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12th December, 2023

To the News Editor

PRESS RELEASE
For Immediate Release

Acting Auditor General Dr. Ron Mwambwa has issued the Report of the Auditor General on the Accounts of Parastatal Bodies and other Statutory Institutions for the financial year ended 31st December 2022.

The report which was tabled on the floor of the National Assembly, is now a public document and can be accessed from the Office of the Auditor General website: www.oag.gov.zm.

The report that has revealed financial and operational performance challenges in the audited entities, has the following notable audit findings and implications, among other things:

1. Food reserve Agency

a) Contract between Food Reserve Agency (FRA) and Advanced African Solutions (ADAS)

In the report of the Auditor General for the year ended 31st December 2021 weaknesses were highlighted regarding this contract. In September of 2023, a review of the contract revealed the following weaknesses:-

i. **Failure to follow tender procedures –** FRA failed to adhere to the Zambia Public Procurement Authority guidance.

ii. **Failure to explore alternative financing models**

Although the government had various financing models at its disposal, among them those suggested by the contractor such as concession loans or Chinese government preferential buyers loans, these options were not taken into consideration.

iii. **Failure to indicate budget line for financing the project**

The ministry of finance confirmed that the project would be funded through the treasury in the 2018 national budget. However, the Ministry did not avail the details for the head, programme and activity that were to be used to finance the project. Therefore, it was difficult to ascertain how the project was to be financed.

iv. Change of contract due to change in financing model

Although, the original contract was amended following the change in financing model, the following could not be ascertained:

- Authorization to ADAS to effect further changes to the amended contract;
- The attendees present during the amendments introducing an onerous clause exposing government to payment of penalties without capping and on any money due, advance payment inclusive;
- Why the FRA did not alert other stakeholders such as Ministry of Finance, Agriculture and Attorney General upon noticing the onerous clause;
- The rationale for the Ministry of Justice approving a contract with such an onerous clause; and
- The failure of the Ministry of finance to observe the impact of the onerous clause on the Treasury.

iv. Status of the Project

- **Works**

  As of August 2023, the project was not complete, as on average only 35% of the project of upgrading slabs into shades had been completed with delays in completion ranging between 21 to 786 days; while 56 sites had been abandoned; 14 sites partially handed over and the contractor had not mobilized to 24 sites.

- **Financial**

  As at 31st August 2023 the following were noted:

  The contractor had only completed works valued at US$17,182,285 out of which US$13,561,449.93 had been paid.

Implication

Loss of public funds due to the onerous clause.

2) Failure to Obtain Approval of Contracts by the Attorney General

The report has revealed the failure by audited entities to obtain approval of contracts by the Attorney General in amounts totaling K165,597,642 and US$ 4,644,509 contrary to Section 72 (2) (e) of the Public Procurement Act of 2020, which requires entities to obtain clearance from the Attorney General. The contracts in question were for the construction of fruit processing plants in Mwinilunga and Katete Districts; construction of the Tomato Processing Plant and associated works at Fig Tree in Chisamba District; and rehabilitation of Mukuba Hotel in Ndola District.

Implication:

Institutions may commit Government to contracts with clauses that may not favour the Government and could lead to loss of public funds.

3) Loss-Making State-Owned Enterprises

The report also cited thirteen (13) subsidiary companies that incurred losses amounting to K746,084,000 and K1,854,902,817 in 2021 and 2022 respectively.

Further, out of the thirty (30) State-Owned Enterprises (SOEs) in which the IDC holds 62.28 to 100 percent shareholding, only five (5) declared dividends amounting to K61,334,600 and K62,012,587 in 2021 and 2022 respectively.

Implication:

Investments could be non-performing.

4) Failure to Collect Rentals

As at 30th September 2023, IDC failed to collect rentals in amounts totalling K5,001,895 for the period from January 2021 to December 2022 in respect of four (4) properties located in Lusaka, Ndola and Mongu which it had leased out.

Implication:

Resources which should be invested in viable projects remain tied up due to non-collection of rentals.

5) Outstanding Debt - Energy Regulation Board

During the period under review, it was observed that amounts totalling K498,955,555 were outstanding from three (3) entities in respect of licence fees as at 31st August 2023.

Implication:

The strategic reserve fund may not be adequate to cover fuel payments when entities keep owing the Energy Regulation Board colossal sums of money.

6) Poor Storage of Maize by Food Reserve Agency

A physical verification undertaken at twenty (20) FRA depots revealed that 18,764 x 50Kg maize valued at K4,006,720 stacked outside got damaged due to exposure to elements of weather such as moisture sipage and overheating.

Implication:

The wastage threatens national food security and stability; as well as loss of public funds through destruction of maize

7) Non-Revenue Water - Unaccounted for Water

The Lusaka South Multi-Facility Economic Zone (LS-MFEZ) had procured 480,172m^3 from Lusaka Water Supply and Sanitation Company (LWSC) at a total cost of K4,204,836 for onward distribution to investors within the zone. However, a total of 263,094m^3 was distributed and billed leaving a balance of 217,078m^3 costing K1,937,843 unaccounted for as non-revenue water.

Implication:

Loss of public funds.

Non-Revenue water is water that has been produced and is lost before it reaches the customer due to leakage, wastage or theft.

8) Worker's Compensation Fund Control Board (WCFCB) - Questionable Investment in Shimaini Investment Limited

Clause 6.2.1 of the Investment Policy provides that the Fund may invest in equities of unlisted companies that demonstrate acceptable profitability and stability for three (3) consecutive years and have growth potential and value addition to the investment portfolio. However, on 26th

February 2021, the WCFCB Board approved the Investment of K17,000,000 into Shimaini Investment Limited, a company which did not demonstrate acceptable profitability and stability for three (3) consecutive years in that they had been posting losses from inception in 2016.

Implication:

Loss of Public finances through investments in non-profitable companies and the failure to adhere investment policy.

9)Questionable Disbursement of 100% of the Cost of Motor Vehicles

During the period under review, LS-MFEZ paid 100% total cost of K3,518,042 to the Public Service Micro Finance Company for the procurement of five (5) vehicles for five (5) senior members of staff. However, this was against the principle of the Cabinet circular abolishing procurement of personal to holder vehicles officers in public service and state-owned enterprises as a cost serving measure.

Implication:

Loss of Public funds through non-adherence to laid down regulations. Consequently, operational efficiency may not be attained.

10)Failure to Distribute Personal Protective Equipment (PPE) Procured by DMMU Zambia Medicines and Medical Supplies Agency

During the period between 28th January 2021 and 16th August 2021, the Disaster Management and Mitigation Unit (DMMU) procured and delivered Personal Protective Equipment and other medical supplies costing K674,417,823 to Zambia Medicines and Medical Supplies Agency (ZAMMSA). A physical inspection carried out at the ZAMMSA warehouse in July 2023 revealed that due to slow and non-distribution, items costing K94,372,435 expired between 1st December 2021 and 26th June 2023, resulting in wasteful expenditure. In addition, medical supplies costing K125,168,292 procured within the same period were still in stores awaiting distribution

Implication:

Loss of public funds as a result of wasteful expenditure and possible lost opportunity from the failure to utilise the PPEs that were awaiting distribution.

11) Failure to Meet Targeted Revenue

Mpulungu Harbour Corporation Limited (MHCL) projected to raise amounts totalling K68,134,567 in 2021 and K62,617,563 in 2022 through provision of various harbour and port facility services. However, the company failed to meet its targeted revenue in 2021 by K1,218,778 representing 2% and by K17,483,326 representing 28% in 2022.

Implication:

Government is deprived of the revenue that should help to fully finance government programmes and activities such as provision of health and educational services.

12) Failure to Recover Advance Payment

On 5th February 2014, Zambia Railways Limited entered into a contract for the upgrading of signalling and telecommunication equipment at Zambia Railways Limited with a consortium comprising Bombardier Transportation Denmark AS, Huawei International Pte Ltd and GMC Technologies (Zambia) Ltd, collectively called BHG Zambia Alliance. The contract sum was

US$50,999,968.29 with a delivery period of two (2) years. Zambia Railways Limited, on 24th April 2014, paid Bombardier Transportation Denmark DKK21,948,797.40 million (or US$3.6 Million) being 15% of its portion of the contract sum. As of September 2023, no works had been done and management had not taken any legal action.

Implication:

Possible loss of public funds through failure to enhance contract provisions.

13) Other quantitative audit findings include:

AUDIT FINDINGS	AMOUNT
a) Failure by Zambia National Oil Company (ZNOC) to Claim Funds Generated by Indeni Energy Company Zambia for the use of the Ndola Fuel Terminal	K30 billion
b) Failure to Obtain Treasury Authority to Invest in a Fixed Deposit Account	K4,000,000
c) Disposal of Luanshya Tailing Dams by Roan Antelope Mining Cooperation (RAMCOZ) at a lower purchase price by Global Security Joint Stock Company compared to the two other bidders US$8,200,000 (Copper Tree Minerals) and US$12,000,000 (Larboneks Investments Limited)	$7,000,000
d) Failure to Secure Source Code for Holistic Insurance Platform – Administration of ZSIC Life Contract- National Health Insurance Management Authority	K790,000,000 (Contract sum) K517,365,000 (Paid)
e) Loss of Funds Arising from Litigation Costs - National Savings and Savings (NATSAVE) Bank	K1,145,848,444
f) Indebtedness of Former Public Service Pensions Fund (PSPF) Employees who were overpaid their redundancy packages	K11,522,935
g) Failure to Collect Rental Income - Worker's Compensation Fund Control Board (WCFCB)	K6,000,536
h) Failure to Collect Spectrum Fees - Zambia Information and Communication Technology Authority	K69,405,010

The public may wish to know that the Report was produced 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 Management Act No.1 of 2018.

For further details, contact the undersigned.

(**Original Signed**)

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<u>FOR/ AUDITOR GENERAL</u>