have been vacant since June 2015.

b. Procurement of Goods, Works and Services

i. Procurement of Newsprint Reels from United Technical Equipment (UTEC)

Between September 2013 and June 2017 Times Printpak had contracted UTEC a South African company on a continuous running contract to supply and deliver 500 metric tonnes of news print reels and wood free for the printing of newspapers valued at

K4,048,000 (US$440,000). As at the time of audit in September 2018, K1,781,689 (US$179,968.61) had been paid.

However, the following were observed:

- **Payments for Storage Charges to Mitchell Cotts**

  A review of Procurement Minutes dated 12th May 2016 revealed that Times Printpak Zambia and UTEC engaged Mitchell Cotts as a clearing agent on a running contract to clear trucks with containers of news print reels when they reach the borders from South Africa.

  In this regard, between May 2016 and March 2018 Mitchell Cotts was paid handling and storage charges for 3,407 of the news print reels for periods ranging from 6 to 29 days in amounts totalling K235,416 leaving a balance of K12,731.

  However, no documentary evidence was availed such as storage agreements between Times Printpak and Mitchell Cotts hence it was not possible to ascertain how the rates used for storage charges were arrived at.

ii. Undelivered Newsprint Reels by Local Suppliers

On 15th May 2017 Times Prinkpak engaged two (2) local suppliers to supply 250 metric tonnes of newsprint reel at a cost of K8,578,200 (US$814,000) from Bulkan Investment K5,595,480 (US$594,000) and Phiramid K2,072,400 (US$220,000) on continuous running contract. As at the time of audit, the two suppliers had been paid in full.

However, it was observed that the suppliers only delivered 90.3 M/T leaving a balance of 159.7 metric tonnes valued at K821,700 undelivered as at 31st September 2018 as tabulated below.

Supplier	Qty Ordered (MT)	Qty Delivered (MT)	Undelivered (MT)	Unit Price K	Value K
Bulkan Investments	125	73.5	51.5	4,400	226,600
Phiramid Solutions	125	16.8	108.2	5,500	595,100
Total		**90.3**	**159.7**		**821,700**

c. Government Ministries' and Parastatal Bodies' Debt

During the period under review, thirty four (34) Government Ministries and Parastatal Bodies were owing the Company amounts totaling K7,566,369. As at 30th November 2018, the debts had been outstanding for periods of over 190 days.

d. Non Remittance of Taxes and Statutory Contributions

A review of records revealed that the Company was not remitting statutory contributions on time. In this regard, as at 31st December 2017, the Company owed various institutions amounts totalling K670,496,682 as shown in the table below.

Institution	Detail	Amount K
NAPSA	Contribution	277,850,242
ZRA	PAYE, VAT, Income & Withholding Tax	391,963,312
WCFCB	Contribution	651,519
Ndola City Council	Personal levy	31,608
Total		**670,496,682**

e. Failure to Collect Rental Income

As at 30th November 2018, the Company was owed amounts totalling K150,000 in respect of rentals from its offices rented out in Ndola, some of which had been outstanding from as far back as August 2017.

Zambia Airports Corporation Limited

Background

12. The Zambia Airports Corporation Limited (ZACL) is a limited company registered under the Companies Act. It commenced operations on 11th September 1989 when it took over the operations of Lusaka, Livingstone, Ndola and Mfuwe International Airports. The Corporation also took over the functions of providing air traffic control services throughout the country, aircraft services, security at the designated airports and terminal facilities for passengers and cargo and maintaining navigational and telecommunication equipment.

Capital Structure

The ZACL's authorised share capital comprises 16,458,500 ordinary shares of K1 each which were issued and fully paid up.

Board of Directors

The ZACL is governed by a Board of Directors. According to the Articles of Association, the Board is composed of nine (9) members who are appointed by the Minister responsible for Communications and Transport. The members are appointed on three (3) years renewable terms.

Management

The day to day operations of ZACL are the responsibility of the Chief Executive Officer (CEO) who is assisted by four (4) Directors responsible for Finance, Human Resources, Airport Services and Air Navigation Services and a Corporation Secretary (CS). The CEO, Directors and Corporation Secretary are appointed on renewable three (3) year contracts.

Sources of Funds

ZACL earns its income from aviation and non-aviation sources. The aviation sources include overflight, landing and navigational fees while the non-aviation sources include rental charges, grant, ground handling fees, concessions, parking fees, passenger service charges, advertising and other miscellaneous incomes.

Review of Operations

A review of operations of ZACL headquarters and the four (4) international airports for the financial years ended 31st December 2014, 2015, 2016 and 2017, revealed the following:

a. Statement of Profit or Loss for the Years ended 31st December 2014, 2015, 2016 and 2017

	2017 **K**	**2016** **K**	**2015** **K**	**2014** **K**
Revenue	417,345,050	416,319,596	332,443,199	226,965,051
Expenditure				
Depreciation	(38,868,379)	(36,230,226)	(41,092,639)	(35,553,329)
Employee costs	(184,841,502)	(153,704,262)	(124,468,843)	(110,426,275)
Other operating expenses	(147,554,576)	(145,428,293)	(110,601,337)	(67,383,745)
Operating Profit	**46,080,593**	**80,956,815**	**56,280,380**	**13,601,702**
Other income	15,699,490	**21,232,124**	**8,400,717**	**8,279,952**
Profit from operations	**61,780,083**	**102,188,939**	**64,681,097**	**21,881,654**
Finance income and costs	(16,275,903)	(21,369,981)	(18,918,003)	(12,607,750)
Profit before tax	**45,504,180**	**80,818,958**	**45,775,692**	**9,306,343**
Income tax expense	(17,188,504)	(39,334,689)	(23,656,518)	(9,439,084)
Profit for the year	**28,315,676**	**41,484,269**	**22,119,174**	**(132,741)**

The following were observed:

i. Net Profit Margin Ratio

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

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

	2017	2016	2015
Profit for the year (K)	28,315,676	41,484,269	22,119,174
Revenue (K)	417,345,050	416,319,596	332,443,199
Net Profit Margin	7%	10%	7%

As can be seen from the table above, the Company's net profit margin was 7% in 2015, which improved to 10% in 2016. However, there was a decrease of 3% in 2017 due to high staff and finance costs.

ii. Operating Profit Margin Ratio

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

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

	2017	2016	2015	2014
Operating Profit (K)	61,780,083	102,188,939	64,681,097	21,881,654
Revenue (K)	417,345,050	416,319,596	332,443,199	226,965,051
Operating Expenses to Revenue (%)	**15**	**25**	**19**	**10**

As can be seen from the table above, the Company's operating profit margin increased from 10% in 2014 to 25% in 2016. However, the margin decreased to 15% in 2017 which was attributed to escalating operating expenses, finance costs and employee costs.

b. Statement of Financial Position as at 31st December 2014 to 2017 – Liquidity Position

	2017 K	2016 K	2015 K	2014 K
Non- Current Assets				
Property, plant and equipment	573,581,734	580,364,148	582,968,085	582,497,534
Financial assets	2,615,608	1,710,761	1,710,761	1,710,761
	576,197,342	**582,074,909**	**584,678,846**	**584,208,295**
Current Assets				
Inventories	4,408,916	3,224,512	2,158,221	1,864,230
Trade and other receivables	114,942,037	114,827,913	143,016,338	66,751,093
Held to maturity financial assets	13,738,777	23,380,424	104,569	101,201
Cash and cash equivalents	32,582,325	44,926,923	40,682,407	15,098,318
	165,672,055	**186,359,772**	**185,961,535**	**83,814,842**
Total assets	**741,869,397**	**768,434,681**	**770,640,381**	**668,023,137**
Equity and Liabilities				
Share capital	16,458,500	16,458,500	16,458,500	16,458,500
Amount received pending allotment	13,928,678	13,928,678	13,928,678	13,928,678
Revaluation reserves	227,443,637	217,853,722	104,622,592	165,129,995
Accumulated profit/(losses)	72,223,550	36,267,394	21,848,214	(7,911,443)
	330,054,365	**284,508,294**	**156,857,984**	**187,605,730**
Non-current liabilities				
Capital grants	90,525,929	97,401,076	106,547,227	111,776,315
Long-term loans	86,003,404	116,553,290	159,682,207	94,837,534
Deferred income tax	19,387,513	36,617,907	157,489,517	104,622,597
Obligations under finance leases	-	1,611,789	2,544,593	-
Deferred liability	65,830,871	74,572,406	70,673,590	78,209,074
	261,747,717	**326,756,468**	**496,937,134**	**389,445,520**
Current liabilities				
Short term portion of long-term loans	37,267,861	38,706,665	44,785,647	26,960,449
Obligations under finance leases	2,666,748	4,871,911	3,711,186	1,795,630
Trade and other payables	76,803,376	61,045,022	16,563,373	36,468,847
Income tax payables	22,169,330	46,761,524	38,191,836	15,585,318
Bank overdraft	-	1,792,458	402,821	1,041,640
Deferred liability	11,160,000	6,011,354	13,190,400	9,120,000
	150,067,315	**159,188,934**	**116,845,263**	**90,971,884**
Total equity and liabilities	**741,869,397**	**770,453,696**	**770,640,381**	**668,023,134**

The current ratio is a liquidity ratio that measures a company's ability to pay off its short term liabilities as and when they fall due using its current assets. The acceptable current ratio is 2:1.

	2017	**2016**	**2015**	**2014**
Current Assets (K)	165,672,055	186,359,772	185,961,535	83,814,842
Current Liabilities (K)	150,067,315	159,488,934	116,845,263	90,971,884
Working Capital (K)	15,604,740	26,870,838	69,116,272	(7,157,042)
Current Ratio	**1.1:1**	**1.52:1**	**1.59:1**	**0.92:1**

As can be seen in the table above, the current ratio for the ZACL for the financial years ended 31st December 2014, 2015, 2016 and 2017 was 0.92:1, 1.59:1, 1.52:1 and 1.1:1 respectively. Further, the Company operated with a negative working capital in 2014 which improved in 2015. However, there was a reduction in 2016 and 2017.

c. Failure to Execute Judgement – Zambian Airways

On 25th March 2017 following legal action against Mine Air Services trading as Zambian Airways for failure to settle office rentals, air navigation charges, parking charges and ground handling charges in amounts totalling K23,792,048, the High Court passed judgement in favour of ZACL. However, as at 31st December 2018, the Corporation had not executed the judgement.

d. Failure to Put to Use the Old Terminal Building - Harry Mwaanga Nkumbula

A physical inspection conducted on the old terminal building which has been declared as a national heritage site revealed that ZACL failed to put to good use the building as of October 2018. The building had been locked and abandoned with no activity.

Further, the structure had even started developing longitudinal deep cracks on the floor running across the building from one end to the other.

e. Failure to Avail Asset Registers

ZACL did not maintain asset registers for its assets held at the four (4) international airports under its custody.

Zambia Daily Mail Limited

Background

13. The Zambia Daily Mail Limited is a newspaper publishing company which is wholly owned by the Government through the Industrial Development Corporation (IDC). The Company was incorporated under the Companies Act No. 388 of the Laws of Zambia with an authorised and issued share capital of 25,000 shares of K1 each.

The core business of the Company is print media-advertising, commercial printing and sale of newspapers.

Board of Directors

The Company is governed by a Board of Directors consisting of eight (8) members appointed from different disciplines or professions by the Minister responsible for Information and Broadcasting. The Board members of the company hold office for a term of not more than three (3) years and members are eligible for reappointment upon expiry of their term of office.

Management

The Managing Director is responsible for the day to day operations of the company and is assisted by the Deputy Managing Director, Directors of Finance, Human Resources and Administration and Marketing and Advertising, Chief Internal Auditor and the Company Secretary.

Sources of Funds

The sources of funds for the Company include, among others, such sums of money as may be raised from daily sales of newspapers, publishing of media advertisements and provision of printing services. In addition, the Company also receives other income in form of grants from the Government.

During the financial years ending 31st December 2015, 2016 and 2017, the company raised revenue in amounts totalling K251,455,161 as tabulated below.

Year	Revenue K	Other income K	Annual Total K
2017	84,124,919	2,185,935	86,310,854
2016	84,635,946	3,345,038	87,980,984
2015	76,010,843	1,152,480	77,163,323
Total	**244,771,708**	**6,683,453**	**251,455,161**

Review of Operations

A review of operations for the period under review revealed the following:

a. Statement of Comprehensive Income for the Years ended 31st December 2015 to 2017

	2017 K	2016 K	2015 K
Income:			
Revenue	84,124,919	84,635,946	76,010,843
Other income	2,185,935	3,345,038	1,152,480
Cost of sale	(47,733,128)	(51,398,514)	(46,257,976)
Operating expenses	(9,534,534)	(13,808,954)	(17,045,508)
Employee costs	(36,071,881)	(27,577,785)	(35,854,652)
Operating loss	(7,028,689)	(4,804,269)	(21,994,813)
Finance cost	(617,581)	(786,341)	(719,536)
Loss before taxation	(7,646,270)	(5,590,610)	(22,714,349)
Deferred Tax	(5,876,172)	5,470,085	17,136,371
Taxation	(204,886)	(200,159)	-
Profit (Loss) for the year	(13,727,328)	(320,684)	(5,577,978)
Other comprehensive income	-	8,259,379	-
Total comprehensive Profit (loss)	(13,727,328)	7,938,695	(5,577,978)

As can be seen from the table above, the Company continued to record losses. The loss increased from K5,577,978 in 2015 to K13,727,328 in 2017. The losses were attributed to the high cost of sales and employee costs.

b. Statement of Financial Position as at 31st December 2015 to 2017

	2017 K	2016 K	2015 K
ASSETS			
Non - current assets			
Property, plant and equipment	45,031,475	46,212,795	37,513,907
Current assets			
Inventories	2,011,183	3,132,507	1,153,888
Trade and other receivables	36,988,812	31,051,415	27,342,138
Cash and cash equivalents	7,267,342	6,393,738	1,370,991
	46,267,337	40,577,660	29,867,017
Total assets	**91,298,812**	**86,790,455**	**67,380,924**
EQUITY AND LIABILITY			
Equity			
Share capital	25,000	25,000	25,000
Revaluation reserves	16,700,859	18,788,467	11,414,874
Accumulated losses	(85,985,125)	(83,601,566)	(84,546,049)
	(69,259,266)	**(64,788,099)**	**(73,106,175)**
Non Current liabilities			
Loans	602,402	1,551,763	969,375
Deferred tax	(15,013,134)	(20,889,306)	(15,419,221)
Staff benefits	25,976,000	30,617,781	32,804,300
Capital grants	1,897,374	1,137,987	2,344,811
	13,462,642	**12,418,225**	**20,699,265**
Current liabilities			
Loans	630,375	1,310,681	1,675,383
Current tax payable	2,700,460	2,596,185	2,465,747
Trade and other payables	143,756,659	133,804,832	114,940,661
Bank Overdraft	7,942	1,448,630	706,043
	147,095,436	139,160,328	119,787,834
Total equity and liabilities	**91,298,812**	**86,790,455**	**67,380,924**

i. Current Ratio

The ratio reflects the ability of a firm to meet its short term financial obligations or the number of times current liabilities can be paid with current assets. The ideal ratio is 2 to 1. During the period under review, the Company did not meet the standard ratio as shown in the table below.

Current Ratio	2017 K	2016 K	2015 K
Current Assets	46,267,337	40,577,660	29,867,017
Current liabilities	147,095,436	139,160,328	119,787,834
Current Ratio	0.31:1	0.29:1	0.25:1

ii. Insufficient Working Capital

Working capital is the capital of a business which is used in its day to day trading operations, calculated as current assets minus current liabilities.

During the period under review, the Company had negative working capital as shown in the table below.

	2017	2016	2015
Current Assets (K)	46,267,337	40,577,660	29,867,017
Current Liabilities (K)	147,095,436	139,160,328	119,787,834
Working Capital (K)	**(100,828,099)**	**(98,582,668)**	**(89,920,817)**

As can be seen from the table above, the working capital decreased from negative K89,920,817 in 2015 to K100,828,099 in 2017. This was mainly attributed to Pay As You Earn (PAYE) liabilities.

iii. Poor Management of Receivables

A scrutiny of the receivables age analysis revealed that the Company was owed amounts totalling K35,996,279. It was also observed that amounts totalling K30,492,735 which represented 85% of the total receivables had been outstanding for a period exceeding 180 days as at 31st December 2017. It was further observed that of the K35,996,279 outstanding debt, Government Ministries and Departments collectively owed Zambia Daily Mail Limited a total of K5,245,576 representing 15% of the debt outstanding.

Period	180 days + K	150 days K	120 days K	90 days K	60 days K	Total K
2017	30,492,735	1,920,185	1,366,807	908,103	1,308,451	35,996,279
2016	27,869,875	1,273,889	1,099,844	2,214,347	(249,441)	32,208,514
2015	14,386,184	966,259	2,074,453	1,044,195	2,739,893	21,210,985

c. Procurement of Goods and Services

i. Unsupported Payments

A review of payment vouchers made during the period under review revealed that eighteen (18) payments in amounts totalling K256,050 were not supported with relevant documents such as receipts and invoices.

ii. **Uncompetitive Procurement**

Contrary to the Public Procurement Regulation No. 108(2), during the period under review the Zambia Daily Mail Limited procured various items in amounts totalling K103,527 without obtaining competitive quotations.

d. Un-acquitted Expenditure

A review of payments for allowances made during the period under review revealed that two (2) payments in amounts totalling K16,130 were not signed for by beneficiaries to acknowledge receipt of payment.

e. Non-Remittance of Taxes

The Company deducted various taxes in amounts totalling K114,614,369 during the period from January 2015 to December 2017. See table below.

Tax Type	Amount K
PAYE	38,751,277
VAT	74,537,317
Withholding	1,325,775
Total	**114,614,369**

However, as at 31st December 2018, the taxes had not been remitted to the ZRA.

f. Failure to Remit Pension Contributions to NAPSA

A review of records revealed that the Company was not remitting pension contributions to NAPSA on time. In this regard, the Company owed amounts totalling K4,412,804 as at 31st December 2018.

g. Irregular Ex-gratia Payments to Staff

During the period under review, the Company spent amounts totalling K135,300 (K67,800 in 2015 and K67, 500 in 2016) as ex-gratia payments to staff. However, the payments were irregular as there was no Board in place to approve the payments.

Zambia Education Publishing House

Background

14. Zambia Education Publishing House (ZEPH) was established under CAP 30 of 1992, now Cap 145 of the Laws of Zambia as a statutory body under the Ministry of Education following the transformation of its predecessor the Kenneth Kaunda Foundation.

ZEPH is charged with the responsibility of publishing, printing and distributing all official textbooks written by the Curriculum Development Centre for the Ministry of General Education and all other education requisites for schools throughout Zambia.

Board of Directors

ZEPH is governed by a Board of Directors comprising six (6) members namely the Permanent Secretary in the Ministry of General Education (Chairperson), Permanent Secretary in the Ministry of Finance (Deputy Chairperson) and four (4) persons from the private sector appointed by the Minister of Education. The members are appointed on three (3) year renewable terms.

Management

The day to day administration of the ZEPH is the responsibility of the Managing Director who is appointed by the Board and is also the Secretary of the Board. The Managing Director is assisted by seven (7) managers responsible for Finance, Purchasing, Personnel and Administration, Publishing, Works, Marketing and Audit.

Sources of Funds

The ZEPH derives its income mainly from sale of books, printing fees and interest earned on bank accounts.

Review of Operations

A review of operations for the financial years ended 31st December 2015 to 2017 carried out in May 2018 revealed the following:

a. Lack of Strategic Plan

A strategic plan is a management tool used to set priorities, focus energy and resources, strengthen operations, to ensure that employees and other stakeholders are working towards common goals. The purpose of a strategic plan is to set overall goals for the business and to develop strategies to achieve them.

However, as at 31st December 2018, ZEPH had been operating without a strategic plan since 2007 following the expiry of the 2002-2006 strategic plan.

b. Operating without a Board of Directors

ZEPH had been operating without a Board since 2nd December 2015 when the term of the last Board expired. As at 31st December 2018, the Board had not been put in place.

c. Irregular Payment of Board Allowances

According to the letters of appointment for the Board of Directors, their mandate was to run for a period of three (3) years from 10th December 2012 to 1st December 2015.

However, a scrutiny of payment vouchers revealed that ZEPH continued to pay board members allowances after the expiry of their mandate up to 3rd November 2016. In this regard, the members were irregularly paid allowances totalling K140,000.

d. Failure to Prepare Financial Statements

Contrary to the Act, ZEPH had not prepared financial statements since 2007.

e. Failure to Achieve set Production Targets - Printing

A review of the production budgets for the period under review revealed that the printing house had planned to produce a total of 1,890,000 books.

However, production information for the period under review revealed that ZEPH failed to meet production targets as shown in the table below.

Planned Production Year	2017	2016	2015	Total
Planned Production	220,000	300,000	1,370,000	1,890,000
Actual Production	148,415	291,632	947,390	1,387,437
Variance	(71,585)	(8,368)	(422,610)	(502,563)

This impacted negatively on ZEPH’s ability to generate revenue.

f. Failure to Fill Vacant Positions

ZEPH has an approved staff establishment of one hundred and fifty four (154) personnel. A review of the current staff establishment revealed that eighteen (18) positions had remained vacant for periods ranging from two (2) to six (6) years as shown in the table below.

Position	Department/ Branch	Vacancy	Date when position became vacant	Period of position being vacant (Years)
Financial Accountant	Accounts	1	2016	3
Internal Auditor	Audit	1	2015	4
Senior Editor - Zambian Languages	Publishing	7	2014	5
Senior Editor - English	Head Office	1	2013	6
Foreman	Works	1	2017	2
Branch Manager	Branches	6	2014	5
Printer Finisher	Publishing	1	2013	3
Total Positions		**18**		

g. Failure to Pay Terminal Benefits

The ZEPH owed amounts totalling K7,342,130 to nineteen (19) separated staff in respect of terminal benefits for periods ranging from two (2) to eleven (11) years.

h. Failure to Settle Statutory Obligations.

i. NAPSA Contributions

Contrary to the provisions of the NAPSA Act, ZEPH owed NAPSA a total of K84,555,775 as shown in the table below.

Year	Principal K	Interest K	Total K
2015	47,008,263	4,400,921	51,409,184
2016	64,578,122	5,597,645	70,175,767
2017	77,988,223	6,567,553	84,555,775

ii. Pay As You Earn (PAYE)

Contrary to the Income Tax Act, ZEPH owed ZRA amounts totalling K23,001,077 in respect of PAYE as the last remittance was made in 2013. Included in the owed amount was interest and penalties amounting to K4,904,435. See table below.

Detail	Amount K
Principal	18,096,642
Interest and Penalties	4,904,435
Total	**23,001,077**

i. Lack of Asset Management Policy

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

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

j. Properties without Title Deeds

Contrary to the Lands Act No. 29 of 1995, ZEPH did not have title deeds for sixty-five (65) properties which included branch shops, warehouses and residential houses situated in Lusaka, Southern and Copperbelt provinces.

k. Failure to Insure Assets

Best practice requires that an organisation obtains insurance cover for its valuable assets. This ensures that the risk of loss or significant damage to assets equipment is mitigated and ensure minimal disruption to operations.

As at 31st December 2018, ZEPH did not provide evidence that it had insured its assets critical to its printing business.

l. Failure to Produce Procurement Plans

Public Procurement Regulation No. 26 (1) states that a Procurement Unit shall, in consultation with a user department, prepare a procurement plan for the procuring entity, for each financial year, containing the information required under Regulation No. 27". Further, Regulation No. 27 requires, among others, that an entity should include in its Procurement Plan detailed breakdown of the goods, works and services required, the procuring agency's priorities, and an indication as to whether it will be necessary to carry out a prior study for tenders of works.

Further, the plan provides for a schedule of the delivery, implementation or completion dates for all goods, works and services required.

Contrary to the procurement regulations, ZEPH did not have procurement plans during the period under review.

m. Unsupported Payments

Contrary to Financial Regulations Nos. 45(2) and (52(1), one hundred and seventy-seven (177) payments in amounts totalling K4,675,582 made during the period under review were not supported with relevant documents such as receipts, tenancy agreements, acquittal sheets and fuel statements.

n. Uncompetitive Procurement

Contrary to Public Procurement Regulation No. 108, seventy-three (73) payments in amounts totalling K1,321,113 paid to different suppliers of goods and services such as raw materials for printing jobs, printing jobs and stationery were made without obtaining three (3) quotations as per ZPPA guidelines.

o. Lack of Disposal Details

Contrary to Public Stores Regulation No. 16, there were no disposal details in respect of goods costing K2,759,464 procured during the period under review.

p. Failure to Collect Outstanding Rentals

The tenancy agreements entered into between ZEPH and four (4) companies stated that the tenants should pay rent in advance before the end of each calendar month.

However, a review of debtors ledgers revealed that the two (2) companies owed ZEPH amounts totalling K48,000 in outstanding rentals for periods of up to thirty six (36) months as shown below.

Institution	Period Owing	Amount K
Machiti Enginering	36 Months	37,800
Kabacho Enterprises	10 Months	10,200
Total		**48,000**

q. Abandoned ZEPH Building – Kasama Branch

A physical verification at ZEPH Kasama branch revealed that the building was dilapidated and in a general state of disrepair and had since been abandoned. See pictures below.

Abandoned buildings with broken window panes

Damaged ceiling board

r. Unaccounted for Revenue - Mongu Branch

During the period from January 2016 to December 2017, ZEPH Mongu Branch collected a total of K48,000 as rental income from the lease of its building. It was however observed that only amounts totalling K24,000 were deposited, while the balance of K24,000 was unaccounted for.

s. Poor Stores Management – Mongu Branch

A physical inspection of the stores unit revealed that bin cards for various stores items were not updated. It was further observed that the store room was fitted with expired fire extinguishers which were last serviced in 1983. General outlook of the stores was as shown in the picture below.

Stock items without Bin Cards

Fire Extinguisher last Serviced 1983

The Branch had a total of 1,233 books worth K45,860 received between 2005 and 2008 which were still in stores as at 31st October 2018. See table below.

Last Date Movement	Book Description	Quantities on Stock Card	Physical Count	Unit Price K	Total Amount K
2008	Echoes of Despair	47	47	15	705
2008	Death of a Trump	30	30	30	900
2008	Preparing for Adult Life	71	71	25	1,775
2007	Breakthrough book	572	572	40	22,880
2006	Indigenous Motivation & Values	185	185	40	7,400
2005	Living in One World	184	184	35	6,440
2005	Home Economics Grade 7	144	144	40	5,760
	Total	**1233**	**1233**		**45,860**

t. Unaccounted for Funds – Chipata Branch

A review of receipts and bank statements for the years under review revealed that from a total of K99,170 which was receipted, amounts totalling K54,151 were banked, leaving a total of K45,019 unaccounted for. See table below.

Year	Sales K	Bank Deposit K	Under Banking K
2017	50,928	26,018	24,911
2016	48,242	28,133	20,109
Total	**99,170**	**54,151**	**45,019**

u. Non-Maintenance of Office Buildings - Choma

A physical inspection of the ZEPH Choma branch revealed that the building had not been maintained, with the last record of building maintenance being 2008. In this regard, it was observed that the building had structural cracks, with some parts of the roof blown off, broken window panes, while the ceiling boards were either leaking or falling off. See pictures below:

Part of Building with Blown off Roof.

Part of Building with damaged ceiling

Crack running through Building

A review of stock records revealed that books costing K95,435 were destroyed as a result of exposure to rain. See picture below.

Part of damaged stock due to leaking roof

v. Lack of Tenancy Agreements – ZEPH Livingstone

The Livingstone Branch was leasing part of its properties to two (2) tenants. However, the Branch did not have tenancy agreements.

w. Poor Maintenance of Buildings – Livingstone

A physical inspection of the Branch revealed that the building had not been maintained. In this regard, it was observed that the building had structural cracks, broken window panes, while the ceiling board was damaged as a result of a leaking roof. See pictures below.

Warehouse with damaged ceiling board due to leakages

One of the broken window panes

Zambia International Trade Fair

Background

15. The Zambia International Trade Fair (ZITF) was incorporated on the 17^{th} February 1965 under the Companies Act as a company limited by Guarantee. On 13^{th} October 2011, ZITF was converted to a company limited by shares. The Company had share capital of 5,000 ordinary shares of K1 each which were fully subscribed. The IDC has 99% shareholding in the Company while 1% is held by the Chief Executive Officer of IDC.

The ZITF's mission was to be a premier forum which promotes trade and investment and a platform of choice for organizations in and outside Zambia to showcase their products and services with a view to creating sustainable partnerships for wealth creation. The Company's vision was to be the number one international trade fair of choice in Africa.

Board of Directors

The ZITF is governed by a Board of Directors comprising the Permanent Secretary or representative of the Ministry responsible for Commerce and Trade; not more than five (5) persons from the private sector and the General Manager.

Management

The day to day administration of the ZITF is the responsibility of the General Manager who is appointed by the Board of Directors. The General Manager is assisted by the Administration and Marketing Managers.

Sources of Funds

The Company derives its income from participation fees, ground rent, tickets, badges, investments and grants from Government.

Review of Operations

A review of operations for the financial years ended 31st December 2015 to 2017 revealed the following:

a. Failure to Meet the Prescribed Minimum Share Capital

Following the issuance of Statutory Instruments No. 53 of 2015 and No. 41 of 2017, it is a requirement that all limited companies have a minimum nominal share capital of K15,000.

However, ZITF operated with a nominal capital of K5,000, K10,000 less than what is stipulated by law.

b. Failure to Produce Audited Financial Statements for 2017

According to the Company's Act, companies are required to produce audited Financial Statements within three (3) months after the end of the financial year. However, it was observed that as at 31st December 2018, the Financial Statements for year ended 31st December 2017 were still in draft form.

c. Statement of Comprehensive Income for the years ended 31st December 2015 and 2016

Accounting Period	2016 K	2015 K
Revenue	8,847,109	8,005,648
Other operating income	169,105	215,934
Other operating gains	11,170	-
Operating expenses	(7,135,543)	(5,320,531)
Employee benefits	(3,448,942)	(3,047,858)
Depreciation	(506,070)	(539,302)
Operating loss	**(2,063,171)**	**(686,109)**

As can be seen from the table above, the Company continued to make operating losses during the period under review. The operating loss increased from K686,109 in 2015 to K2,063,171 in 2016 representing an increase of 201%. The operational losses could mainly be attributed to failure to sustain the increase in revenue and operating expenses which included employee benefits, general exhibitions, motor vehicle expenses, repairs and maintenance among others remaining high.

d. Statement of Financial Position - Weak Current Ratio

The Statement of Financial Position as at 31st December 2015 and 2016 was as shown below.

	2016 K	2015 K
Assets		
Non - current assets		
Property, plant and equipment	15,946,767	16,132,691
Investments in subsidiaries	5,096,616	5,096,616
Amounts due from shareholders	5,000	5,000
	21,048,383	**21,234,307**
Current assets		
Trade and other receivables	1,055,223	579,487
Amounts due from related parties	707,461	757,130
Cash and cash equivalents	18,455	501,444
	1,781,139	**1,838,061**
Total assets	**22,829,522**	**23,072,368**
Equity and liabilities		
Equity		
Share capital	5,000	5000
Reserves	14,403,284	14,730,631
Accumulated losses	(2,049,489)	(313,666)
	12,358,795	**14,421,965**
Non-Current Liabilities		
Retirement benefits obligation	1,867,575	1,740,368
Current liabilities		
Amounts due to related parties	396,986	315,650
Trade and other payables	8,206,166	6,594,385
	8,603,152	**6,910,035**
Total equity and liabilities	**22,829,522**	**23,072,368**

A current ratio measures the ability of an entity to meet its current financial obligations using its current assets. It is determined by comparing current assets against current liabilities. The generally acceptable ratio is 1.5. The current ratio during the period under review was as shown in the table below.

Current ratio	2016	2015
Current assets (K)	1,781,139	1,838,061
Current liabilities (K)	8,603,152	6,910,035
Ratio	**0.2**	**0.3**

As can be seen from the table above, the current ratio of the Company was below the acceptable benchmark of 1.5. The deterioration of the current ratio was as a result of increasing current liabilities while the current assets were decreasing. The low current ratio indicated that the Company was unable to meet its short-term financial obligations as and when they fell due.

e. Statement of Cash-Flow for the financial years ended 31st December 2015 and 2016

	2016 K	2015 K
Cash inflows from operating activities		
Net Cash flow / (Out flow) from operating Activities	(432,226)	181,088
Net Cash flow / (Out flow) from investing Activities	(177,972)	(942,460)
Financing Activities		
Net Cash flow / (Out flow) Financing Activities	127,207	441,637
Decrease in cash and cash equivalent	(482,991)	(319,735)
Cash and cash equivalent at the beginning of the Year	501,444	821,179
Cash and cash equivalent at the end of the Year	18,453	501,444

As can be seen from the table above, the Company recorded a negative cash flow of K432,226 during the financial year ended 31st December 2016 from a positive cash flow of K181,088 in 2015.

f. Failure to Pay Terminal Benefits.

During the period under review, ZITF was failing to pay terminal benefits to its former employees. As at 31st December 2017, ZITF was owing amounts totalling K2,016,183 in outstanding terminal benefits. This had increased from K1,298,731 in 2014 representing an increment of 55%.

g. Questionable Payment to Former General Manager

It was observed that on 26th May 2015, ZITF reimbursed the General Manager an amount of K16,008 to compensate him for breach of contract with ZAMPOST, his former employers. However, there was no Board approval for the transaction rendering the payment questionable.

h. Irregular Payment to Ndola City Council

On 8th September 2015, ZITF paid Ndola City Council K35,000 in respect of service charges for four (4) plots purported to have been offered to members of staff. However, the following observations were made:

- The offer letters were not attached. Therefore, the beneficiaries were not known.
- There was no request in form of advances or loans from the members of staff to have their service charges paid on their behalf.
- There was no evidence that K35,000 was paid back by the officers in question.

i. Failure to Settle Statutory Obligations

ZITF has been failing to meet its statutory obligations over the years under review. As at 31st December 2017, the total outstanding statutory obligations stood at K4,184,158. See table below.

Year	2017 K
VAT	1,967,001
PAYE	1,005,102
NAPSA	1,212,055
Total	**4,184,158**

j. Lack of Asset Management Policy

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

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

k. **Abandoned House – No. 56 Kabelenga Road, Ndola**

A physical inspection of the house owned by ZITF revealed that it was abandoned and was in a dilapidated state. See pictures below.

Dilapidated and abandoned house at 65 Kabelenga road, Ndola

l. **Irregular Drawing of Fuel**

It was observed that the ZITF issued fuel on account to motor vehicles which did not belong to the Company. It was further observed that these drawings were not supported by any documentation or justification.

In this regard, the drawing of fuel in amounts totalling K512,162 was irregular in the absence of any justification.

m. **Failure to Produce Procurement Plans**

Public Procurement Regulation No. 26 (1) states that a Procurement Unit shall, in consultation with a user department, prepare a procurement plan for the procuring entity, for each financial year, containing the information required under Regulation No. 27". Further, Regulation No. 27 requires, among others, that an entity should include in its Procurement Plan: Detailed breakdown of the goods, works and services required, the procuring agency's priorities, and an indication as to whether it will be necessary to carry out a prior study for tenders of works.

Further, the plan provides for a schedule of the delivery, implementation or completion dates for all goods, works and services required.

Contrary to the above procurement regulations, the management at ZITF did not have procurement plans during the period under review.

n. **Unsupported Payments**

One hundred and fifty-one (151) payments in amounts totalling K2,945,305 made during the period under review were not supported with relevant documents such as acquittal sheets and receipts.

o. **Unretired Accountable Imprest**

Accountable imprest in amounts totalling K95,633 issued to various officers during the period from May 2015 to June 2017 had not been retired as at 31st December 2018.

p. **Failure to Produce Service Contracts**

During the period from 2015 to 2017, ZITF incurred expenses in amounts totalling K250,656 for services such as security, rental and internet.

However, ZITF did not provide for audit the contracts for the various service providers.

q. **Unaccounted for Stores**

Contrary to Public Stores Regulation No. 16, various stores items costing K1,170,410 (General Stores - K681,583 and Fuel - K488,827) procured during the period under review were unaccounted for as there were no receipt and disposal details.

Zambia National Building Society

Background

16. The Zambia National Building Society (ZNBS) was established in 1968 under the Building Society Act. The Act was amended under Cap 412 of the Laws of Zambia, Building Societies (amendment) Act No. 67 of 1970 and 2005. The Society is wholly owned by the Government of Zambia. The principal activities of the Society are to mobilise finance, provide finance for house acquisition/construction to eligible members of the public, render banking services, manage properties and provide other related services.

Board of Directors

ZNBS is governed by a Board of Directors which is appointed by the Minister of Finance comprising not less than seven (7) and not more than ten (10) members drawn from both the public and private sector.

Management

The day to day administration of the ZNBS is the responsibility of the Managing Director who is appointed by the Board of Directors. The Managing Director is assisted by the Society Secretary, Directors for Mortgages, Banking Operations, Finance and Corporate Planning, and Human Resources.

Sources of Funds

The Society derives its income mainly from interest income from loans and mortgage, fees and commissions charged on bank transactions and rentals from investment properties.

Review of Operations

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

a. Statement of Comprehensive Income for the financial years ended 31st March 2015 to 2017

	2017 K'000	2016 K'000	2015 K'000
Interest income	120,581	85,961	67,144
Interest expense	(18,591)	(11,810)	(13,906)
Net interest income	**101,990**	**74,151**	**53,238**
Loan impairment charges	(13,567)	(12,733)	(6,382)
Net interest income after loan impairment charges	**88,423**	**61,418**	**46,856**
Fees and commission income	35,586	39,191	41,556
Rental income	6,932	5,937	6,091
Profit/ (loss) on disposal of assets	70	(25)	8
Fair value gain on investment property	41,258	14,830	3,092
operating expenses	(138,762)	(101,082)	(93,019)
Profit before tax	33,507	20,269	4,584
Income tax credit / (expense)	4,501	(2,905)	(705)
Profit for the year	**38,008**	**17,364**	**3,879**
Other comprehensive income			
Items that will not be recycled to profit or loss			
Gains on revaluation of buildings			8,025
Deferred income tax impact on revaluation			(1,893)
Reversal of deferred income tax on revaluation	-	13,495	
Total Comprehensive income for the year	**38,008**	**30,859**	**10,011**

A comparison of the statements of comprehensive income for the financial years ended 31st March 2016 and 2017 revealed that although the ZNBS recorded an increase in profits after tax from K17,364,000 in 2016 to K38,008,000 reported in 2017, the reported profits once adjusted for accounting entries of fair value gains adjustments on investment properties and depreciation charges for the year revealed that the profits were actually decreasing during the period under review as shown in the table below.

Description	2017 K'000	2016 K'000	2015 K'000
Profits After Tax	38,008	17,364	3,879
Add Depreciation Charge	4,592	4,048	3,373
Fair Value Adjustment	(41,258)	(14,830)	(3,092)
Profit / (Loss)	**1,342**	**6,582**	**4,160**

As can be seen from the table above profits after adjusting for non-monetary items compared to the profits reported in the financial statements reduced from K6,582,000 reported in 2016 to only K1,342,000 reported in 2017. The reduction in profits was attributed to operating expenses which had increased from K101,082,000 in 2016 to K138,762,000 in 2017.

b. Statement of Cash Flows for the financial years ended 31st March 2015 to 2017

Description	Year End 31st March 2017 K'000	Year End 31st March 2016 K'000	Year End 31st March 2015 K'000
Cash flow from Operating Activities			
Profit before tax	33,507	20,269	4,584
Depreciation	4,592	4,048	3,373
Interest Charged	9,643	4,255	
Fair value gain on investment properties	(41,258)	(14,830)	(3,092)
Profit / Loss on disposal	(70)	25	
Movement in Operating Funds			
Net increase in loans and advances	(11,759)	(44,689)	(125,314)
Net increase in other Assets	(12,956)	(4,554)	(16)
Net increase in Customer Deposits	21,182	19,170	21,649
Net increase in Other Liabilities	16,350	6,460	304
Net increase in gratuity provisions	426	3,104	8,951
Cash Generated from Operating Activities	**19,657**	**(6,742)**	**(89,561)**
Income tax refund	4,501		
Net cashflows/ (outflows) from operating activities	**24,158**	**(6,742)**	**(89,561)**
Cash flow from Investing Activities			
Purchase of Property and Equipment	(10,446)	(4,228)	(7,214)
Proceeds from disposal of Property and Equipment	90	243	7
Net Cashflows/ (outflows) from Investing activities	**(10,356)**	**(3,985)**	**(7,207)**
Cash flow from Financing Activities			
Less Dividends paid	(1,000)	(500)	-
Interest paid on borrowings	(5,901)	(3,783)	165,000
Repayment of borrowings	(5,135)	(3,250)	(23,500)
Proceeds from borrowings	35,000	18,390	
Net Cash Generated from Financing Activities	**22,964**	**10,857**	**141,500**
Net Increase in Cash and Cash Equivalent	**36,766**	**130**	**44,732**
Cash and Cash Equivalent at start of the Year	96,804	96,674	51,942
Net Increase in Cash and Cash Equivalent	36,766	130	44,732
Cash and Cash Equivalent at the end of the Year	**133,570**	**96,804**	**96,674**

A review of the cash flow statements for the periods under review revealed that the Society's disbursement on loans and other advances had decreased from K125,314,000 in 2015 to only K11,759,000 in 2017 representing a percentage fall of 91%.

c. Irregularities in Administration of Mortgages

The core business of the Society is to increase housing through provision of mortgages. According to the operational manual on the administration of mortgages, the Society should keep proper records of all mortgages issued with respective documentation of security lodged by the customers.

It was however observed that fifty six (56) mortgages in amounts totalling K26,739,263 had various irregularities such as unregistered mortgages and missing mortgage deeds as shown in the table below:

Irregularity	No	Amount K
Unregistered Mortgages	9	4,210,973
Missing Mortgage Deeds	7	2,564,008
Missing Security Documents	6	2,758,599
Loans registered below mortgage value	34	17,205,683
Total	**56**	**26,739,263**

d. Management of Investment Properties - Vacant Properties

The ZNBS owns and manages thirty-five (35) properties with a net book value of K121,542,000. The properties are situated in various residential and commercial areas within the Country. The properties are offered for rent to both individuals and organizations. During the period under review, a total of K18,960,000 was earned from rental incomes. However, it was observed that seventeen (17) offices in two (2) properties were vacant for six (6) months and the Society was not earning any income from these properties.

In this regard, a total of K375,468 was lost as rental income by ZNBS during the period under review due to failure by management to let out these properties. As of June 2018, the properties were still vacant.

e. High Default Rates in Branches

The Society operated twenty (20) Branches across the Country. The main operations of the Branches included issuing Friendly and Building Material Loans and Mortgages. The acceptable standard default rate for these loans was at 10% during the period under review. A review of the overall performance of the Branches against the standard revealed results ranging from 15% to 22% for Friendly Loans and 19% to 36% for Building Material Loans as shown in the tables below.

Friendly Loans

Friendly Loans Financial Year End	No of Branch	Total Portfolio K	Non-Performing Loan (NPL) Portfolio K	Percentage NPL/Total Portfolio
31st March 2015	5	38,559,340	5,113,901	16%
31st March 2016	9	85,069,314	11,612,021	22%
31st March 2017	9	99,011,812	14,448,490	15%
Total		**222,640,466**	**31,174,412**	

Building Materials Loan

Buiding Material Financial Year End	No of Branch	Total Portfolio	NPL Portfolio	Percentage NPL/Total Portfolio
31st March 2015	1	1,348,553	469,964	36%
31st March 2016	7	30,181,212	3,101,557	19%
31st March 2017	6	18,516,687	5,010,908	23%
Total		**50,046,453**	**8,582,429**	

The high default rates were as a result of poor loan appraisal systems and lack of segregation of duties in the management of loan accounts at Branch levels.

f. Uncleared Suspense Accounts

A review of the general ledger revealed that twenty (20) Branches had uncleared credit balances on the stop order and salary suspense account in amounts totalling K1,953,754 as at 31st March 2018. Some of the accounts had been uncleared for periods ranging from one (1) to twenty six (26) months.

g. Failure to Recover Loans - Kapiri Mposhi District Council

On 18th October 2012, ZNBS entered into an agreement with Kapiri Mposhi District Council to enable employees of the Council access loans from the Society for construction, improvement or outright purchase of houses. In this regard, ZNBS issued loans to twenty four (24) Council employees with a principal amount of K796,000.

The terms of the Memorandum of Understanding were as follows:

- The Society shall appraise the said loans and upon approval disburse the loans to the Council employees

- In the event of separation of an employee from the Council, the Council shall deduct from the accrued benefits of an employee and remit to the Society.
- Where the Council omits to deduct the amount as advised in writing by the Society from the employee's accrued benefits, the Council shall become liable to make good on behalf of the separated employee.

In this regard, when fourteen (14) employees with outstanding loan payments amounting to K373,274 representing 47% of the total amount issued were dismissed from the Council in 2015 and 2016, the Society could not recover the outstanding loan balance from the dismissed Council employees as they were not paid their benefits. Despite engaging the Council on this matter, no repayments had been made as at 31st October 2018.

A further analysis of the loan repayment schedules and individual accounts revealed that there were no recoveries made for periods ranging from one (1) to twenty four (24) months making the possibility of recovery questionable.

h. Failure to Account for Fuel

The Society allowed each Branch to purchase 250 litres of fuel per month for operations. Each Branch made arrangements with a local filling station where the payment for fuel was made in advance. The Branch would thereafter refuel from the filling station as need arose. It was however observed that the Branches did not maintain fuel accountable documents such as fuel coupon books, fuel reconciliations and statements from the filling stations. Consequently, fuel costing K772,016 was not accounted for by fifteen (15) Branches as shown in the table below.

Branch	Amount K
Mongu	46,316
Choma	73,408
Chipata	55,423
Livingstone	51,710
Mazabuka	59,138
Kapiri Mposhi	35,216
Nyimba	6,250
Ndola	66,221
Kabwe	46,135
Kitwe	58,373
Mufulira	53,287
Chingola	72,288
Luanshya	53,238
Kasama	45,723
Mansa	49,292
Total	**772,016**

i. Re-development of Society House and Central Arcades Project

On 20th May 2011, ZNBS signed a concession agreement with Society House Development Company Limited (SHDCL) which is a Special Purpose Vehicle (SPV) wholly owned by the National Pensions Pension Scheme Authority (NAPSA) as a concessionaire on the development of stand No. 3 known as Society House and Stand Nos. 20, 21 22 and 23 known as Central Arcades in Lusaka.

According to the agreement, the development of the project area by the SPV included renovation, upgrading, addition, erection, construction, supervision, management, commissioning, marketing, maintenance, and operation of the Project Asset. The project was based on the Build Operate Transfer concept with a duration of the concession being twenty (20) years.

The agreement further provided for the lessee to pay the lessor annually 3.5% of the gross revenue to be generated by the lessee from operating the Project Assets.

However the following were observed:

i. Missing Clauses on Concession Lease Agreement

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:

- According to clause 5.2 of the Concession Lease Agreement, any alteration or amendment in the scope of the project during the lease period shall be recommended to the lessor in the manner set forth under clause 4.2. Further clause 11.1 of the agreement states that notwithstanding clause 9.2 above, the Lessee shall be entitled to register any encumbrances, charges, liens on the Project Assets aimed at protecting its interests or rights pursuant to the agreement between the parties.

A review of the Concession Lease Agreement, however revealed that clause 4.2 and 9.2 that were being referred to in the contract were not part of the concession lease agreement which was availed for audit.

ii. Failure to Collect Concession Fees

Clause 3 of the concession agreement provided that the Society would receive 3.5% of the gross revenue to be generated by NAPSA from operating of Society House.

It was however, observed that the Society had not received concession fees in relation to occupied space amounting to K1,608,563 as at 30th September 2018. See table below.

Location	**Total Space**	**Occupied Space**
Ground floor (Sq Metres)	4,663	4,663
First floor (Sq Metres)	3,594	1,550
Office (Sq Metres)	6,000	4,000
Total space	**14,257**	**10,213**
Average rate (K)	180	180
Number of months	25	25
Income (K)	**64,154,250**	**45,958,950**
Rate of concession fee	3.5%	3.5%
Concession fees (K)	**2,245,399**	**1,608,563**

It was also observed that the Society had no details of tenants occupying the redeveloped Society House such as copies of lease agreements or database of the tenants. Further, there was no evidence to show that management was actively chasing on outstanding concessional fees despite the redeveloped house being in operation for twenty five (25) months as at 30th September 2018.

iii. Loss of Concession income due to Vacant Space

An examination of records and physical inspection of the redeveloped society house and business park revealed that a total lettable space of 14,256.50 square metre as shown in the table below was available for renting out.

Location	Total space	Occupied Space	Vacant Space
Ground floor	4,663	4,663	-
First floor	3,594	1,550	2,043
Office	6,000	4,000	2,000
Total space	**14,257**	**10,213**	**4,043**
Average rate(ZMK)	180	180	180
Number of months	25	25	25
Income	**64,154,250**	**45,958,950**	**18,195,300**
Rate of concession fee	3.50%	3.50%	3.50%
Concession fees	**2,245,399**	**1,608,563**	**636,836**

It was however, observed that only 10,213.10 square metres was let out leaving a balance of 4,043.40 square metres vacant. As of December, 2017, the space had been vacant for twenty five (25) months. In this regard, the Society lost concession fees in amounts totalling K636,836 as shown in the table above.

Further there was no evidence to show that management was following up on the unoccupied space with the concessionaire. This was despite the Society having assembled a committee to look into the monitoring and implementation of the concessional agreement whose sitting allowances during the period under review had accumulated to amounts totalling K802,000.

iv. Questionable Clause – Handing the Asset Back to the Contracting Authority

Clause 9.1 of the Memorandum of Understanding between Zambia National Building Society (ZNBS) and National Pensions Scheme Authority (NAPSA) provided that the ownership of the building (Society House) shall remain with the contracting authority (ZNBS). Further clause 10.1 provided that at the end of the concession the Concessionaire shall hand over the asset to the Contracting Authority free from any liabilities, debts pledges or encumbrances subject to the terms and conditions to be contained in the Concession Agreement.

Clause 12.2 of the concession agreement states that at the end of the concession period and upon the concessionaire or the SPV returning the Project Assets to the Contracting Authority, the Concessionaire shall be entitled to a once off payment on such terms as the Parties may agree equivalent to the proportion of the Market Value of the properties multiplied by the number of years remaining on the project divided by the Project's life span.

However, Clause 12.2 of the Concession Agreement was in contrast with clause 9.1 and 10.1 of the Memorandum of Understanding between ZNBS and NAPSA in that Clause 12.2 entails that the Contracting Authority (ZNBS) will be buying back its own Asset at a future Market Value as opposed to the Concessionaire handing back the Asset to it.

Therefore, the buying back of its own Assets is questionable in that a concession gives a concessionaire the long term right to use all utility assets conferred on the concessionaire, including responsibility for operations and some investment. Asset ownership remains with the Authority and the Authority is typically responsible for replacement of larger assets. Assets revert to the Authority at the end of the concession period, including assets purchased by the concessionaire.

Zambia Railways Limited

Background

17. Zambia Railways Limited (ZRL) was established in 1976 following the split up of the Rhodesia Railways whose network covered Northern Rhodesia (Zambia), Southern Rhodesia (Zimbabwe) and Bechuanaland (Botswana). The Company manages 1,248 km of rail network spanning from Mulobezi to Chililabombwe.

The ZRL is wholly owned by the Government through the Industrial Development Corporation Limited (IDC).

Board of Directors

The Railways Act Cap 453 of the Laws of Zambia provides that the Board of Directors of the Company shall consist of the Permanent Secretary or a representative of the Ministry responsible for Transport, not more than five (5) persons appointed from the private sector and the Managing Director.

Management

The day to day management of ZRL is the responsibility of the Managing Director who is the Chief Executive Officer appointed by the Board, and is assisted by the Company Secretary, Directors of Finance, Administration and Technical Services.

The Managing Director, Directors and Heads of departments are engaged on four (4) year contracts while the rest of the staff are employed on permanent and pensionable basis.

Sources of Funds

The sources of funds for the Company include, among others:

a) Rental income,

b) Freight charges,

c) Bank interest,

d) Any funds appropriated by Parliament and contributions by donors.

Review of Operations

A review of operations of the Zambia Railways Limited for the period ended 31st December 2015 to 2017 carried out in August 2018 revealed the following:

a. Failure to Achieve Set Targets

In 2013, Zambia Railways Ltd came up with a five (5) year Strategic Business Plan (SBP) for the period 2014 to 2018. The SBP set out six (6) corporate goals which, if attained, would have led to the realisation of the Company's mission of "providing reliable, secure and environmental friendly cargo and passenger rail transport to the satisfaction of all stakeholders". The goals, in order of priority, were to:

- increase train speeds to an average of 70 kilometres per hour from 2015
- provide adequate and reliable rolling stock for 5,000,000 tons/year capacity
- achieve 3% on sales as net profit
- sustain business growth through high quality service from 2014
- make ZRL the employer of choice and
- increase passenger traffic to 400,000 people per year by 2015

However, these strategies had not been achieved as at 31st December 2018.

b. Weaknesses in Key Performance Indicators

A review of ZRL Operations Performance Reports for the years ended 31st December 2016 and 2017 further revealed that although the Company revised downwards some of the key performance indicators in the operations performance reports compared to the strategic plan, the Company under-performed in these Key Performance areas as shown in the table below.

Key Performance Indicator	Performance Target	Actual Performance	Deviation
2016			
Wagon Utilization (ZRL Equipment)	85%	34%	60%
Main line Loco Utilization (GT's)	250 km/day	214km/day	14%
Average speed	35 km/hr	16 km/hr	54%
2017			
Freight Tonnage Hauled	950,000 tons in 2017	706,808	26%
Freight Trains Transit Time (Main Line: L/stone to Ndola)	60 hrs	70 hrs	17%
Passenger Trains Transit Time (L/stone to Kitwe)	34 Hrs	42 Hrs	26%
Wagon Turnaround days (Over-border routes)	25 days	40 Days	60%
Wagon Turn around days (Local Routes)	8 days	18 days	125%
Average Distance Covered Per Hauled Ton	400 km/ton	421 Km/ton	5%
Wagon Utilization (%)	85% of total No of wagons provided to Operations by Rolling Stock	34%	60%
Locomotive Utilization (Km/Day)	250 Km/Day	237 Km/Day	5%
% of Freight Trains Arriving & and Departing on time	85% Freight Trains Run Should Arrive/Depart on time	60%	29%
% of Passenger Trains Arriving & Departing on time	90% of Passenger Trains Run should Arrive/Depart on time	75%	17%
Freight Reliability Rate of Delivery (%)	85% of all hauled cargo	70%	18%
No. of New ICT Systems Introduced	Rolling out of Five (5) ICT systems	launched 2 in 2017	60%

As can be seen in the table above, the Company failed to meet benchmarks of the three (3) key performance indicators in 2016 and twelve (12) in 2017.

The failure to meet performance targets resulted in a decrease in total turnover from K226,316,000 in 2015 to K202,173,000 in 2017 representing a 11% decrease while expenditure increased from K269,011,000 in 2015 to K301,815,000 in 2017 representing a 12% increase.

c. Statements of Comprehensive Income for the financial years ended 31st December 2015, 2016 and 2017

	2017 K'000	2016 K'000	2015 K'000
Revenue			
Freight revenue	174,948	164,908	201,169
Passenger Revenue	12,445	13,699	13,738
Other income	14,780	16,386	11,409
	202,173	**194,993**	**226,316**
Expenditure			
Fuel and Lubricants	52,427	44,516	43,597
Provision for impairment losses	4,592	29,686	-
Manpower costs	152,955	163,345	151,914
Administration expenses	58,640	37,822	35,750
Depreciation	24,616	19,923	24,133
Repairs and maintenance	7,866	14,336	11,817
Finance charges	719	891	1,800
	301,815	**310,519**	**269,011**
Loss before exchange losses and taxation	**(99,642)**	**(115,526)**	**(42,695)**
Unrealised depreciation in shares	4,250	(6,063)	(2,625)
Exchange gain/(loss)	1,871	(12,564)	46,109
Loss before taxation	**(93,521)**	**(134,153)**	**789**
Income tax expense	(743)	(617)	(2,207)
Loss for the year	**(94,264)**	**(134,770)**	**(1,418)**

i. Manpower Related Costs

Manpower related costs increased from K151,914,000 in 2015 to K163,345,000 in 2016 representing an increase of 8%. This was evidenced by the increase of employees from 1,118 in 2015 to 1,428 employees as at 31st December 2018. However, there was a minimal reduction from K163,345,000 in 2016 to K152,955,00 in 2017 representing a 6% reduction.

It was also noted that the manpower costs were more than 50% of the total revenue of the Company. In this regard, the percentage of manpower costs against total revenue increased from 67% in 2015 to 84% in 2016, but reduced to 76% in 2017 as shown in the table for Manpower cost as percentage of total revenue below.

	2017 K'000	2016 K'000	2015 K'000
Total revenue	202,173	194,993	226,316
Manpower costs	152,955	163,345	151,914
	76%	**84%**	**67%**

The manpower costs of the Company was over 50% of total expenditure for the period under review as shown in the table below for Manpower cost as percentage of total expenditure.

	2017 K'000	2016 K'000	2015 K'000
Manpower costs	152,955	163,345	151,914
Expenditure	301,815	310,519	269,011
	51%	**53%**	**56%**

ii. Increase in Administration Expenses

The administration expenses increased from K35,750,000 in 2015 to K58,640,000 in 2017 representing a 55% increase. However, the repairs and maintenance costs of property, plant and equipment, which include the railway track and the rolling stock, reduced from K11,817,000 in 2015 to K7,866,000 in 2017 representing a decrease of 33%.

	2017 K'000	2016 K'000	2015 K'000
Administration expenses	58,640	37,822	35,750
Repairs and maintenance	7,866	14,336	11,817
Expenditure	**301,815**	**310,519**	**269,011**

The administration expenses included among other costs, contracted security costs, hotel, subsistence and travelling expenses, board expenses, sitting allowances, legal expenses, professional membership subscription fees, telephone expenses and NAPSA penalties.

d. Statement of Financial Position as at 31st December 2015, 2016 and 2017

	2017 K'000	2016 K'000	2015 K'000
ASSETS			
Non-current assets			
Property, plant and equipment	521,299	551,992	578,876
Investment in shares	6,063	1,812	7,875
	527,362	553,804	586,751
Current assets			
Trade and other receivables	221,079	211,897	186,036
Inventories	68,724	71,306	75,915
Cash and cash equivalents	3,837	996	24,949
	293,640	**284,199**	**286,900**
Total assets	**821,002**	**838,003**	**873,651**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	198	198	198
Amounts received pending allotment of shares	627,229	627,229	627,229
Other reserves	138	138	2,852
Retained earnings	(191,864)	(97,600)	34,456
	435,701	**529,965**	**664,735**
Net assets taken over from RSZ	5,591	5,591	5,591
	441,292	**535,556**	**670,326**
Non-current liabilities			
Deferred liabilities	78,859	64,603	37,023
Current liabilities			
Borrowings	5,059	5,524	-
Trade and other payables	227,825	157,765	88,670
Accruals and provisions	40,748	48,079	51,773
Taxation payable	27,219	26,476	25,859
	300,851	**237,844**	**166,302**
Total equity and liabilities	**821,002**	**838,003**	**873,651**

The following were observed:

i. Reduction in Working Capital

Working capital is the difference between current assets and current liabilities. It represents the short-term resources an entity uses on a day to day basis. It was observed that there was a reduction in the working capital for ZRL during the period under review as shown in the table below.

	2017 K'000	2016 K'000	2015 K'000
Total current assets	293,640	284,199	286,900
Total current liabilities	300,851	237,844	166,302
Working capital	(7,211)	46,355	120,598

Although the Company had a favourable working capital in 2015 and 2016, the amount decreased from K120,598,000 in 2015 to negative working capital of K7,211,000 in 2017 representing a reduction of 106 percent.

ii. Liquidity Position

Liquidity refers to how easily assets can be converted to cash. There are several ratios that can be used to measure liquidity which include current and quick ratios.

The current ratio is a liquidity ratio that measures a company's ability to pay off it short term liabilities as and when they fall due using its current assets. The acceptable current ratio is 2 to 1.

The quick ratio is a measure of how well a company can meet its short-term liabilities with its most liquid assets. The acceptable quick ratio is 1 to 1.

During the period under review, the liquidity ratios were as shown in the table below.

	2017	2016	2015
Current ratio	0.98:1	1.19:1	1.73:1
Quick ratio	0.75:1	0.9:1	1.27:1

As can be seen from the table above, the current ratio worsened from 1.73 to 1 in 2015 to 0.98 to 1 in 2017. The quick ratio also worsened from 1.27 to 1 in 2015 to 0.75 to 1 in 2017.

iii. Increase in Receivables

Zambia Railways Ltd was not efficient at collecting outstanding payments from its customers as can be seen in the table below.

Year ended 31 December	2017	2016	2015
Trade Receivables (K)	178,095,000	165,276,000	117,882,000
Revenue (K)	202,173,000	194,993,000	226,316,000
Receivables days	321 days	309 days	190 days

As can be seen from the table above, the Company's receivable days increased from 190 days in 2015 to 321 days in 2017.

In addition, the receivables increased from K117,882,000 in 2015 to K178,075,000 in 2017 representing a 51% increase.

It was further observed that despite the Company having funds in form of receivables that could be collected and used for operations, management resorted to obtaining an overdraft facility of USD 1,000,000 to use on operational expenses. In this regard, the Company paid finance costs of K891,000 in 2016 and K719,000 in 2017 thereby contributing to the poor performance of the Company.

e. Poor State of Infrastructure

A scrutiny of Safety, Health and Environmental Management annual reports revealed the effects of the bad state of Zambia Railways' infrastructure. In this regard, during the period from 1st January 2015 to 31st December 2017, the Company recorded a number of incidents which included accidents and derailments as shown in the table below.

Year	Derailments	Broken Rails	Low/Deep Joints	Level Crossing Accidents	Defective Points
2017	212	162	11	19	16
2016	162	127	8	23	8
2015	250	173	12	24	12
Total incidents	**624**	**462**	**31**	**66**	**36**

As can be seen in the table above, the number of derailments increased by 30.86% from 162 in 2016 to 212 in 2017. The number of broken rails increased by 27.56% from 127 in 2016 to 162 in 2017.

f. Reliability of Locomotives

A scrutiny of Rolling Stock records revealed that reliability of locomotives was calculated as the number of kilometers a locomotive covered before a failure.

A review of the Technical and Project Committee minutes of the meeting held on 19th November 2015 regarding the reliability of locomotives revealed that the targeted reliability to achieve the traffic volumes of 1,000,024 tons per annum was 10,000km between failures. Reliability of a brand new locomotive was 100,000 km between failures. It was however observed that the performance of locomotives was poor as all the locomotives fell below the target of 10,000 km between failures, with the average being 2,570 km between failures.

In addition, a review of the Report on Actual Reliability of locomotives for ZRL from January 2017 to March 2018 revealed the following:

Rolling Stock Performance Parameters During	Locomotive Reliability Target	Locomotive Reliability Achieved	Percentage Achieved
1st quarter of 2017	7,000 km between failures	2,878 km between failures	41.10%
2nd quarter of 2017	7,000 km between failures	3,675 km between failures	52.50%
3rd quarter of 2017	7,000 km between failures	3,273 km between failures	46.80%
4th quarter of 2017	7,000 km between failures	3,464 km between failures	49.50%
1st quarter of 2018	7,000 km between failures	2,315 km between failures	33.10%

As shown in the table above, the Company failed to achieve the reliability target of 7,000 km between failures. Apart from the second quarter of 2017 when 52% of the targeted level was achieved, the Company achieved less than 50% of the set target.

A review of the Technical and Project Committee minutes of the meeting held on 19th November 2015 regarding the reliability of locomotives further revealed that the following factors affected reliability of locomotives:

- **Inadequate Allocation for Standard Maintenance Costs**

  The SADC standard maintenance cost in a month for a locomotive was about US $22,500. However, ZRL only had an allocation of US $3,000 per month, representing 13% of the standard.

- **Over-aged Locomotives**

  Among the rolling stock of ZRL were the U20C and U15C locomotives which were over 40 years old.

g. Failure to Pay Insurance Premiums

As at 31st December 2018, ZRL had outstanding premiums in amounts totalling K1,846,957. Consequently, five (5) vehicles involved in road traffic accidents although comprehensively insured could not be compensated. See table below.

Reg No.	Accident date
ALM 4593	12/6/2016
ALM 4856	5/10/2016
ALM 6096	4/12/2016
ABZ 3725	7/10/2016
ABP 1822	8/1/2017

h. Unauthorised Increase of Salaries and Allowances

Section 102 of the Railways Act states that a railway company shall not exercise any of its powers contained in section 43, 48, 100, and 101 without first obtaining written approval of the Minister. Contrary to the Act, salaries, wages and allowances (housing and productivity allowances) were revised upwards for the financial years ended 31st December 2016 and 2017 without the prior approval of the Minister. Details are in the table below.

MANAGEMENT	2017	2016	2015
Salary increase in %	0	8	10
Housing Allowance increase in %	0	8	10
Productivity Allowance	K800	K150	75%

UNIONISED EMPLOYEES	2017	2016	2015
Salary	0	8	10
Housing Allowance	0	8	10
Productivity Allowance	K800	K150	75%

i. Questionable Payment of Productivity Incentive Allowance

Section 8.08 of the Conditions of Service revealed that, Productivity Incentive Allowance was payable yearly upon negotiations with management in the month of November. The allowance was to be paid based on the Company meeting the budgeted for haulage/tonnage in each accounting year.

It was observed that during the three (3) years under review, ZRL did not meet the projected haulage targets as shown in the table below

FREIGHT PERFORMANCE FOR THE PERIOD UNDER REVIEW

YEAR	TONNAGE			
	Budget	Actual	Deficit	Actual as a % of Budget
2015	1,110,000	850,957	-259,043	77
2016	1,216,000	644,317	-571,683	53
2017	950,000	740,720	-209,280	78

However, despite the failure to meet the haulage target and the fact that the Company made losses totalling K227,616,000 during the period, management paid productivity allowances totalling K4,983,792. See table below.

Accounting Year	Lossses Made K	Total Productivity Allowances Paid K
2017	(94,264,000)	738,000
2016	(134,770,000)	186,843
2015	1,418,000	4,058,950
Totals	**(227,616,000)**	**4,983,792**

In this regard, the payment of the productivity incentive allowance when the haulage target was not met was questionable.

j. Non-Remittance of Statutory Contributions

A review of records at the Company revealed that amounts totalling K91,834,999 were deducted from employee emoluments as Pay As Your Earn and Pension contributions during the period under review as shown in the table below.

Institution	Amount K
ZRA - PAYE	57,139,322
NAPSA Penalties	21,379,153
NAPSA	13,316,524
TOTAL	**91,834,999**

However, these amounts had not been remitted to ZRA and NAPSA as at 31st December, 2018.

k. Failure to Remit Funds Recovered on Behalf of Financial Lending Institutions

Although ZRL had been recovering loans from staff salaries on behalf of financial lending institutions that provided loan facilities to its employees, the Company was not remitting the recovered amounts to the financial institutions. Consequently, as at 31st December 2018, ZRL was owing various financial lending institutions amounts totalling K3,093,178.

l. Failure to Remit Staff Pension Contribution

During the period under review ZRL had two (2) pensions schemes namely Defined Benefits Pension Scheme established on 27th June 1975 and a Defined Contribution Pension Scheme which was introduced by Railway Systems of Zambia on 17th August 2004.

With the handover of assets to ZRL by RSZ in 2012, thirteen (13) ZRL employees maintained their membership with the Defined Benefits Scheme while the other eight hundred and seventy (870) employees maintained their membership with the Defined Contribution Scheme.

The following were observed:

i. **Defined Benefits Pension Scheme**

A review of payables records revealed that amounts totaling K434,871 had not been remitted to the Scheme as at 31st December 2017. Some of the contributions had been outstanding for more than two (2) years as shown in the table below.

	2015 K	2016 K	2017 K
Opening balance	144,581	157,068	268,793
Add: Accruals during the year	158,019	164,301	166,079
Less: Payments	(145,532)	(52,577)	-
Balance as at 31 December	**157,068**	**268,793**	**434,871**

ii. **Defined Contribution Pension Scheme**

A review of records revealed that amounts totalling K15,353,850 had not been remitted to the Scheme as at 31st December, 2017. Some of the contributions had been outstanding for more than two (2) years as shown in the table below.

Defined Contribution Pension

	2015 K	2016 K	2017 K
Opening balance	494,156	2,301,811	8,271,966
Add: Accruals during the year	6,874,529	7,688,748	7,631,885
Less: Payments	(5,066,874)	(1,718,593)	(550,000)
Balance as at 31 December	**2,301,811**	**8,271,966**	**15,353,850**

m. Supply and Installation of Two Portable Weighbridges Complete with Computers and Printer Accessories

On 2nd February 2015, ZRL engaged Weighbridge Tech Africa Zambia Limited to supply and install a portable weighbridge (Weigh Tracks) complete with computers and printer accessories at a total cost of K1,876,013 VAT inclusive for a period of four (4) weeks. As at 31st October 2018, the supplier had been paid amounts totalling K919,003 as shown in the table below:

DATE	DESCRIPTION	AMOUNT K
05.02.2015	Advance payment	450,000
01.06.2015	Installment	469,003
TOTAL PAID		**919,003**

The following were however observed:

i. Irregular Use of Purchase Order

Despite the value of the procurement of the portable weighbridges being K1,876,013, management did not enter into a formal contract with the supplier as required by Regulation 8 Second Schedule and Regulation 125(i) of the ZPPA Regulations, 2011.

Regulation 8 Second Schedule provides for the use of simplified bidding where the procurement is equal to, or less than K500,000; while Regulation 125(i) provides that purchase orders be used as a contract where procurement is conducted using simplified bidding.

Therefore, the use of a purchase order for a procurement of goods valued at K1,876,013 which was above the threshold of K500,000 was irregular.

ii. Wasteful Expenditure – Failure to Utilise Weighbridges

An inspection of the weighbridges installed at Mopani Copper Mines in Chingola and Kitwe conducted in June 2018 revealed that the weighbridges had not been commissioned and were not being utilised. See pictures below.

The computer room

The weigh bridge (Weigh Track)

In this regard, expenditure of K919,003 was wasteful.

n. Unsupported Payments

There were nine (9) payments in amounts totalling K418,949 that were not supported with relevant documents such as receipts and invoices.

o. Wasteful Expenditure – Payment of Interest

During the period under review, two (2) payments amounting to K103,153 were paid to two (2) different law firms in respect of execution costs and interest for delayed remittance of funds.

ZSIC General Insurance Limited

Background

18. ZSIC General Insurance (ZSIC GI) Limited was incorporated in 2008 under the Companies Act, Cap 388 of the Laws of Zambia. The Company's principle activity is transacting in all classes of non-life insurance business in Zambia.

The authorized share capital of the Company comprises 50,000,000 ordinary shares of K1.00 each of which 33,500,000 shares are issued and fully paid up. ZSIC GI Limited is wholly owned by the Government through the Industrial Development Corporation (IDC).

Board of Directors

The Company is governed by a Board of Directors whose role is to oversee the affairs of ZSIC GI Limited for the benefit of its shareholders. The members of the Board are appointed by IDC.

The Articles of Association does not give details on the composition of the Board. However, Section 8.2 of the ZSIC GI Limited Board Charter states that the number of members of the Board of Directors is expected to be between six (6) and eight (8), of which the majority is required to be non-executive. The current Board comprises of seven (7) members inclusive of the Chairman.

Management

The Managing Director is responsible for the day-to-day operations of the business and is assisted by Directors of Finance, Legal, Technical Operations and Branch Operations. The Managing Director is appointed by the Board of Directors on a three (3) year renewable contract. The Managing Director is responsible for the recruitment of the Directors on three (3) year renewable contracts with the approval of the Board.

Management Information Systems

During the period under review, ZSIC operated the following systems:

- **MicroPay Payroll System**

  This is the system that was being used for administration of general and management payroll.

- **Sun Systems**

  This is an off the shelf accounting package which was used for managing financial transactions. The Company was using Sun Systems Version 6.2.1.

- **Odyssey Enterprise Insurance Solution**

  This is the system that was used for administration of underwriting, claims, accounts, reinsurance and parameters. The system was being used for storing historical records.

Sources of Funds

The Company earns its income from the provision of insurance services. The class of business includes fire, accident, motor, aviation, engineering, marine and agriculture.

During the period 2014 to 2017, the Company generated net premium income in amounts totalling K584,078,000 as detailed below:

	2017 K'000	2016 K'000	2015 K'000	2014 K'000	Totals K'000
Revenue					
Gross premiums	249,322	251,430	180,419	202,813	883,984
Premiums ceded to reinsurers	(115,021)	(105,650)	(56,434)	(68,665)	(345,770)
	134,301	**145,780**	**123,985**	**134,148**	**538,214**
Movement in unearned premium reserve	(1,378)	(10,734)	10,590	(10,460)	(11,982)
	132,923	**135,046**	**134,575**	**123,688**	**526,232**
Reinsurance commissions received	15,237	17,195	13,771	11,643	57,846
Net premium income	**148,160**	**152,241**	**148,346**	**135,331**	**584,078**

Review of Operations

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

a. Administration of the Infoins Insurance System Contract

On 25th November 2016, ZSIC General Insurance Limited and Informatics International Limited of Sri Lanka entered into a contract for the development, supply, installation, commissioning and maintenance of a general insurance software system. The contract duration was eight (8) months commencing 25th November 2016 to 25th July 2017. The contract sum was US$1,154,288.

According to clause 36.2.1 of the contract, the following were the agreed terms of payment:

Description	Status
25% of the contract price within 60 days of signing the contract	Paid
15% on Team mobilization on site at ZSIC General Insurance Limited	Paid
20% on completion of the system requirement specification/ business process modelling	Paid
20% on user Acceptance certification test and Training taking place	Paid
10% on live run	Paid
Final payment of 10% on completion of stability verification period after handing over completion certificate issued 30 days from Go Live.	Not Paid

As at 31st August 2018, ZSIC had paid US$887,557.88 which was 90% of the contract sum. The following were observed:

i. Delayed Completion of the Project

A review of the implementation status report revealed that the vendor had not fulfilled the agreed terms at the time the 90% of the contract sum was paid in that the Portal and Mobile Applications were still not fully implemented as at 31st December, 2018.

ii. Lack of Escrow Agreement

According to Clause 19.1 of the Contract, the supplier and the client shall sign an escrow agreement for the deposit of the source code of the software with a mutually agreed third party so that the client shall have access to the underlying program code in case the vendor (Informatics) go out of business for any reason.

As at 31st December 2018, ZSIC had not signed an escrow agreement with the vendor. In this regard, in the event of disagreement or other unforeseen circumstances such as the vendor going out of business, the Company would have no legal document giving them access to the source code.

b. Statement of Comprehensive Income for the financial years ended 31st December 2014 to 2017

	2017 K'000	2016 K'000	2015 K'000	2014 K'000
Revenue				
Gross premiums	249,322	251,430	180,419	202,813
Premiums ceded to reinsurers	(115,021)	(105,650)	(56,434)	(68,665)
	134,301	**145,780**	**123,985**	**134,148**
Movement in unearned premium reserve	(1,378)	(10,734)	10,590	(10,460)
	132,923	**135,046**	**134,575**	**123,688**
Reinsurance commissions received	15,237	17,195	13,771	11,643
Net premium income	**148,160**	**152,241**	**148,346**	**135,331**
Claims and other direct expenses				
Claims paid	(14,017)	(15,980)	(5,135)	(6,052)
Change in claims outstanding	(61,661)	(68,344)	(75,250)	(53,775)
	(75,678)	**(84,324)**	**(80,385)**	**(59,827)**
Claims ceded to reinsurers	30,047	26,844	39,364	16,147
Claims incurred, net of reinsurance	**(45,631)**	**(57,480)**	**(41,021)**	**(43,680)**
Other direct expenses				
Commissions paid to brokers and agents	(16,883)	(16,251)	(15,730)	(15,147)
Other direct expenses	(2,348)	(1,664)	(1,578)	(1,143)
Total claims and other direct expenses	**(64,862)**	**(75,395)**	**(58,329)**	**(59,970)**
Underwriting surplus	**83,298**	**76,846**	**90,017**	**75,361**
Other operating income				
Investment revenue	5,066	3,518	3,794	3,281
Other income	62,601	4,389	2,953	5,298
Other gains and losses	4,310	3,121	9,312	2,221
	71,977	**11,028**	**16,059**	**10,800**
Other operating expenses				
Bad debts expense	(10,353)	(14,506)	(24,293)	(57,692)
Employee benefits expenses	(55,786)	(57,092)	(52,453)	(46,548)
Other operating expenses	(22,215)	(24,197)	(24,776)	(16,440)
Other indirect operating and administrative expenses	(11,170)	(21,455)	(16,706)	(14,351)
Finance costs	(2,231)	(5,254)	(13,836)	(402)
Depreciation expense	(5,244)	(2,209)	(1,996)	(1,558)
	(106,999)	**(124,713)**	**(134,060)**	**(136,991)**
Profit/(Loss) before tax	48,322	(36,839)	(27,984)	(50,830)
Income tax expense	(934)	(215)	(22)	(369)
Profit/ (Loss) for the year	**47,388**	**(37,054)**	**(28,006)**	**(51,199)**

As can be seen from the table above, the Company incurred losses of K51,199,000, K28,006,000 and K37,054,000 in 2014, 2015 and 2016 respectively. In 2017, the Company made a profit of K47,388,000. This was mainly attributed to the increase in other income from K4,389,000 in 2016 to K62,601,000 in 2017. The other income was composed of items such as bad debts recovered and VAT interest waived.

c. **Statement of Financial Position as at 31st December 2014, 2015, 2016 and 2017**

	2017 K'000	2016 K'000	2015 K'000	2014 K'000
ASSETS				
Non Current Assets				
Property and Equipment	65,448	54,127	52,456	50,040
Investment Properties	4,760	4,583	4,484	4,410
Held to maturity Investments	9,647	6,963	6,332	3,451
Available for sale financial assets	755	824	1,233	17,051
Insurance receivables	114,083	101,604	79,450	94,032
Other receivables	12,580	8,540	13,772	8,754
Total non -current assets	**207,273**	**176,641**	**157,727**	**177,738**
Current Assets				
Insurance receivables	32,322	67,380	54,666	81,578
Other receivables	8,212	5,347	7,603	5,018
Reinsurance receivables	77,615	58,763	41,749	31,380
Deferred acquisition costs	2,897	1,962	-	-
Bank and cash balances	18,073	8,362	9,969	13,526
Total Current assets	**139,119**	**141,814**	**113,987**	**131,502**
Total Assets	**346,392**	**318,455**	**271,714**	**309,240**
EQUITY AND LIABILITIES				
Capital and Reserves				
Share Capital	33,500	33,500	33,500	2,000
Deficit on revenue reserves	(200,666)	(239,507)	(208,992)	(191,855)
Revaluation Reserves	57,732	54,435	51,789	64,033
Total Equity	**(109,434)**	**(151,572)**	**(123,703)**	**(125,822)**
Insurance funds and non-current liabilities				
Unearned premiums	64,797	63,419	52,684	63,275
Outstanding claims	91,741	67,093	43,004	35,621
Retirement benefit obligation	31,989	23,288	21,448	10,928
Obligations under finance leases	-	139	-	-
Total non -current liabilities	**188,527**	**153,939**	**117,136**	**109,824**
Current Liabilities				
Reinsurance payables	72,345	37,906	18,047	49,237
Obligations under finance leases	124	418	459	264
Other liabilities	134,460	223,984	211,138	171,611
Amounts due to related companies	50,380	49,716	44,699	92,001
Current tax liabilities	2,077	1,049	318	665
Deferred acquisition cost	-	-	97	97
Bank overdrafts	7,913	3,015	3,523	11,363
Total current liabilities	**267,299**	**316,088**	**278,281**	**325,238**
Total liabilities	**455,826**	**470,027**	**395,417**	**435,062**
TOTAL EQUITY AND LIABILITIES	**346,392**	**318,455**	**271,714**	**309,240**

The following were observed:

i. **Liquidity**

Liquidity is the ability of an entity to pay its liabilities in a timely manner as they fall due for payment under the original payment terms. Amongst the ratios used to measure liquidity is the 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 using its current assets. It is expressed as current assets to current liabilities. The acceptable ratio is 2 to 1.

The current ratio for the Company as at 31st December 2014, 2015, 2016 and 2017 was 0.40 to 1, 0.41 to 1, 0.45 to 1, and 0.52 to 1 respectively, which was below the acceptable current ratio.

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

	2017 K'000	2016 K'000	2015 K'000	2014 K'000
Current Assets	139,119	141,814	113,987	131,502
Current Liabilities	267,299	316,088	278,281	325,238
Working Capital	(128,180)	(174,274)	(164,294)	(193,736)
Current Ratio	0.52:1	0.45:1	0.41:1	0.40:1

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

ii. The Solvency Ratio

The solvency ratio of an insurance company is the size of its capital relative to all risks it has taken. The solvency ratio is often expressed as long-term liabilities to total assets.

Section 36(2) of the Insurance Act of 1997 (as amended) states that an insurer shall not carry on insurance business of any class other than life insurance unless the admitted assets of the insurer, so far as they are identifiable with the statutory fund maintained in respect of that class, exceed the admitted liabilities in respect of that class by ten per centum, or such higher or lower margins as may be prescribed by regulations made under this Act in relation to that class of insurance business.

A review of the financial statements revealed that during the period under review, ZSIC GI Limited did not meet the required solvency margin of 110% as the Company recorded solvency margin deficits of 64.15% in 2014, 56.76% in 2015, 51.11% in 2016 and 74.02% in 2017 respectively.

iii. Receivables Collection Period

The receivables collection period is the length of time it takes for an entity to collect cash from its credit customers. According to the Company's Credit Policy, the average credit period on insurance receivables was 60 days.

The receivables collection period of the Company for the period under review was as shown in the table below.

Receivable Turnover Days = (Insurance and Reinsurance Receivables/Net Premium Income) x 365 days

	2017	2016	2015	2014
Turnover -Net Premium Income (K'000)	148,160	152,241	148,346	135,331
Insurance and Reinsurance Receivables (K'000)	109,937	126,143	96,415	112,958
Receivables Turnover Days	**271**	**302**	**237**	**305**

As can be seen from the table above, the receivables collection period ranged from 271 to 305 days during the period from 2014 to 2017 which was above the approved limit of 60 days. Included in the 2017 receivables were amounts totalling K47,198,000 relating to Government ministries representing 42.9%.

d. Intercompany Indebtedness

A review of the financial statements for the years ended 31st December 2014 to 2017 revealed that ZSIC GI owed an amount of K14.9 million in outstanding management fees to ZSIC Limited which has since been dissolved. In a letter dated 21st September, 2017 ZSIC GI wrote to the Industrial Development Corporation Limited to write off the debt owed to the dissolved parent Company. However, as at 31st December 2018, IDC had not responded and the figure continued to reflect on the Company's indebtedness.

e. Failure to Collect Rental Income

ZSIC GI Limited was owed amounts totalling K1,330,491 as at 30th June 2018 by various tenants that occupy its properties situated across the country. See table below.

Property	Debt as at 30-06-18 K
Liso House	71,249
Butala House	206,686
Premium House	1,052,556
Totals	**1,330,491**

The debt was outstanding for periods ranging from thirty (30) to one thousand two hundred and forty seven (1,247) days.

f. Absconded and Vacated Tenants

A review of a Real Estates Department Report dated 13th July 2018 revealed that one hundred and fifteen (115) tenants had absconded and vacated ZSIC GI Limited properties without settling rentals in amounts totalling K5,848,013 as of June 2018. Included in the outstanding rentals were amounts totalling K2,009,471 which were outstanding for periods exceeding twelve (12) months. See table below.

Property	Tenant	Amount Outstanding K	Period Outstanding
Premium House	ZSIC Life Company	600,658	137 Months
Premium House	PM Insurance Brokers Limited	24,535	19 Months
Premium House	GENETA Consultants	66,964	13 Months
Premium House	BroadLine Investments Limited	79,860	15 Months
Premium House	IMCS Limited	18,498	13 Months
Premium House	ZSIC Limited	1,127,624	130 Months
Butala House	The Post Newspaper	91,332	110 Months
Total		**2,009,471**	

g. Employees with Negative Net Pays

A review of the Company's payroll revealed that there were fourteen (14) employees with negative net pays for periods ranging from one (1) to twelve (12) months.

It was further observed that the Company had no prescribed conditions as regards the minimum net pay to which the employees were entitled to.

h. Failure to Deduct Tax – Disturbance Allowance

Contrary to the Income Tax Act Cap 323 of the Laws of Zambia, ZSIC GI Limited did not deduct tax in respect of disturbance allowances in amounts totalling K869,884 paid to various employees during the period from 2014 to 2017.

i. Failure to Remit Insurance Levies

According to Statutory Instrument (SI) 100 of 2007, an 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 gross premium income of each general insurer at a rate of 0.8 percent per annum.

Contrary to the SI, as at 31st June 2018, ZSIC GI owed PIA insurance levy amounting to K1,800,000 which had been outstanding for periods exceeding twelve (12) months.

j. Non Payment of Terminal Benefits and Gratuity

A review of the ZSIC GI Limited's Statement of Financial Position as at 31st December 2017 revealed that the Company owed former employees gratuity and terminal benefits in amounts totalling K12,651,206.

Further, it was observed that the Company's pension scheme was in deficit of K31,989,000 as at 31st December 2017 making it difficult to ascertain whether the terminal benefits accrued to the separated staff will actually be paid.

k. Failure to Update Fixed Assets Register

Best practice requires that an inventory record of fixed assets in a Fixed Assets Register should be maintained and updated for every change or transactions including, purchases, transfers, disposals and damages, depreciation and impairments.

According to the ZSIC Group Accounting and Finance Policies and Procedures Manual, the fixed assets register should at a minimum contain the following information:

- Description
- Asset Code
- Date & Cost of acquisition
- Location/department – including Site & Room Numbers.
- Title of Custodian
- Status/condition – for example good or spoiled
- Nominal value, if any
- Estimated useful life
- Depreciation basis and/or rate
- Depreciation expense and accumulated depreciation
- Net Book value

However, the following were observed:

- The Fixed Assets Register did not include details such as date of acquisition, location/department including site and room numbers, title of custodians, status/condition for example good or spoilt and estimated useful life.
- Twenty one (21) properties with a net book value of K21.00 that were acquired between 1970 and 1996 were still appearing in the asset register despite being disposed off by the Company.

- Three thousand eight hundred and fifty seven (3,857) motor vehicles with a net book value of K0.00 which were acquired between January 1978 and January 2010 were still appearing in the asset register. However, the status and location of the motor vehicles was not availed for audit making it difficult to confirm their physical existence.

l. Failure to Dispose of Motor Vehicles

In 2017, fourteen (14) non-runner motor vehicles were earmarked for disposal. However, physical inspections revealed that the motor vehicles were still parked at premium house and had not been disposed off as at 31st December 2018.

m. Irregular Settlement of Claim - Ndola Branch

On 11th August 2015, ZSIC GI paid an amount of K27,000 to a client as settlement for a claim made in respect of the client's motor vehicle that was involved in a road traffic accident on 30th April 2014. At the time of the claim, the client had outstanding premiums of K2,712 as such ZSIC GI could not process the claim. According to PIA Circular No. 1 of 2005 (revised in 2009), outstanding premiums are supposed to be settled within 30 days after the due date of premiums failure to which, the company is not obliged to settle a claim.

On 27th July 2015, the client paid ZSIC GI the outstanding premium of K2,712 eighteen (18) months after the period prescribed in the circular. In this regard, the action by ZSIC GI to settle the claim was irregular.

n. Lack of Salvage Policy

ZSIC GI limited did not have a salvage policy to give guidance on what procedures should be followed when a motor vehicle has been declared a salvage. In this regard, the following were observed:

i. There was no adequate definition of the extent of damage which a vehicle had to suffer before it was categorized as a salvage.

ii. There was no guidance on the duration and closing date of the tenders for salvages.

iii. There was no guidance on the terms of payment for salvages.

o. Questionable Disposal of Salvage – Land Rover Discovery

On 14th January 2017, Motor Vehicle Registration No. AJD 6027AJD - Land Rover Discovery was involved in a Road Traffic Accident. The Independent Assessor's Report dated 27th February 2017 recommended that the motor vehicle was repairable at a cost of K285,000 and was agreed with Metallic motors. The vehicle was repaired at an actual cost of K256,500.

On 15th February 2018, the Insured wrote to the Managing Director ZSIC GI for his motor vehicle to be settled on a total loss basis as it had delayed and he was not satisfied with the repair works.

On 25th March 2018, the Claims Manager South wrote to an Independent Assessor to indicate the value of the car in its repaired state.

On 29th March 2018, the Independent Assessor wrote to the Claims Manager South stating that the salvage value was estimated at K400,000. The Claims Manager South then wrote to Director Technical Operations on 29th March 2018 seeking approval to finalize the claim on Constructive Total Loss basis with a net settlement of K50,000 as follows;

Sum Insured K500,000 less 10% Excess K50,000 amounting to K450,000 less salvage value K400,000 resulting into a Net settlement of K50,000.

On 5th April 2018 the Director Technical Operations wrote to the Managing Director seeking approval for the claim to be discharged on Constructive Total Loss Basis and claim adjustment for his approval at a Net settlement of K230,000 and Salvage Value of K220,000 disregarding the salvage value of K400,000 estimated by the Independent Assessor. The request was then approved on 5th April 2018 by the Managing Director and consequently the Salvage was offered to the Insured at K220,000.

The rationale of selling the car to the Insured who refused the repair works done on the car and disregarding the value of K400,000 for the salvage after the repair of the vehicle as determined by the Independent Assessor rendered the entire salvage process questionable.

p. Poor State of Infrastructure

Physical inspections carried out in Choma and Livingstone at Butala and Liso House respectively in August 2018 revealed deterioration in the state of infrastructure and the following defects were observed:

- Deterioration in the state of buildings
- Lack of repair and maintenance such as;
    - Leakages from the roof
    - Dilapidated sewer system
    - Unpainted walls
    - Non-functional lighting system
    - Damaged doors

See Pictures Below.

Broken Door-Liso House

Leakage from the roof-Liso House

q. Unsupported Payments

Contrary to Section 6.1.8 of the ZSIC Group Financial Policies and Procedures Manual which requires that all payment vouchers should be adequately supported by relevant documentation, payments in amounts totalling K149,364 were not supported by relevant documents such as receipts.

ZSIC Life Limited

Background

19. ZSIC Life Limited was incorporated on 23rd April 2008 under the Companies Act, Cap 388 of the Laws of Zambia and commenced business on 1st January 2009. The operations of the ZSIC Life Limited are governed by the Insurance Companies (Cessation and Transfer of Business) Act No. 66 of 1970, the Companies Act, the Insurance Act No. 27 of 1997 and the Insurance (Amendment) Act of 2005, and the Pensions Scheme Regulation Act of 1996.

ZSIC Life Limited is also an authorized Pension Fund Manager, managing various participating Schemes, under the provisions of the Pension Scheme Regulation Act, 1996. In accordance with the Trust Deed Rules and Management Contracts, the Trustees of the various Funds have delegated their responsibility of administering and asset management to ZSIC Life.

The authorized, issued and fully paid share capital of the Company comprises 12,000,000 ordinary shares of K1.00 each. At an Extraordinary General Meeting (EGM) held in November 2017, the Company's authorized share capital was altered from 2,000,000 shares with a par value of K1.00 each to 12,000,000 shares with a par value of K1.00 each and the shares were issued and fully paid for.

ZSIC Life Limited is wholly owned by the Government through the Industrial Development Corporation (IDC).

The Zambia State Insurance Pension Trust Fund (ZSIPTF) was created in order to ensure that schemes managed by ZSIC Life Limited comply with Section 7 (b) of the Pension Scheme Regulation Act, 1996 (as amended) that requires pension funds to be in form of multi-employer trust or affiliated to such a Trust. The ZSIPTF is the aggregate of all schemes of various participating employers called the "Fund". The core mandate of ZSIC Life Limited is to transact long term insurance business.

Board of Directors

The Company is governed by a Board of Directors comprising seven (7) members. The role of the Board is to effectively govern the affairs of ZSIC Life Limited for the benefit of its shareholders. The Board is appointed by the IDC.

Management

The Managing Director is responsible for the day-to-day operations of the Company and is assisted by the Directors of Risk and Pensions, Individual Life and Operations, Treasury and

Investments, Finance and Administration and Technical Actuarial Services. The Managing Director is appointed by the Board of Directors on a renewable term of three (3) years. The Managing Director and the Board are responsible for the recruitment of the Directors on three (3) year renewable contracts under the supervision of the Board while the rest of the staff are either on contract or appointed on a permanent and pensionable basis.

Sources of Funds

The Company earns its income from life insurance services and pension fund management. During the period from 2014 to 2017, the Company generated revenue in amounts totalling K579,779,000 as detailed below:

	2017 K'000	2016 K'000	2015 K'000	2014 K'000	Totals K'000
Revenue					
Gross premiums	124,821	125,251	124,935	106,949	481,956
Consideration for annuities	4,824	36,169	26,531	20,596	88,120
Annuities from ZSIPTF	-	-	15,164	-	15,164
Gross Revenue	129,645	161,420	166,630	127,545	585,240
Outward reinsurance premiums	1,381	(2,401)	(2,567)	(1,874)	(5,461)
Net premium income	131,026	159,019	164,063	125,671	579,779

Review of Operations

A review of operations for the financial years ended 31st December 2014 to 2017 revealed the following:

a. Failure to Avail Appointment Letters for the Board of Directors

Appointment letters for Board Members were not availed for audit. In the absence of appointment letters, it was not possible to ascertain whether the Board Members were legitimately appointed. In this regard, the sittings of the Board and the corresponding expenses were questionable.

b. Outstanding Claims

Outstanding claims comprise amounts outstanding in respect of claims arising from the underwriting of insurance contracts. A scrutiny of the 2017 audited financial statements revealed that outstanding claims stood at K15,243,000 which increased to K25,978,383 as at 30th September, 2018. In some cases the claims had been outstanding for periods exceeding 365 days.

c. **Gaps in Sequence of Policy Numbers**

A review of the 2017 matured claims for the Southern region which handles Lusaka, Southern, Eastern, Central and Western Provinces revealed that there were 1,933 gaps in the sequence of policy numbers ranging from D00303000 to D00304999. In this regard, the completeness of revenue from the sale of policies could not be established.

In response management stated that the gaps were as a result of cancellations, withdrawals and maturities. However, there was no documentation to support the assertions by management.

d. **Questionable Payments**

During the period from April to August 2017, forty nine (49) claims amounting to K989,789 were paid to various policy holders. However, the payments were questionable in that they were not part of the matured claims for that period and they were not supported with relevant documentation.

In addition, three (3) claims amounting to K58,985 paid out during the same period did not have policy numbers and thus could not be traced to the 2017 maturities rendering the payments questionable.

e. **Statement of Comprehensive Income for the financial years ended 31st December 2014 to 2017**

	2017 K'000	2016 K'000	2015 Restated K'000	2014 K'000
Net premium income	131,026	159,019	164,063	125,671
Total net claims	(82,260)	(90,998)	(84,541)	(61,471)
Gross profit	**48,766**	**68,021**	**79,522**	**64,200**
Investment revenue	20,626	22,556	21,647	18,141
Pension fund management fee	7,178	9,043	8,016	7,665
Other gain on revaluation of investment properties	6,047	3,022	1,796	3,420
Employee benefits expenses	(72,002)	(49,884)	(40,943)	(37,685)
General and administrative expenses	(18,805)	(21,494)	(30,805)	(19,393)
Sundry fees and other commissions	(3,419)	(12,215)	(10,040)	(9,107)
Commissions	(14,832)	(11,782)	(12,821)	(9,547)
Finance costs	(369)	(214)	(555)	(319)
Depreciation expense	(1,276)	(1,280)	(1,588)	(600)
Transfer from/ (to) policyholder liabilities	41,840	9,381	(45,370)	(1,367)
Profit before tax	**13,754**	**15,154**	**(31,141)**	**15,408**
Income tax expense	**(5,218)**	**(4,683)**	**(6)**	**-**
Profit for the year	**8,536**	**10,471**	**(31,147)**	**15,408**

As can be seen from the table above, the Company's profit for the year decreased by 302% percent from K15,408,000 in 2014 to a loss of K31,147,000 in 2015. However, in

2016, the Company recorded a profit of K10,471,000 which reduced to K8,536,000 in 2017.

The loss of K31,147,000 incurred in 2015 was attributed to the increase in transfers to policyholders liabilities by K45,370,000 which was necessitated by the request from Pensions and Insurance Authority (PIA) to ZSIC Life to change the reporting format of Life Assurance Funds to policyholders liabilities which requires the inclusion of actuarial deficits.

The recorded profit of K10,471,000 in 2016 was due to the reduction in general and administrative expenses from K30,805,000 in 2015 to K21,494,000 in 2016.

The recorded profit of K8,536,000 in 2017 was attributed to the transfer of K41,840,000 from policyholders' liabilities.

f. Statement of Financial Position for the financial years ended 31st December 2014 to 2017

	2017 K'000	2016 K'000	2015 Restated K'000	2014 K'000
ASSETS				
Non Current Assets				
Property and Equipment	13,890	13,950	14,474	13,540
Investment Properties	130,672	123,595	120,573	118,777
Held to maturity Investments	57,729	53,909	69,843	61,896
Available for sale Investments	50,610	38,220	34,687	38,908
Total non -current assets	252,901	229,674	239,577	233,121
Current Assets				
Other Investments	7	10	10	10
Insurance receivables	38,143	38,159	30,770	22,106
Other receivables	23,313	25,540	22,082	19,756
Amounts due from related parties	64,088	79,183	72,636	72,212
Cash and cash equivalents	23,589	26,674	23,678	17,367
Total Current assets	**149,140**	**169,566**	**149,176**	**131,451**
Total Assets	**402,041**	**399,240**	**388,753**	**364,572**
EQUITY AND LIABILITIES				
Equity				
Share Capital	12,000	2,000	2,000	2,000
Deficit on reserves	(29,759)	(47,060)	(58,406)	-
Total Equity	**(17,759)**	**(45,060)**	**(56,406)**	**2,000**
Insurance funds and non-current liabilities				
Unearned premiums	11,242	12,623	11,339	11,905
Policyholders liabilities	303,340	345,180	354,561	287,093
Outstanding claims	15,243	11,688	14,006	12,563
Retirement benefit obligation	15,095	16,479	20,072	15,104
Obligations under finance lease	-	181	826	1,325
Total insurance funds and non-current liabilities	**344,920**	**386,151**	**400,804**	**327,990**
Current Liabilities				
Other liabilities	53,579	45,380	38,900	31,071
Obligations under finance leases	37	577	586	452
Taxation payable	8,355	3,137	-	2,520
Amounts due to related parties	12,451	8,733	4,604	539
Cash and cash equivalents	458	322	265	69,164
Total current liabilities	**74,880**	**58,149**	**44,355**	**34,582**
Total equity, funds and liabilities	**402,041**	**399,240**	**388,753**	**364,572**

The following were observed:

i. Solvency Ratio

The solvency ratio of an insurance company is the size of its capital relative to all risks it has taken. The solvency ratio is most often defined Long-term Liabilities to Total Assets.

Section 36(1) of the Insurance Act of 1997 (as amended) states that an insurer shall not carry on life insurance business unless the admitted assets of the insurer, so far as they are identifiable with the statutory fund maintained in respect of life insurance, exceed the admitted liabilities in respect of that fund, or exceed it by such margin as may be prescribed by regulations made under this Act in relation to life insurance.

Contrary to the provisions of the Act, during the period under review, ZSIC Life Limited did not meet the required solvency ratio of 110% as prescribed by the Pensions Insurance Authority in that it recorded solvency ratios of 97.21%, 87.3%, 89.9% and 86.4% in 2014, 2015, 2016 and 2017 respectively.

ii. Receivable Turnover Days

According to the Company's Credit Policy, the average credit period on premium receivables is 60 days. In determining the recoverability of premium receivables, the Company considers any change in the credit quality of the premium receivable from the date credit was initially granted up to the reporting date.

It was observed that during the period under review, the receivable turnover days was above the stipulated 60 days in that it ranged from 64 to 106 days. See table below.

Receivable Turnover Days = (Insurance and Reinsurance Receivables / Net Premium Income) x 365 days

	2017	2016	2015	2014
Turnover -Net Premium Income (K'000)	131,026	159,019	164,063	125,671
Insurance Receivables (K'000)	38,143	38,159	30,770	22,106
Receivables Turnover Days	106	88	68	64

g. Failure to Collect Rental Income

The unsettled rental fees in respect of ZSIC Life properties Countrywide increased from K30,497,00 as at 31st December 2017 to K36,806,987 as at 31st December 2018. In some cases the rental fees were outstanding for periods exceeding 365 days.

Included in the debt were amounts totalling K2,738,036 in respect of ten (10) tenants who had outstanding rentals exceeding K100,000 each as shown in the table below.

Name of Property	Location	Name of Tenant	Arrears K
EX Legal Buiding	Kitwe	ZSIC General Insurance	837,586
TELNOR House	Ndola	TELNOR Clinic	211,731
PLAZA Extension	Ndola	Digital Business Centre	149,875
Premium Plaza	Ndola	Clahina Schools Ltd	160,486
Premium Plaza	Ndola	Hunters Pub & Grab	153,855
Premium Plaza	Ndola	KOPPA Mining Services	222,497
Premium Plaza	Ndola	Dorothy Mweetwa Khosa	119,960
Premium Plaza	Ndola	Benard Chibwe	173,210
Premium Plaza	Ndola	KEYMBA Enterprises	175,510
Musenga House	Chingola	ZSIC General Insurance	533,327
Total			**2,738,036**

h. Failure to Change Ownership of Properties from ZSIC Limited to ZSIC Life

Titles in respect of three (3) properties appearing in the Company's Assets Register had not been transferred from ZSIC Limited to ZSIC Life as at 31st October 2018. See table below.

Property	Stand Number	Location
ZIBCT Ndola COT No.L6447	748/Y3/4/12	Ndola
Insurance House COT No.35260	1101/30	Kitwe
Guest House COT No.L6455	748/D5/14	Ndola

i. Poor state of Infrastructure – ZSIC Life

Physical inspections carried out in November 2017 in Mansa, Luanshya, Ndola, Kitwe, Chililabombwe and Livingstone revealed that most of the buildings were in a state of disrepair due to lack of maintenance. See pictures below.

Dilapidated ceiling at Lusumpuko flats in Livingstone

Broken car park roof at Lusumpuko flats in Livingstone

Dilapidated ceiling at Insurance House in Kitwe

Damaged floor tiles at Insurance House in Kitwe

j. Unsupported Payments

Contrary to Section 6.1.8 of the ZSIC Group Accounting and Policies and Procedures Manual, two hundred and forty five (245) payments in amounts totalling K2,390,800 made during the period under review were not supported with relevant documents such as acquittal sheets, receipts and local purchase orders.

k. Unretired Imprest

Contrary to Section. 8.1 of the ZSIC Group Accounting and Policies and Procedures Manual which requires that all imprest should be retired within forty eight (48) hours after an assignment for which imprest was paid has been fulfilled, imprest in amounts totalling K46,960 issued to various officers during the period from January to December 2016 had not been retired as at 31st December 2018.

l. Missing Payment Vouchers

One hundred and sixty two (162) payment vouchers in amounts totalling K5,546,688 relating to payments made to senior management, staff and for various activities such as procurement of equipment, actuarial services, motor vehicle servicing, medical services, board fees, imprest and casual wages among others, were not supported by payment vouchers and supporting files. As such it could not be ascertained whether the payments were valid and relevant procurement procedures were followed.

m. Zambia State Insurance Pension Trust Fund

A review of accounting and other records for the Zambia State Insurance Pension Trust Fund (ZSIPTF) for the period January 2014 to December 2017 revealed the following:

i Valuation of Pension Schemes – Failure to Undertake Actuarial Valuations

The ZSIC Life Pension Trust Fund manages twelve (12) active defined benefit schemes. According to Section 18 (1) (d) of the Pension Scheme Regulation Act No. 28 of 1996 as amended by Act No.27 of 2005, Actuarial Valuations should be carried out every three (3) years so as to review and determine the sound funding of the pension scheme. However, it was observed that actuarial valuations for Namwianga Christian School and National Museums Board had not been undertaken for periods exceeding three (3) years.

ii Underperforming Pension Schemes

According to Section 30A of the Pension Scheme Regulation Act of 1996 (As amended by Act No.27 of 2005)**,** any employer shall remit pension contributions to a pension fund within thirty (30) days after the end of the month to which the contributions relate.

Contrary to the Act, ten (10) employers whose pension schemes were managed by the Fund were not meeting their contribution requirements and consequently, the schemes were underperforming. See table below.

Name of Scheme	Surplus / (Deficit) K'000
University of Zambia	(225,674)
ZSIC Limited	(59,916)
Zesco/Kariba North Bank Power Station	(12,518)
Tazama Pipeline Limited	(11,036)
Nawianga Christian School	(5,397)
National Heriatage Conservation Commission	(7,251)
Zambia Environmental Management Agency	(4,260)
Tata Zambia Limited	(363)
Premium Medical Services Limited	(58)
National Museum Board	(11,026)

In addition, although Section 30A of the Pension Scheme Regulation Act of 1996 (As amended by Act No.27 of 2005) states that any employer who does not remit pension contributions to a pension fund within thirty (30) days after the end of the month to which the contributions relate should be liable to pay interest on the contributions, there was no evidence availed for audit to indicate that the defaulting employers were paying interest. Further, the Fund Manager did not avail any information showing that the defaulting participating employers had been reported to the Registrar of Pensions and Insurance Authority contrary to Section 30 (d) of the Pension Scheme Regulation Act of 1996 (As amended by Act No.27 of 2005).

iii Inactive Pension Schemes

An Inactive Pension Scheme is a scheme which does not make contributions to the pool of funds. A review of the ZSIPTF report and financial statements for 2017 revealed that there were eighty six (86) inactive schemes that had discontinued contributions but were still part of the pooled Fund. The Net Fund for the inactive schemes was worth K33,561,875 as at 31st December 2017.

iv Failure to Settle Benefit Claims

According to the Final Inspection Report prepared by the Pensions and Insurance Authority in 2016, the Fund had a balance of outstanding benefit claims amounting to K61,084,042 as at 31st December, 2015. However, a review of the 2017 Report and Financial Statements revealed that the outstanding pension claims had increased to K111,675,000 as at 31st December 2017.

Contrary to Section 18. (1) (a) of the Pension Scheme Regulation Act of 1996, the Fund was not liquidating pension claims as they fell due. In this regard, there were pension claims that had been outstanding for periods exceeding twelve (12) months.

v Issuance of Loans

Part 2.2 of the Investment Policy of the Zambia State Insurance Pension Trust Fund (ZSIPTF) states that the Fund Manager is responsible for due diligence and monitoring. The process below shall form part of the due diligence framework.

The credit risk evaluation shall involve detailed consideration of the facility, the customer's industry, financial position, credit history, management capability, proposed credit collateral as a basis for identifying credit risks inherent in the requested facility.

Documentation of the detailed credit analysis shall be such as addresses the following issues:

- Purpose of credit facility
- Summary of terms including key covenants and other indebtedness permitted (Term Sheet). Special Covenants to be specified in the Term Sheet.

- Assessment of major risks
- Assessment of Structure and repayment terms
- Expected primary source of repayment
- Collateral evaluation (including acceptability, adequacy, degree of independence of valuation and consideration of potential value erosion
- Financial projections appropriate to tenor and structure of credit transaction. This should include downside sensitivity analysis at a minimum, sufficient to cause the obligator to break covenants
- Industry/Market assessment
- Viability of business proposal
- Current financial position/performance
- Credit History (Credit Reference Bureau Report)
- Banking relationships including account turnover/non credit activity
- Quality of ownership/key stakeholders
- Management Capability

However, the following were observed:

i. Questionable Due Diligence

Although the Fund Manager was responsible for due diligence and monitoring, it was observed that the ZSIPTF issued loans in amounts totalling US$17,785,011.83 and K3,600,000 to eight (8) companies as a way of investment. However, although the credit risk evaluation involves detailed consideration of the facility, the customer's industry, financial position, credit history, management capability, proposed credit collateral as a basis for identifying credit risks inherent in the requested facility, there was no evidence availed for audit as of September, 2018 to indicate that the Fund Manager carried out due diligence on the companies before issuing the loans to the companies in the table below.

Name of Company	Date of Investment	Tenor	Amount (US$)	Amount K
Kitwe Development Limited	14 April, 2009 - July 2010	8 years	4,000,000.00	-
Kembe Holdings	2008, 2009	*	5,601,447.83	-
Samfuel Ltd (Kafco)	13 October, 2016	*		3,600,000
David Livingstone Safari Lodge and Spa (DLSLS)	2008	*	3,000,000.00	-
Zambia Extract Oils Company (ZEOCO)	November, 2006	24 months	3,283,564.00	-
Berith Investments	15th July, 2007	36 Months	1,200,000.00	-
Circle Pharmaceuticals	2007	24 months	700,000.00	-
Total			**17,785,011.83**	**3,600,000**

*** means information was not available**

ii. Failure to Recover Loans

As at 31st October 2018, the Fund was owed amounts totalling K45,297,280 (US$4,044,400.00) and K773,349 by five (5) companies that had defaulted on their loan repayments. See table below.

Name of Company	Date of Investment	Tenor	Loan Amount US$	Amount Outstanding US$	Loan Amount K	Amount Outstanding K	Status
Kembe Holdings	2008, 2009		3,500,000.00	362,836.00	-	-	Outstanding
Samfuel Ltd (Kafco)	13 October, 2016		-	-	3,600,000	773,349	Outstanding
Zambia Extract Oils Company (ZEOCO)	Nov-06	24 months	3,283,564.00	3,134,564.00	-	-	Outstanding
Berith Investments	15th July, 2007	36 Months	1,200,000.00	273,500.00	-	-	Outstanding
Circle Pharmaceuticals	2007	24 months	700,000.00	273,500.00	-	-	Outstanding
Total			**8,683,564.00**	**4,044,400.00**	**3,600,000**	**773,349**	

iii. Failure to Collect Rental Income

According to Section 7.5.2 (i) of the Zambia State Insurance Pension Trust Fund (ZSIPTF) Real Estate Investment Policy, tenants shall rent property by way of a one year lease renewable, with rentals payable at a minimum of three months in advance. Rental review, taking into account the economic environment and other circumstances, shall occur at every contract renewal.

The unsettled rental fees in respect of ZSIPTF properties Countrywide increased from K40,328,000 as at 31st December 2017 to K49,481,562 as at 31st December 2018. In some cases the rental fees were outstanding for periods exceeding 365 days.

iv. **Failure to Comply with Investment Guidelines**

The review of an assessment for compliance to SI 141 as at 31st December 2015 for ZSIPTF undertaken by the Pensions and Insurance Authority between 29th August and 2nd September 2016 revealed that ZSIPTF was non-compliant in that the property and unlisted equity were above the SI investment limits as shown in the table below:

Ratio Description	2015 K'000	% of total Investments	SI Investment Limits	Compliance with SI Limits (2015)
Property	185,561	36%	X<30%	**Not Compliant**
Unlisted Equity	174,814	34%	X<5%	**Not Compliant**

v. **Deteriorating Infrastructure - ZSIPTF**

The real estate portfolio is a strategic asset pool for the pension fund which is used to provide stable returns in terms of rental income, and portfolio growth through revaluation gains and profit on disposal.

However, physical inspections of the properties carried out in December 2017 in Mansa, Luanshya, Ndola, Kitwe and Chililabombwe revealed that most of the buildings were dilapidated due to lack of maintenance as shown below.

Corroded window frame at New Nawaitwika Flat in Ndola

Dilapidated Ceiling Board at New Nawaitwika Flats in Ndola

Dilapidated Ceiling at Cosdown House

Dilapidated Ceiling at Cosdown House in Ndola

Dilapidated Toilet awaiting Replacement at Cosdown house

Dilapidated Kitchen awaiting Renovations at Cosdown house

Gutters falling off at Mansa Flats

Dilapidated Ceiling at Mansa Flats

Gutters falling off at Glendower Court in Chililabombwe

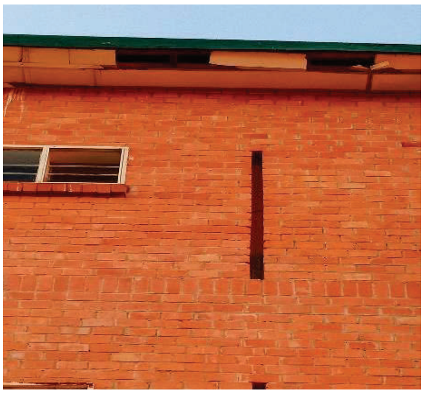
Dilapidated ceiling at Glendower Court in Chililabombwe

Dilapidated ceiling at Lubambe Centre in Kitwe

Dilapidated staircase at Bowmaker House in Kitwe

Dilapidated Ceiling at Bowmaker House in Kitwe

Unoccupied Office Space at Lubambe Centre in Kitwe



Dilapidated Kitchen at Kabwe Complex

Dilapidated Complex Ceiling at Kabwe Complex

Corroded window panes at Mansa flats

Broken Paving at Kabwe Flats

Recommendations

20. In order for Government to maximize 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:

i. The Industrial Development Corporation should develop a framework for monitoring the performance of SOEs to ensure that the objectives for which they are created are met,

ii. The SOEs and other statutory bodies should devise and implement innovative and cost cutting measures to improve their operational efficiency to ensure self-sustainability,

iii. The SOEs and other statutory bodies should ensure that their statutory obligations are paid,

iv. The IDC should consider recapitalizing viable SOEs and restructuring those which are loss making,

v. The Boards of Directors of respective institutions should ensure that all positions key to the operations of their institutions are filled so that the institutions can optimize their operations,

vi. The Boards should ensure that remunerations and conditions of service are commensurate with the performance of the institutions,

vii. The IDC and supervising Ministries should ensure that Corporate Governance Practices in the State Owned Enterprises and Statutory bodies respectively are improved by ensuring among others that:

- Clear Board Charters are developed,
- Board of Directors are in place at all times to drive their respective strategic directions,
- Boards have a robust process to evaluate their performance on a regular basis,
- Strategic plans are developed and linked to the national development plans.

viii. The IDC and respective supervising Ministries, should ensure that audited financial statements are one of the key deliverables for Boards of SOEs and Statutory Bodies respectively. This will ensure compliance with the Companies Act and their respective enabling Acts. In addition, IDC and supervising ministries should develop timelines within which all the institutions under their charge should be up-to-date in their financial reporting.

ix. Institutions with material findings on non-compliance with financial rules, high levels of unaccounted for stores and revenue, unsupported payments and unretired imprest should improve their control environment by strengthening their internal control systems to prevent or detect non-compliance with financial rules.

x. Institutions should improve their record keeping and take specific measures to safeguard documentation in order to reduce concerns about possible fraud or irregularities where documentation cannot be produced for auditing.

xi. All the institutions should ensure that their properties are on title and insured.

Conclusion

21. 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

22. I wish to thank all my staff for their hard work during the production of this Report despite having limited resources. I also wish to express my gratitude to the Secretary to the Treasury, the Accountant General, Controller of Internal Audits, Controlling Officers, Chief Executive 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) and the Committee on Parastatal Bodies and Statutory Institutions which have either not been Implemented or have been partially Implemented

23. 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 then Public Accounts Committee and the Committee on Parastatal Bodies and Statutory Institutions had 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 1 below)* form part of the Report on the Accounts of Parastatal Bodies and Other Statutory Institutions for the Financial Year Ended 31st December 2017.

Appendix 1

Analysis of Closed and Outstanding Issues 2017

Para	Name of Institutions	Total Issues Raised	Closed Issues	Outstanding Issues	Percentage Outstanding Issues (%)
6	Eastern Water and Sewerage Company	19	-	19	100%
7	Electoral Commission of Zambia	17	1	16	94%
8	Food Reserve Agency	9	1	8	89%
9	Indeni Petroleum Refinery Company Limited	9	2	7	78%
10	The Judiciary	17	4	13	76%
11	The Local Authorities Superannuation Fund (LASF)	18	8	10	56%
12	Mpulungu Harbour Corporation Limited	12	2	10	83%
13	Mulonga Water and Sewerage Company Limited	17	2	15	88%
14	The National HIV/AIDS/STI/TB Council	8	2	6	75%
15	The National Pension Scheme Authority	13	2	11	85%
16	The National Savings and Credit Bank (NATSAVE)	10	6	4	40%
17	Ndola Lime Company Ltd (NLC)	17	-	17	100%
18	Nkana Water and Sewerage Company	13	2	11	85%
19	Pensions and Insurance Authority	13	2	11	85%

20	Public Service Pension Fund	19	-	19	100%
21	The Road Transport and Safety Agency	13	3	10	77%
22	The Rural Electrification Authority (REA)	5	1	4	80%
23	Workers Compensation Fund Control Board (WCFCB)	15	4	11	73%
24	Zambia Cargo and Logistics Limited	28	3	25	89%
25	The Zambia Institute of Mass Communications Education Trust	10	-	10	100%
26	Zambia Medicines Regulatory Authority	8	-	8	100%
27	Zambia National Broadcasting Corporation	13	-	13	100%
	Totals	**303**	**45**	**258**	

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

No.	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

No.	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

No.	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

No.	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

No.	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

No.	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

No.	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**	

Appendix 2 - Glossary of Terms

Controlling Officer	An officer designated as such by the Secretary to the Treasury to maintain accounts of a Ministry, Province or Spending Agency.
Excess expenditure	Expenditure incurred without the authorisation of the Board of Directors.
Failure to Follow Procurement Procedures	Non-Compliance with the Public Procurement Act and Procurement guidelines in the purchase of goods and services.
Irregular payments	Payments made outside the normal practice or acceptable regulations or norms.
Irregularity	Breach of rules, regulations or laws.
Imprest	Funds or monies issued out to facilitate payments of a minor nature, meet expenses when the officer is travelling on duty or to facilitate the purchase of goods and services whose value cannot be ascertained at the time.
Overpayments	Payments made above the normal price charged.
Public Accounts Committee (PAC)	A sessional committee of the National Assembly established in terms of the standing orders. PAC examines the Auditor General's Report, as part of their mandate of examining the accounts showing the appropriation of the sums approved by the National Assembly.
Committee on Parastatal Bodies and Statutory Institutions	A sessional committee of the National Assembly established in terms of the standing orders. The Committee examines the Auditor General's Report on Parastatal Bodies and Statutory Institutions.

Missing Payment Vouchers	Payment vouchers that are not availed for audit.
Unretired Imprest	Imprest not retired.
Unacquitted payments	Payments made without evidence of having been received by the intended beneficiaries.
Unaccounted for Stores	Lack of receipt and disposal details for goods procured.
Undelivered Materials	Goods paid for but not received.
Unaccounted for Funds	Failure to properly account for the funds.
Unsupported payments	Payments without relevant documents.
Wasteful expenditure	Expenditure incurred as a result of undue care.

Office of the Auditor General
Stand No. 7951
Haile Selassie Avenue
Longacres
P.O.Box 50071
Lusaka-Zambia

Email: auditorg@ago.gov.zm
www.ago.gov.zm
Telephone: +260 211 252611 / 252772
Fax: +260 211 250349

SHORTHORN PRINTERS LTD