



REPUBLIC OF ZAMBIA

**OFFICE OF
THE AUDITOR GENERAL**



**SPECIAL AUDIT REPORT OF THE
AUDITOR GENERAL ON EXTERNAL PUBLIC DEBT
OF THE REPUBLIC OF ZAMBIA FOR THE PERIOD
FROM
1st JANUARY 2006 TO 31st DECEMBER 2022**



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OFFICE OF THE AUDITOR GENERAL

VISION:

An independent and credible audit institution promoting transparency and accountability in the management of public resources for the well-being of the citizenry.

MISSION:

To provide timely quality audit services to promote transparency and accountability in the management of public resources.

CORE VALUES:

Integrity

Objectivity

Excellence

Teamwork

Confidentiality

Professionalism

PREFACE

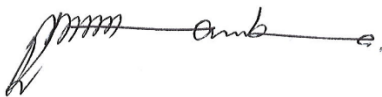
It is my honour and privilege to submit the Special Audit Report on External Public Debt of the Republic of Zambia for the period from 1st January 2006 to 31st December 2022 in accordance with the Provisions of Article 250 of the Constitution of Zambia (Amendment) Act No. 2 of 2016.

The main function of my Office is to audit the accounts of State Organs, State Institutions, Provincial Administration, Local Authorities, the Constituency Development Funds (CDF) and institutions financed from public funds. In this regard, the Report covers audit findings on the management of external public debt for the period from 2006 to 2022.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs) which are the standards relevant for the audit of Public Sector entities.

The audit findings mentioned in this Report are those which were not resolved during the audit process.

I wish to take this opportunity to thank my staff for their dedication during this audit, the Ministry of Finance and National Planning and State-Owned Enterprises (SOEs) for the support rendered to my Office during the audit.

A handwritten signature in black ink, appearing to read 'Ron M. Mwambwa', with a stylized flourish at the end.

Dr Ron M. Mwambwa, FCMA, FZICA, CGMA, CFE
ACTING AUDITOR GENERAL

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Executive Summary

This Report has been produced in accordance with Article 250 of the Constitution of Zambia (Amendment) Act No. 2 of 2016, the Public Audit Act No. 8 of 1980 as amended by Act No. 13 of 1994, Public Finance Act No. 15 of 2004 and the Public Finance Management Act No. 1 of 2018.

During the audit process, there were various levels at which the Office interacted and communicated with the Secretary to the Treasury and other Controlling Officers from concerned ministries. The purpose of this interaction was to provide an opportunity for the Secretary to the Treasury and other Controlling Officers to clarify and take corrective action on the findings of the audit. The audit findings mentioned in this Report are those which were not resolved during the audit.

In addition, the Report contains audit recommendations which are aimed at addressing various findings observed during the audit process.

Some of the key findings raised in this Report are as highlighted below.

a. Financial Analysis

During the period under review, the External Public Debt of the Republic of Zambia had increased from US\$1.019 billion in 2006 to US\$14.071 billion as at 31st December 2022.

The external public debt stock remained below 30% of GDP which is the allowable threshold for Low Income Countries during the period from 2006 to 2014. However, from 2014 to 2020, there was a significant increase in external public debt stock from 30% to 70% of GDP exceeding the thresholds of 30%, 40% and 50% for weak, medium, and strong economies respectively. In 2022, there was a reduction in debt stock from 70% in 2020 to 49% of GDP.

The increase in external public debt during the period from 2011 to 2020 was attributed to Government's contraction of expensive loans such as supply credit loans and the three (3) Eurobonds.

The audit further revealed weaknesses in the contraction of external debt in that during the period from 2014 to 2019, the Government signed seven (7) contracts in amounts totalling US\$958,348,531.16 to finance various projects. However, the loans remained undrawn as at

31st December 2022 resulting into wasteful expenditure of US\$9,506,124.85 in form of financing and arrangement costs. Further, financing and arrangement costs in amounts totalling US\$38,866,301.90 were incurred on partially drawn loans totalling US\$2,086,938,334.32 contracted between 2010 and 2018.

b. Poor Management of On-Lent Loans

During the period from October 2000 to November 2017, the Government disbursed thirty six (36) on-lent loans to twelve (12) State Owned Entities (SOEs) in amounts totalling US\$2,106,260,540.44 for various projects including working capital injection. As at 31st December 2022, the loans had not been serviced.

c. Poor Management of Eurobonds

- i. Only amounts totalling US\$9,500,000 had been deposited into the Sinking Fund as at 31st January 2024.
- ii. Out of US\$20 million allocated to DBZ for onward lending to SMEs, only thirteen (13) SMEs had fully liquidated their loan obligations while twenty four (24) SMEs were still owing amounts totalling US\$13,397,901 and K303,836,036 and had been classified as Non Performing by the Bank.
- iii. Zambia Railways Limited received amounts totalling K120 million for rehabilitation and maintenance of 444 km rail infrastructure. However, there was failure to:
 - obtain refund on deliveries valued at US\$3.6 million.
 - enforce contract for the supply of two (2) mobile flush butt-welding machine valued at US\$1,293,822.50 (the two (2) machines had not been delivered or ZRL refunded as at 31st January 2024).
 - enforce contract for supply of stone ballast resulting in a loss of K12,650,692 (amount had not been recovered as at 31st January 2024).

d. Contract for the Supply of Police Uniforms and Riot Gear - US\$69,896,630.23

The Supplier Credit Agreement valued at US\$69,896,630.23 signed by the Ministry of Finance and National Planning in 2019 with Mikalile Trading Company for the supply of

police uniforms, riot kits, traffic kits and other police equipment under the Ministry of Home Affairs and Internal Security.

The following were observed:

- i. The supplier contract on which the Supplier Credit Agreement was based expired in October 2016.
- ii. The contract was overpriced by US\$3,606,471.79.
- iii. Despite the supplier not supplying items valued at US\$4,555,718.09 as at 31st January 2024, the Ministry of Finance and National Planning had recognised the total value of US\$69,896,630.23 as external public debt.

e. **Contract for the Supply of School Requisites - US\$401,838,720**

On 27th October 2017, the Ministry of Education signed a contract with Mikalile Trading Company of Hong Kong for the supply and installation of various school materials and equipment at a total contract sum of US\$401,838,720. The following were observed:

- i. The contract was overpriced by US\$59,823,026.16 in that instead of interest being US\$78,875,937.84 it was stated at US\$138,698,964 which was 53.5% of the principal amount of US\$259,250,400.
- ii. No needs assessment was conducted and, as a result, computers valued at US\$4,287,000 were delivered to schools without power, various items valued at US\$709,854 were delivered to schools without suitable infrastructure and carpentry tools valued at US\$3,049,600 were distributed to schools that were not offering carpentry.
- iii. Items in amounts totalling US\$79,155,065 were either undelivered, not installed or of poor quality.
- iv. The desktops and laptops supplied were overpriced by US\$52,796,500 and US\$43,114,250 respectively.
- v. The supplier supplied desktops and laptops valued at US\$45 million and US\$39 million respectively. The authenticity of the equipment supplied was questionable. Further, the equipment did not meet the specifications given in the contract.

f. Other Findings

Other findings are as shown in the table 1 below.

No.	Findings	Institutions or Project Involved	Amount in US Dollars (US\$)	Amount in Kwacha	Comments
1	Failure to Conduct Monitoring and Evaluation of Projects Financed through Government Borrowing	Ministry of Finance and National Planning	2,045,076,759		It could not be ascertained whether the borrowings were used for intended purposes.
2	Questionable Advance Payment - Construction of FTJ Chiluba University	Ministry of Finance and National Planning and Ministry of Education	33,750,000.00		The advance payment had not been accounted for as at 31 st January 2024.
3	Questionable Procurement of Fertiliser US\$44,854,511.60	Ministry of Finance and National Planning and Ministry of Defence	44,854,511.60		The fertiliser remained unaccounted for as at 31 st January 2024.
4	Contract for the Supply of Solar Powered Milling Plants - Failure to Remit Funds to Control 99.	Ministry of Finance and National Planning, Ministry of Commerce Trade and Industry and Zambia Cooperatives Federation		15,468,184	Zambia Cooperative Federation (ZCF) had not remitted the Funds to Control 99 as at 31 st January 2024.
5	Questionable Acquisition of Counterpart Funding - Three (3) University Colleges Project	Ministry of Finance and National Planning and Ministry of Education	36,730,000.00		The advance payment had not been accounted for as at 31 st January 2024.
6	Ndola Dual Carriage Way	Ministry of Finance and National Planning and National Roads Fund Agency and Roads Development Agency.	33,750,000		The advance payment had not been recovered as at 31 st January 2024.
7	Wasteful Expenditure on Kalabo Sikongo Road	Ministry of Finance and National Planning and National Roads Fund Agency and Roads Development Agency.	35,731,614		The milestones for the road project will need to be redone as vegetation had grown in the bypass road and campsite had been vandalised.

1 Introduction

This Report has been produced in accordance with Article 250 of the Constitution of Zambia (Amendment) Act No. 2 of 2016, Public Audit Act No. 8 of 1980 (as amended by Act No. 13 of 1994) and Public Finance Management Act No. 1 of 2018.

2 Scope and Methodology

The audit covered the period from 1st January 2006 to 31st December 2022 and was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). These standards require that the audit is planned and performed to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the annual financial statements.

The audit also involved physical inspections conducted at the selected Ministries, Provinces, State Owned Enterprises and Other Spending Agencies, to ascertain the extent of project implementation and to verify information gathered at the Ministry of Finance and National Planning.

The report does not contain details regarding loans obtained for projects under the Road Development Agency and National Roads Fund Agency, except for two (2) specific roads namely Lusaka- Ndola Dual Carriage Way and the Sikongo / Kalabo. These roads were included because of the uniqueness in the manner the loans were contracted and how the projects were implemented.

3 Objectives

The objectives of the audit were:

- i. To ascertain the external debt stock of the Country from 2006 to 2022 and whether the external debt stock over the period under review was within the recommended sustainable limits.
- ii. To ascertain whether the external public debt contracted was used for the intended purposes.
- iii. To ascertain whether the goods and services obtained through Supplier Credit Agreements were supplied or delivered in line with the contracts and that there was value for money in the use of public resources.

4 Legal Framework

The legal framework on Public Debt provides direction, defines, and clarifies powers, supports professionalism and operational focus in Public Debt Management and limits potential abuses of power and promotes good governance by establishing accountability for managing the Government's debt. During the period under review, the following legislations were in force as regards Public Debt Management:

- The Loans and Guarantees (Authorisation) Act, 1969 (Cap 366 of the Laws of Zambia) which has since been repealed and replaced with the Public Debt Management Act No. 15 of 2022
- Article 207 of the Constitution of Zambia (Amendment) Act No. 2 of 2016.

5 Financial Analysis

A review of records at the Ministry of Finance and National Planning revealed that the position of the External Debt Stock as at 1st January 2006 after the completion of Highly Indebted Poor Countries (HIPC) Initiative stood at US\$2.082 billion. However, a further review of the Debt Management Financial Analysis System (DMFAS) revealed that the external debt stock had increased to US\$14.072 billion as at 31st December 2022 representing a percentage increase of 576% over the period from 2006 to 2022. See tables 2 and 3 below.

Table 2: External Debt Position as at 31st December 2021

NO.	CREDITOR TYPE	OPENING BALANCE AT HIPC (US\$)	UNDISBURSED AS AT 30.06.2023 (US\$)	DRAWINGS 01.01.2007 TO 31.12.2022 (US\$)	PRINCIPAL PAID 01.01.2007 TO 31.12.2022 (US\$)	DEBT STOCK AS AT 31.12.2022 (US\$)
1	BILATERAL NON-PARIS CLUB	208,047,549.41	-	287,406,407.90	106,914,184.10	214,922,218.61
2	BILATERAL PARIS CLUB	313,541,166.76	62,110,434.39	321,405,038.80	150,042,387.70	143,817,551.49
3	EURO BOND	-	-	3,000,000,000.00	-	3,000,000,000.00
4	EXPORT CREDITS	67,921,515.35	1,113,597,811.51	3,853,495,553.00	481,025,008.20	3,316,190,165.12
5	MULTILATERAL	700,738,300.88	2,845,699,932.61	3,952,229,142.00	417,318,475.70	3,996,162,417.59
6	PRIVATE BANKS	672,526,088.81	634,487,614.66	4,483,183,493.00	954,809,090.30	2,973,551,419.49
7	SUPPLIERS' CREDIT	119,391,890.82	288,486,918.90	798,874,861.60	371,894,028.20	426,980,837.76
	TOTALS	2,082,166,512.03	4,944,382,712.07	16,696,594,496.30	2,482,003,174.20	14,071,624,610.06

Table 3: External Public Debt Growth 2006 to 2022

Year	EPDS Amount (US\$ billion)	Annual Growth (US\$ Billion)	Growth Rate (%)
2006	1.02	0	0
2007	1.11	0.09	8%
2008	1.22	0.11	9%
2009	1.56	0.34	22%
2010	1.77	0.21	12%
2011	1.98	0.21	11%
2012	3.18	1.20	38%
2013	3.51	0.33	9%
2014	4.81	1.29	27%
2015	6.70	1.90	28%
2016	6.95	0.24	3%
2017	8.71	1.77	20%
2018	10.05	1.34	13%
2019	11.66	1.61	14%
2020	12.74	1.08	8%
2021	13.04	0.30	2%
2022	14.07	1.03	7%

As can be seen from table 3 above, the country recorded highest growth rates in external public debt in 2009 (22%), 2012 (38%), 2014 (27%), 2015 (28%) and 2017 (20%).

The increase in external public debt growth during this period was attributed to the Government's contraction of the three (3) Eurobonds in 2012, 2013 and 2014 in amounts totalling US\$3 billion accounting for 21% of the external public debt. The growth was further compounded by the increase in export credits (4,782%), private banks (342%) and supplier credit loans (258%) giving an overall growth of 576%. See table 4 below.

Table 4: Percentage (%) Composition of Export Credits, Private Banks, and Supplier Credit Loan

No.	CREDITOR TYPE	OPENING BALANCE AT HIPC (US\$)	DEBT STOCK AS AT 30.06.2023 (US\$)	NET GROWTH OVER 16 YEARS (US\$)	PERCENTAGE (%) GROWTH
1	BILATERAL NON-PARIS CLUB	208,047,549.41	214,922,218.61	6,874,669.20	3%
2	BILATERAL PARIS CLUB	313,541,166.76	143,817,551.49	(169,723,615.27)	-54%
3	EURO BOND	-	3,000,000,000.00	3,000,000,000.00	100%
4	EXPORT CREDITS	67,921,515.35	3,316,190,165.12	3,248,268,649.77	4782%
5	MULTILATERAL	700,738,300.88	3,996,162,417.59	3,295,424,116.71	470%
6	PRIVATE BANKS	672,526,088.81	2,973,551,419.49	2,301,025,330.68	342%
7	SUPPLIERS' CREDIT	119,391,890.82	426,980,837.76	307,588,946.94	258%
	Grand Total	2,082,166,512.03	14,071,624,610.06	11,989,458,098.03	576%

6 Debt Sustainability and Vulnerability Analysis

An assessment of the sustainability and vulnerability of External Public Debt Stock revealed the following:

a. External Public Debt / Gross Domestic Product (GDP) 2006 – 2022

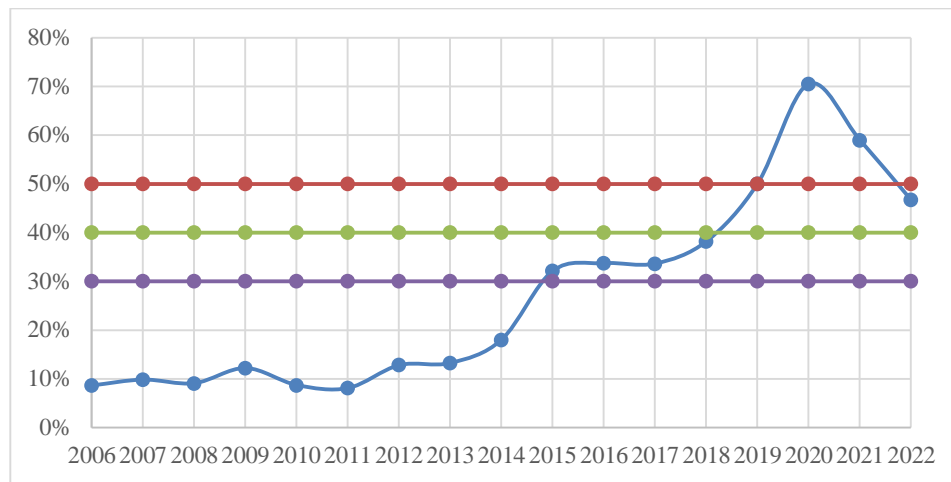
The External Public Debt Stock as a percentage of Gross Domestic Product is a measure used to establish the level of indebtedness of a country relative to its economic activity and assumes that all GDP resources are available to finance the debt burden. A higher Debt to GDP ratio indicates that a larger proportion of the country's resources will be used for debt servicing at the expense of service delivery. According to the benchmark classification as prescribed by the World Bank and International Monetary Fund (IMF), 50% threshold refers to countries with strong economies (developed countries), 40% threshold for medium economies and 30% threshold attributed to weaker economies (least developed countries).

During the period from 2006 to 2014, the Country's Debt/ GDP ratio fluctuated between 8% and 18%, remaining within the acceptable lower limit benchmark of 30%. However, during the period from 2014 to 2020, there was a significant rise from 18% to 70%, surpassing the acceptable upper limit of 50% and ultimately resulting in defaulting on debt servicing. In addition, during the period from 2020 to 2022 there was a decrease in the ratio from 70% to 47%. See table 5 and figure 1 below.

Table 5: Public Debt / Gross Domestic Product

Year	GDP (US\$ billion)	Public Debt (US\$ billion)	Debt/ GDP (US\$ billion)
2006	11.81	1.019	9%
2007	11.26	1.106	10%
2008	13.37	1.216	9%
2009	12.76	1.557	12%
2010	20.26	1.766	9%
2011	24.48	1.980	8%
2012	24.85	3.180	13%
2013	26.53	3.513	13%
2014	26.69	4.807	18%
2015	20.86	6.704	32%
2016	20.60	6.947	34%
2017	25.90	8.712	34%
2018	26.31	10.048	38%
2019	23.31	11.659	50%
2020	18.06	12.738	71%
2021	22.10	13.041	59%
2022	30.18	14.093	47%

Figure 1: Public Debt / Gross Domestic Product



(External Public Debt figures sourced from Ministry of Finance and GDP sourced from Annual Reports)

Key	IMF-World Bank Benchmarks
●—●—●—	Low Income Countries – Strong Economies
●—●—●—	Low Income Countries – Medium Economies
●—●—●—	Low Income Countries – Weak Economies
●—●—●—	Actual External Debt / GDP

b. External Public Debt / Domestic Government Revenue 2006 - 2022

The external public debt stock as a percentage of domestic revenue serves as a volatility indicator aimed at gauging a country's level of indebtedness relative to its capacity for debt repayment. It assesses the government's ability to generate revenues in comparison to its debt obligation, ultimately demonstrating whether the country has collected adequate revenue to settle its debt. The ratio assumes that all internally generated revenue is allocated towards debt servicing. A higher external public debt / domestic government revenue ratio entails that most of the internally generated revenues by government will be used for debt servicing at the expense of other sectors of the economy such as social, health and education.

According to IMF vulnerability indicators for Low Income Countries (LICs) the External Public Debt to Domestic Revenue ratio debt relief should range from 90% to 150%. The ratio implies that below 90%, the country may not need debt relief while any ratio above the upper limit will indicate debt distress as the country is not generating enough revenue compared to its debt burden.

During the period from 2006 to 2013, the country's External Public Debt to Domestic Revenue ratio ranged from within 49% to 77% indicating that the country did not need any debt relief as it generated enough revenue compared to its debt stock. However, from 2015 to 2022, the Country's External Public Debt to Domestic Revenue ratio had deteriorated beyond the acceptable debt relief range as the ratio ranged from 170% to 356%. See table 6 below.

Table 6: External Public Debt / Domestic Revenue

Year	EPDS Amount (US\$ billion)	Domestic Revenue (US\$ billion)	Debt/ Domestic Revenue
2006	1.019	1.84	55%
2007	1.106	2.13	52%
2008	1.216	2.70	45%
2009	1.557	2.04	76%
2010	1.766	2.87	62%
2011	1.980	4.01	49%
2012	3.180	4.35	73%
2013	3.513	4.54	77%
2014	4.807	4.92	98%
2015	6.704	3.95	170%
2016	6.947	3.77	184%
2017	8.712	4.48	195%
2018	10.048	5.05	199%
2019	11.659	4.69	248%
2020	12.738	3.58	356%
2021	13.041	4.82	271%
2022	14.093	6.04	234%

(External Public Debt sourced from Ministry of Finance and Revenue figures, sourced from BOZ Annual Reports)

c. Debt Service / Domestic Government Revenue Ratio - 2006 to 2022

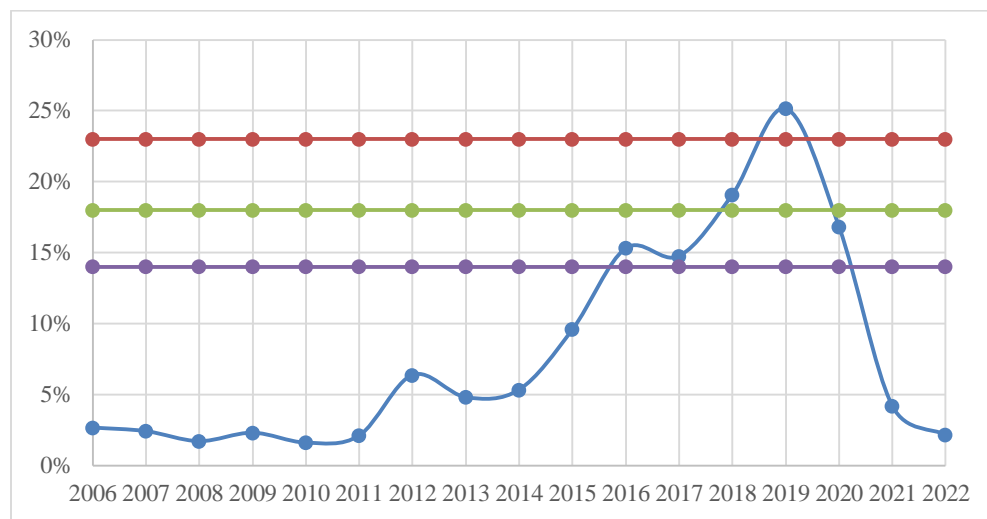
The Debt Service / Domestic Government Revenue ratio indicator measures the government's ability to service the debt using domestic sources of revenue. The ratio also shows how limited a country is in using its internally generated revenue to provide public services as a country is usually obliged to meet its loan obligations before providing services to the public.

According to the benchmark classification of the Debt Sustainability Framework, for Low Income Countries (LICs) as prescribed by the World Bank and IMF, the External Public Debt / Domestic Government Revenue should be 14% for weak economies, 18% for medium and 23% for strong economies. See table 7 below.

Table 7: The Country's Ability to Service Debt

Year	Debt Service (US\$ billion)	Domestic Revenue (US\$ billion)	Debt Service/ Domestic Revenue
2006	0.062	1.837	3%
2007	0.064	2.130	3%
2008	0.056	2.701	2%
2009	0.056	2.045	3%
2010	0.051	2.870	2%
2011	0.087	4.015	2%
2012	0.286	4.346	7%
2013	0.239	4.538	5%
2014	0.265	4.923	5%
2015	0.382	3.951	10%
2016	0.585	3.774	16%
2017	0.667	4.476	15%
2018	0.975	5.049	19%
2019	1.196	4.694	25%
2020	0.618	3.582	17%
2021	0.207	4.821	4%
2022	0.132	6.035	2%

Figure 2: Debt Service / Domestic Government Revenue 2006 – 2022



Source: Debt service and revenue figures from BOZ annual reports

Key	IMF-World Bank Benchmarks
—●—●—●—	Low Income Countries – Strong Economies
—●—●—●—	Low Income Countries – Medium Economies
—●—●—●—	Low Income Countries – Weak Economies
—●—●—●—	Debt Service / Domestic Government Revenue

Table 7 and Figure 2 show that from 2006 to 2016 the Government generated enough revenue internally to service its external public debt stock. However, between 2016 and 2020, the

country exceeded the World Bank and IMF prescribed benchmarks for Low Income Countries, which peaked in 2019 when the ratio exceeded the strong economy benchmark of 23% at 25%. This signified that the Government would have had very little resources available to provide public services if the money was to be used to service the debt.

During the period from 2016 to 2020, the country exceeded the 14% debt carrying capacity threshold set by the World Bank/ IMF for weak economies. This means that the country had entered debt service distress as there was a significant demand being placed on the revenue generated by the country to service its debt. As of 2019, the threshold for a country with a strong debt carrying capacity of 23% was exceeded.

It is worth also noting that, the drastic drop in the ratio to 4% and 2 % in 2021 and 2022 respectively was because of the Debt Service Suspension Initiative.

AUDIT FINDINGS

7 Audit Findings

7.1 Weaknesses in the Management of External Public Debt

Debt Management refers to strategies and tools that a Country employs to maintain a sustainable debt balance, in certain instances with a view of eliminating the debt altogether through critical financial planning and budgeting.

A review of records pertaining to the Management of Public Debt for the period under review revealed the following:

a. Wasteful Expenditure on Undisbursed Loans

During the period from 2014 to 2019, the Government signed seven (7) contracts in amounts totalling US\$958,348,531.16 to finance various projects as shown in table 8 below. It was however observed that as at 31st December 2022, the contracted amounts remained undisbursed. See table 8 below.

Table 8: Undisbursed Loans as at 31st December 2022

No.	CREDITOR TYPE	CREDITOR NAME	PROJECT NAME	DATE SIGNED	LOAN AMOUNT US\$
1	EXPORT CREDITS	ABU DHABI FUND	THREE UNIVERSITY COLLEGES	2/26/2014	10,001,132.26
2	MULTILATERAL	BADEA	CANCER TREATMENT CENTERS PROJECT	12/13/2017	10,000,000.00
3	EXPORT CREDITS	EXIM CHINA	SMART ZAMBIA PHASE II 85%	12/28/2017	333,200,000.00
4	PRIVATE BANKS	INDU COM BANK CHIN	FTJ LUAPULA UNIVERSITY (85%)	1/24/2018	191,250,000.00
5	SUPPLIERS' CREDIT	LILYPECK INT. FZE	MEDICAL EQUIPMENT PURCHASE	3/22/2019	288,486,918.90
6	EXPORT CREDITS	OFID	CANCER TREATMENT CENTERS PROJECT	4/22/2018	12,400,000.00
7	PRIVATE BANKS	STD CHARTD BANK - UK	C400 ROAD PROJECT	4/12/2018	113,010,480.00
	TOTAL				958,348,531.16

A review of documents revealed that although the loans were not disbursed, amounts totalling US\$9,506,124.85 had been paid as arrangement and commitment fees. In this regard, the arrangement and commitment fees paid on undisbursed loans amounted to wasteful expenditure. See table 9 below.

Table 9: Arrangement and Commitment Fees Paid

NO.	PROJECT NAME	LOAN AMOUNT US\$	ARRANGEMENT FEES US\$	COMMITMENT FEES US\$	TOTAL US\$
1	Three University Colleges	10,001,132.26	50,005.66	-	50,005.66
2	Smart Zambia Phase II	333,200,000.00	1,666,000.00	-	1,666,000.00
3	FTJ Chiluba Luapula University	191,250,000.00	1,912,500.00	2,868,750.00	4,781,250.00
4	Medical Equipment Purchase	288,486,918.90	1,442,434.59	1,442,434.59	2,884,869.19
5	Cancer Treatment Centers Project	12,400,000.00	124,000.00	-	124,000.00
	Total	835,338,051.16	5,194,940.26	4,311,184.59	9,506,124.85

b. Accumulation of Commitment Fees on Partially Disbursed Loans

During the period from 26th August 2010 to 7th November 2018, the Government signed twenty three (23) Loan Agreements with eleven (11) Financiers in amounts totalling US\$2,086,938,334.32. However, as at 31st December 2022, only amounts totalling US\$643,564,410.32 had been drawn representing 31% leaving a balance of US\$1,443,373,923.99. As a result, the Government accrued commitment fees in amounts totalling US\$38,866,301.90 on undrawn amounts.

c. Poor Management of On-lent Loans

The Treasury draws its on-lending mandate from Section 20 of the Loans and Guarantees (Authorisation) Act of 1969 CAP 366 of the Laws of Zambia which states, “Subject to the provisions of subsection (2) loans may be granted out of the cash balances of the Republic up to the amount standing at any time to the credit of the special deposit account by debiting the loans special advance account which is hereby established for that purposes.”

A review of the on-lent loan schedule revealed that between October 2000 and November 2017, the Government disbursed thirty six (36) on-lent loans to twelve (12) State Owned Entities (SOEs) in amounts totalling US\$2,106,260,540.44 for various projects including working capital injection.

An examination of the statement of accounts for on - lending revealed that the loans were not being serviced by the SOEs. As a result, repayments including Principal and Interest in amounts totalling US\$206,466,428.48 had accrued as at 31st December 2022. See table 10 below.

Table 10: SOEs with Unserved On-lent Loans

No.	Name (Borrower)	Date Signed	Purpose of Loan	Loan Amounts US\$	Interest Rate	Accrued Principal and Interest US\$	Term End
1	Chambeshi Water and Sewerage	11.08.17	Integrated Small Towns water supply project	45,870,005.00	0.015	2,752,200.32	15.05.37
2	DBZ	23.09.14	Rural Finance Project / Other Loans	5,437,160.45		1,336,559.22	31.12.26
3	Joint Venture (ZNBC/Startimes)	10.02.17	Zambia digital migration Project	232,181,138.85	0.02	20,896,302.51	15.07.37
4	Luapula Water and Sewerage	11.08.17	Integrated Small Towns water supply project	33,453,611.00	0.015	2,007,216.64	15.05.37
5	Kafubu Water & Sewerage Company		Integrated Small Towns water supply project	70,113,831.00		29,558,036.68	
6	Lusaka Water & Sanitation Company	2006 - 2016	Sanitation Projects	112,900,000.00		2,773,125.00	
7	RDA	30.12.13	Mbala Nakonde Rehab	194,677,503.93		56,896,399.04	01.08.23
8	Western Water and Sewerage	16.08.17	Integrated Small Towns water supply project	35,259,108.00	0.015	2,115,546.48	15.05.37
9	Zambia Airports Corporation	13.04.17	Simon Mwansa Kapwepwe Airport	337,621,439.00	0.02	30,385,929.60	15.01.37
10	Zambia ICT Collodge	01.09.15	Smart Zambia Phase 1 Project	13,487,360.26		2,513,150.68	01.03.35
11	ZAMTEL	07.07.05	GSM Phase IV and UMTs Project / Communication Towers	382,923,884.55	0.015	46,231,962.31	21.12.34
12	ZESCO	28.02.2001 - 23.06.2016	Various Projects	642,335,498.40		9,000,000.00	
	Total			2,106,260,540.44		206,466,428.48	

7.2 Poor Management of Eurobonds

7.2.1 Failure to Make Sufficient Contribution to the Sinking Fund

During the period from 2012 to 2015, the Government issued three (3) Eurobonds to the value of US\$3 billion from which amounts totalling US\$2,936,096,848 were to be received after adjusting for financing costs as shown in table 11 below.

Table 11: Eurobonds Issued

STATUS	NAME	DATE SIGNED	LOAN AMOUNT (US\$)	Financial & Transaction Costs	Net Proceed from the Bond	Amounts Paid as Coupons / Penalties as at 31/12/22 (US\$)	Defaulted Amounts on Coupons / Penalties as at 31/12/22 (US\$)	Eurobond Redemption Date	PURPOSE
ACTIVE	EUROBOND I	9/20/2012	750,000,000	15,602,338	734,397,662	322,500,000	60,468,750	September 2022	PROJECT FINANCING
ACTIVE	EUROBOND II	4/14/2014	1,000,000,000	9,875,050	990,124,950	510,000,000	127,500,000	April 2024	MULTIPLE PURPOSE
ACTIVE	EUROBOND III	7/30/2015	1,250,000,000	38,425,764	1,211,574,236	560,625,000	168,187,500	July 2027	PROJECT FINANCING
	TOTAL		3,000,000,000	63,903,152	2,936,096,848	1,393,125,000	356,156,250		

As at 31st December 2015, the Government disbursed amounts totalling US\$2,593,525,070.85 to various Ministries, Parastatals and other Agencies, out of the net bond proceeds in amounts totalling US\$2,936,096,848 leaving a balance of US\$342,571,777.15. As at 31st January 2024, the expenditure details for the balance of US\$342,571,777.15 had not been availed for audit.

On 12th October 2015, the Minister of Finance signed the Loans and Guarantees (Authorisation) (Sinking Fund) (2022 and 2024 Sovereign Eurobonds) (Establishment and Management) Regulations, Statutory Instrument No. 75 of 2015.

Regulation 3 (1) and (2) of the Statutory Instrument established a sub account in the international reserves denominated in United States dollars, a sinking fund for the redemption of the bonds. The Fund was to be used to accumulate monies for the redemption of the bonds. Regulation (2) defines the bonds to mean sovereign eurobonds issued by the Republic on the international capital market amounting to US\$750,000,000 on 17th September 2012 and maturing in 2022 and US\$1,000,000,000 issued on 10th April 2014 and maturing in 2024 and US\$1,250,000 issued on 28th July 2015 and maturing in 2027.

The schedule to the Statutory Instrument required that as at 31st December 2022, amounts totalling US\$1,263,789,808.92 should have been deposited in the Fund.

Contrary to the Statutory Instrument, a review of the Sinking Fund Account revealed that as at 31st December 2022, only amounts totalling US\$9,500,000 had been deposited. As a result, the Government defaulted on amounts totalling US\$830,625,000 on Eurobond coupons comprising US\$750,000,000 in principal amounts and US\$80,625,000 in accumulated interest as at 31st December 2022.

7.2.2 Utilisation of the First Eurobond

A review of accounting and other records at the Ministry of Finance and National Planning revealed that the proceeds of the US\$750 million Eurobond were disbursed as shown in table 12 below.

Table 12: Eurobond Expenditure

No.	Institution	Project/Details	Allocations		
			US\$ 2012 Bond	Exchange Rate	Kwacha 2012 Bond
1	Transaction & Other Cost	TOTAL EUROBOND RECEIVED/ISSUED	750,000,000	5.30	3,975,000,000
		Discount Premium @ 1.89%	14,190,000	5.30	75,207,000
		Transaction costs	1,412,338	5.30	7,485,391
		NET PROCEEDS RECEIVED	734,397,662	5.30	3,892,307,609
2	ZESCO	Power Distribution Network Project	69,000,000	5.30	365,700,000
		Kafue Gorge Lower Hydro Power Project	186,000,000	5.30	985,800,000
3	Zambia Railways Limited	Track Rehabilitation & Purchase of rolling stock	120,000,000	5.30	636,000,000
4	National Roads Fund Agency	Refinancing on Formula One Road Project	145,240,373	5.30	769,773,977
		Kitwe - Chingola Dual Carriageway	100,000,000	5.30	530,000,000
		Pave Zambia Programme	65,000,000	5.30	344,500,000
		Link Zambia 8000 Roads			
5	Development Bank of Zambia	Credit Line to SMEs-On lending	20,000,000	5.30	106,000,000
6	Ministry of Health	Modernisation of Tertiary Hospitals- UTH & livingstone General Hospital	29,397,662	5.30	155,807,611
		TOTAL DISBURMENT	734,638,035	5.30	3,893,581,588

The following were observed:

a. On-lent Loans to SMEs by Development Bank of Zambia

A review of the Status Report on the use of the Eurobond proceeds revealed that one of the beneficiaries of the First Eurobond was the Development Bank of Zambia which was allocated amounts totalling US\$20 million. As at 31st December 2014, the Bank had received a total of US\$20 million as an on-lent loan from the Ministry of Finance and National Planning. The on-lent loan to the Bank was to be disbursed to Small and Medium Enterprises (SMEs).

A further review of the accounting and other records at the Bank revealed that as at 31st March 2014, a total of thirty seven (37) SMEs had received loans totalling US\$2,162,046 and K93,213,213 translating into full disbursement of the entire US\$20 million.

In Paragraph 4 of the Auditor General's Report on the Accounts for Parastatal Bodies and Other Statutory Institutions for the Financial Year Ended 31st December 2019, mention was made that DBZ had seventy nine (79) and thirteen (13) clients' loans worth K769,123,336 and US\$31,458,404.12 respectively which were classified below pass due to non-recovery by the Bank.

In the Report of the Committee on Parastatal Bodies on the Report of the Auditor General on Accounts of the Parastatal Bodies and Other Statutory Institutions for the Financial year ended 31st December 2019 for the First Session of the Thirteenth National Assembly, the Committee directed the Controlling Officer to ensure that the loans that were classified as below pass be expeditiously recovered by the Bank.

A review of the matter as at 28th February 2024 revealed that only thirteen (13) SMEs had fully liquidated their loan obligations while twenty four (24) SMEs were still owing amounts totalling US\$13,397,901 and K303,836,036 in principal and interest with the loans being classified as Non Performing by the Bank.

b. Mismanagement of Euro Bond Proceeds – Zambia Railways Limited

In 2013, the Zambia Railways Limited (ZRL) was funded amounts totalling US\$120,000,000 (K618,532,000). The funds were meant for the rehabilitation and maintenance of 444 km rail infrastructure, telecommunication and signalling and rolling stock to transform the rail line into an efficient and effective mode of transport. See table 13 below.

Table 13: Zambia Railways Limited Budget

No.	Description	Amount US\$	Amount K	% of Expenditure
1	Infrastructure – Rail Track	79,417,196.95	409,351,999.97	66.18%
2	Telecommunication and Signalling	3,527,083.65	18,179,999.99	2.94%
3	Rolling Stock	37,055,719.39	191,000,000.04	30.88%
	Total	120,000,000.00	618,532,000.00	

A review of accounting and other documentations at Zambia Railways limited revealed that the Eurobond funds were expended as shown in the table 14 below.

Table 14: Zambia Railways Limited Budget

No.	Description	Budget K	Actual Expenditure K	Variance K	Variance % of Budget
1	Infrastructure	409,352,000	347,125,049	62,226,951	15%
2	Telecoms & Signaling	18,180,000	83,701,240	(65,521,240)	-360%
3	Rolling Stock	191,000,000	232,232,481	(41,232,481)	-22%
	Total	618,532,000	663,058,769	(44,526,769)	-7%

The following were observed:

i. Failure to Obtain Refund on Failed Deliveries

On 5th February 2014, the Zambia Railways Limited entered into a contract with Bombardier Transportation Denmark AS, Huawei International Pte Ltd and GMC Technologies (Zambia) Limited, collectively doing business together as a consortium under the name and style of BHG ZAMBIA ALLIANCE, for the upgrading of the signalling and telecommunications equipment at the Zambia Railways Limited. The contract was for a total sum of US\$50,999,968.29. Bombardier was to provide the signalling component at a total sum of US\$24.3 million, Huawei was to provide the telecommunications component at a total cost of US\$18.1 million, while GMC Technologies was to integrate the signalling and telecommunications at a total cost of US\$8.6 million.

One of the terms of the contract was payment by ZRL of an advance of 25% of the Contract sum to the suppliers to which ZRL paid amounts totalling US\$3.6 million to Bombardier. The other terms stated that supply of equipment was contingent on the opening of the letter of credit for the remaining 65% and 10% retention. It was further observed that ZRL did not open the letter of credit alleging unavailability of funds resulting into Bombardier not supplying any materials to ZRL under the contract as at 31st December 2022.

However, as at 31st January 2024, ZRL had not received any goods or recovered the advance payment made to Bombardier.

ii. Failure to Enforce the Contract for the Supply of 2 Mobile Flush Butt-Welding Machines - Wasteful Expenditure

On 14th January 2014, ZRL entered into a contract with Diamond Motors Limited for the supply and delivery of two (2) new mobile flush butt-welding machines at a total cost of US\$2,070,116.

According to the contract, ZRL was to pay 25% advance within thirty (30) days of signing the contract, 65% against a letter of credit and 10% upon delivery and acceptance. ZRL accordingly paid US\$1,035,058 as full purchase price for one (1) mobile flush butt-welding machine and US\$258,764.50 representing 25% of the purchase price of the second (2) mobile flush butt welding machine paid as advance payment.

According to the contract, the two (2) machines were to be delivered within nine (9) months from the date of receipt of the 25% advance payment. As at 31st October 2023, only one (1) machine had been delivered with specification which were not consistent with the contract. As at 31st January 2024, the supplier had not replaced the machine that was delivered with wrong specifications while the other machine had not been delivered.

iii. Failure to Enforce Contract for the Supply, Loading and Stacking of 310,000 m³ of Stone Ballast - Wasteful Expenditure

On 18th October 2013, ZRL entered into a contract with BUK Truck Parts Limited for the supply, loading and stacking of 310,000 m³ of stone ballast at the contract price of K60,567,428.

Under the Contract, ZRL was to make an advance payment of 20% of the contract sum to BUK Truck Parts Limited within thirty (30) days of signing the contract. BUK Truck Parts Limited was to provide an advance payment guarantee in the equivalent amount. In line with the Contract, ZRL paid an amount of K12,113,486, being 20% of the contract sum and BUK Truck Parts provided a one (1) year advance payment guarantee with Standard Chartered Bank Zambia PLC. The parties further agreed on a delivery schedule where the supplier was to deliver the ballast by August 2014.

In 2014, BUK Truck Parts Limited applied to Zambia Railways Limited for a further deposit of K2,500,000, and ZRL granted the deposit. This amount was backed by a one-year guarantee from Ultimate Insurance Company Limited.

As at the time of expiry of the two (2) Advance Payment Guarantees, BUK Truck Parts Limited had only supplied about 56,000 m³ of ballast. The Parties agreed that BUK Truck Parts Limited extends the Guarantees for the outstanding advance amounts which at the time stood at a total of K12,650,628.52, after deducting the supplied amounts. The two Advance Payment Guarantees were extended with African Grey Insurance Limited.

The Parties further agreed on fresh delivery dates where BUK Truck Parts Limited was to supply a minimum of 3,000 m³ of ballast per month.

It was further reported that, BUK Truck Parts Limited failed to perform part of their contract. However as at 31st October 2023, ZRL had not encashed the K12,650,629 guarantee against non-delivery within the adjusted schedule.

7.2.3 Weaknesses in the Management Second Eurobond

On 10th April 2014, Government issued a second sovereign Eurobond on the international capital market amounting to US\$1 billion maturing in 2024. The issue price of the US\$1 billion 8.5 percent bond was 99.174 per cent of the principal amount. The Bond was to bear interest from 14th

April 2014 at the rate of 8.5 %, per annum payable semi-annually in arrears on 14th April and 14th October in each year commencing on 14th October 2014.

As at 31st December 2015 amounts totalling US\$127,500,000 had been paid as interest on the Eurobond. According to the prospectus the Eurobond was issued for investment in transport and energy sectors and for general budgetary purposes. Further, according to the Cabinet memorandum the proceeds of the bond were to finance capital and economically strategic projects to accelerate investments in identified sectors as shown in table 15 below.

Table 15: Allocation of Eurobond II

No.	Sector	Project	Allocated Funds (US\$ Millions)
1	Transport - Roads	Link Zambia 8000	200
2	Transport - Rail	TAZARA	40
3	Transport - Marine	Dredgers & Badges	50
4	Transport - Air	Rader System	30
5	Agriculture	Dip Tanks and Silos	50
6	New Districts	Infrastructure	140
7	Natsave	Recapitalisation	30
8	Indo-Zambia Bank	Recapitalisation	20
9	ZANACO	Recapitalisation	30
10	ZCCM-IH	Recapitalisation	50
11	SOE - ZESCO	Recapitalisation	200
12	Zambia National Building Society	Recapitalisation	30
13	Education	University Infrastructure	140
	Total		1,010

In the estimates of revenue and expenditure for 2014, a provision of K5,040,697,262 of the proceeds from the Eurobond was made to finance the above sector/projects after converting US\$1 billion to K6,598,259,800 at K6.598/US\$ as at 2nd June 2014. Out of the K6,598,259,800, a total of K5,322,088,549,778 was utilised in 2014 leaving a balance of K1,276,171,250.23. However, the following were observed:

a. Un-Appropriated Disbursements from 2nd Eurobond

A review of the estimates of revenue and expenditure for 2014 and 2015 revealed that amounts totalling K415,285,000 in 2014 and K146,250,000 in 2015 disbursed from the 2nd Eurobond to four (4) entities were not appropriated by parliament. See table 16 below.

Table 16: Unappropriated Disbursements from 2nd Eurobond

Entity / Project	2014 Disbursement K	2015 Disbursement K	Cummulative Total K
Development Bank of Zambia	63,200,000	-	63,200,000
LWSC - Kafue Bulk Water	-	146,250,000	209,450,000
MTWSC - Press Printing	45,000,000	-	254,450,000
PTA Bank	307,085,000	-	561,535,000
Total	415,285,000	146,250,000	561,535,000

7.2.4 Weaknesses in the Management of the Third Eurobond

On 28th July 2015, the Government issued a third sovereign Eurobond on the international capital market amounting to US\$1.25 billion redeemable in three (3) instalments of US\$416,667,000 on 30th July 2025, US\$416,667,000 on 30th July 2026 and US\$416,667,000 on 30th July 2027. The issue price of the US\$1.25 billion 8.5 percent bond is 99.174 % of the principal amount. The bond was to bear interest from time to time on the outstanding amount from and including 30th July 2015 at the rate of 8.5 % per annum payable semi-annually in arrears on 30th January and 30th July commencing on 30th January 2016.

The net proceeds of the issue notes amounted to US\$1,211,574,236 after accounting for management, underwriting commission and other expenses incurred in connection with the issue of the notes. The purpose of the bond was for-

- Investment in transportation, energy and water infrastructure projects, public housing projects and the education, health and maritime sectors;
- The recapitalisation of certain Government-owned entities; and
- The refinancing of domestic debt with the balance to be used to finance the Government's fiscal deficit.

The following were observed:

a. Failure to Provide Utilisation Details

On 28th December 2015, a total of K100,000,000 was drawn from the 3rd Eurobond Account and deposited into Control 99 for Budget Support. However, as at 31st January 2024, management had not provide details on how the funds were utilised.

b. Failure to Provide Loan Details - Loan Repayment

On 28th August 2015, the Ministry disbursed amounts totalling US\$30,645,278.86 from the Eurobond account to a named commercial bank for loan repayment. However, as at 31st December 2023, management did not provide the loan agreement on which Government contracted the debt. It was therefore not possible to ascertain how much the Government owed.

7.3 Credit Agreements for the Supply of Police Uniforms and Riot Kits

On 4th August 2016, the Ministry of Home Affairs and Internal Security signed a contract with Mikalile Trading Company Limited, a Company incorporated under the laws of Hong Kong for the procurement and supply of police uniforms, riot kits, traffic kits and equipment at the contract sum of US\$59,997,107.49. As at the expiration of the contract, goods worth US\$24,573,744.50 had been supplied leaving a balance of goods worth US\$35,423,362.92.

On 27th June 2019, the Ministry of Finance and National Planning signed a Supplier Credit Agreement with Mikalile Trading Company Limited in respect of the contract with the Ministry of Home affairs. The supplier credit agreement was for a period of three (3) years at a total sum of US\$69,896,630.23 comprising of the contract sum, interest rate of 4.95% and arrangement fees of 1.65%.

The following were observed:

a. Over Pricing of Supplier Credit Agreement - Credit Agreement for the Supply of Police Uniforms and Riot Kits

A review of the supplier's credit agreement revealed that the contract financing cost was negotiated at the London InterBank Offered Rate (LIBOR) +3.95% for three (3) years. At the time of the agreement, LIBOR was at 1.0%. In addition, the financing cost included arrangement fees at 1.65% charged on the loan amount. In this regard, the effective cost of the loan was 4.95%. In the supplier credit agreement, an amount of US\$8,909,570.46 was indicated as the total cost of financing the supplier credit in amounts totalling US\$59,997,107.49. However, a re-computation of the total interest payable using annuity tables which are generally used for computation by Ministry of Finance and National Planning, at the same interest rate of 4.95% revealed that total interest for the period should

have been US\$5,303,098.67, thereby over pricing the loan facility by US\$3,606,471.79. See table 17 below.

Table 17: Computation of Cost of Loan

Description	Lenders Computation US\$	Computation Using Amortisation Tables US\$	Variance US\$
Loan amount	59,997,107.49	59,997,107.49	
Interest at LIBOR(1%) +3.95%	8,909,570.46	5,303,098.67	3,606,471.79
Arrangement fee	989,952.27	989,952.27	-
Total	69,896,630.22	66,290,158.43	3,606,471.79

b. Irregularities in the Financing of the Contract

Section 41 (2) (a) of Public Procurement Act No. 12 of 2008 stipulates that procurement shall only be initiated where the availability of funding for the requirement has been confirmed.

The Ministry of Home Affairs in the minutes of the 6th Procurement Committee held on 4th August 2016 stated that funds were confirmed available under the 2016 budget and supplementary funds from the Ministry of Finance and National Planning.

The following were observed:

i. Questionable Execution of a Supplier Credit Agreement

Following the failure by the supplier to deliver as per contract dated 4th August 2016 which subsequently expired on 3rd October 2016, on 27th June 2019, (thirty three (33) months after the expiry of supplier contract), the Ministry of Home Affairs acting together with the Ministry of Finance and National Planning signed a Supplier Credit Agreement with the supplier in amounts totalling US\$69,896,630.23 for a period of three (3) years and three (3) months to enable supplier to perform on the expired contract.

A review of documents at both the Ministry of Finance and National Planning and the Ministry of Home Affairs and Internal Security revealed that the expired contract was neither extended or re-advertised for fresh bids.

In this regard, the awarding of Supplier Credit Agreement to Mikalile Trading Company based on an expired supplier contract was questionable.

ii. Overstatement of Finance Costs - Arrangement Fees and Interest Charges

Clause 3 of the supplier credit agreement stated, “Arrangement fee”, The arrangement fee shall be 1.65% of the total Carriage and Insurance Price (CIP) sum to Lusaka for the entire credit period.”

Although goods in amounts totalling US\$24,573,744.50 involving ten (10) invoices were delivered at the time of signing the supplier credit agreement, arrangement fees amounting to US\$989,952.27 (1.65%) were calculated on the full contract sum of US\$59,997,107.49 thereby overstating the arrangement fees by US\$405,466.78.

iii. Questionable Recognition of Debt on Unsupplied Goods

A review of supplier account statement dated 25th August 2021 and physical inspections carried out in October 2023 revealed that the supplier had delivered goods costing US\$55,441,389.40 while goods costing US\$4,555,718.09 had not been delivered.

Further, despite the non-delivery of goods worth US\$4,555,718.09, the amount on which interest of US\$225,508.05 was charged was recognised as part of the Government external debt. In this regard, the recognition of debt and the charging of interest on undelivered goods was questionable.

iv. Irregular Charging of Compound Interest

Section 51(3) of the Public Procurement Act of 2008 states, “the use of compound interest in any negotiation or contract is hereby prohibited.”

Clause 16.5 of the supply contract stated, “In the event that the procuring entity fails to pay the supplier any payment by its due date or within the period set forth in the SCC, the procuring entity shall pay to the supplier interest on the amount of such delayed payment at the rate shown in the SCC, for the period of the delay until payment has been made in full, whether before or after judgement or arbitration award.”

Clause 5.1 of the Supplier Credit Agreement stated, “this project is 100% financed by the supplier and the supplier has given three (3) months credit period after delivery of goods for the first instalment to be made. The purchaser shall make the first payment of 25% of the total loan, that is US\$17,474,157.56 three (3) months after the delivery of goods amounting to 40% of the total contract sum.”

Clause 5.2 of the Supplier Credit Agreement stated, “the balance of the contract price of US\$52,422,472.67 shall be effected in six (6) bi-annual instalments”. See table 18 below.

Table 18: Irregular Charging of Compound Interest

No	Item	Period	Amount US\$
1	Initial payment	Upon 40% contract sum delivery	17,474,157.56
2	Instalment No. 1	December 2019	8,737,078.78
3	Instalment No. 2	June 2020	8,737,078.78
4	Instalment No. 3	December 2020	8,737,078.78
5	Instalment No. 4	June 2021	8,737,078.78
6	Instalment No. 5	December 2021	8,737,078.78
7	Instalment No. 6	June 2022	8,737,078.78
	Total		69,896,630.23

As at 31st January 2024, a total of US\$35,069,338.56 had been paid leaving a balance of US\$34,827,291.67. Included in the outstanding loan amount was US\$448,608.39 which was irregularly charged as compound interest.

7.4 Irregularities in the Management of Contract for Supply of School Requisites Under Ministry of General Education

On 27th October 2017, the Ministry of Education signed a contract with Mikalile Trading Company of Hong Kong for the supply and installation of various school materials and equipment such as laptops, desktops and solar equipment to power computers; laboratory supplies and equipment; office furniture and carpentry tool kits at a total contract sum of US\$401,838,720 (materials and equipment - US\$259,250,000, interest US\$138,698,964 and arrangement fees US\$3,888,756) with a delivery period of twelve (12) months after signing of the contract.

Further, on 18th September 2019, the Ministry of Finance and National Planning signed a Supplier Credit Agreement with Mikalile Trading Company Limited for acquisition of goods and services as contained in the supply contract with the Ministry of Education. See table 19 below.

Table 19: Summary of Goods to be Supplied

Item	Description	Quantities	Unit Price US\$	Total Price US\$
1	School Design and Technology Equipment for Schools	30,000	500	15,000,000
2	Office Furniture for Schools	10,000	3,600	36,000,000
3	Laptop computers	10,000	3,900	39,000,000
4	Desktop Computers	30,000	1,500	45,000,000
5	Laboratory Supplies/Chemicals	1,200	5,417	6,500,000
6	Laboratory equipment for Schools	800	52,500	42,000,000
7	Solar to Powe Computers	200	118,750	23,750,000
8	Carpentry Tools Kits for Schools	1,000	40,000	40,000,000
9	Accessories,Transport,Assembling and Installation of Equipment at Schools	400	30,000	12,000,000
	Total Excluding Finance			259,250,000
	Financing			
	Interest			138,698,964
	Arrangement Fees			3,888,756
	Total Including Finance			401,837,720

The procurement was to be financed through a Supplier Credit Agreement with the following conditions:

- The procurement is 100% financed by the supplier and the supplier has given thirty (30) months grace period for the first instalment to be made;
- Arrangement fees should be paid by the borrower to the seller within sixty (60) days of the effective date of this contract; and
- The total contract sum plus interest amounting to US\$401,838,104 should be effected in sixteen bi annual equal instalments as detailed in the table 20 below.

Table 20: Schedule of Repayments According to the Creditor's Computation

Item	Period	Arrangement Fees	Principal Sum Payments US\$	Interest Payment US\$	Amount US\$
Arrangement Fees	30-Sep-19	3,888,756			3,888,756
Instalment 1	Dec-21		16,203,150	8,668,684.25	24,871,834.25
Instalment 2	Jun-22		16,203,150	8,668,684.25	24,871,834.25
Instalment 3	Dec-22		16,203,150	8,668,684.25	24,871,834.25
Instalment 4	Jun-23		16,203,150	8,668,684.25	24,871,834.25
Instalment 5	Dec-23		16,203,150	8,668,684.25	24,871,834.25
Instalment 6	Jun-24		16,203,150	8,668,684.25	24,871,834.25
Instalment 7	Dec-24		16,203,150	8,668,684.25	24,871,834.25
Instalment 8	Jun-25		16,203,150	8,668,684.25	24,871,834.25
Instalment 9	Dec-25		16,203,150	8,668,684.25	24,871,834.25
Instalment 10	Jun-26		16,203,150	8,668,684.25	24,871,834.25
Instalment 11	Dec-26		16,203,150	8,668,684.25	24,871,834.25
Instalment 12	Jun-27		16,203,150	8,668,684.25	24,871,834.25
Instalment 13	Dec-27		16,203,150	8,668,684.25	24,871,834.25
Instalment 14	Jun-28		16,203,150	8,668,684.25	24,871,834.25
Instalment 15	Dec-28		16,203,150	8,668,684.25	24,871,834.25
Instalment 16	Jun-29		16,203,150	8,668,684.25	24,871,834.25
	Total				401,838,104.00

The following were observed:

a. Lack of Needs Assessment in the Procurement Process

Regulation 30 (1) and (2) of the Public Procurement Regulations of 2011 states, “A user department shall document all procurement requirements in a procurement requisition in the format set out in the Third Schedule. A user department shall in preparing the statement of requirements, ensure that it seeks technical advice.”

Contrary to the Regulation, there was no needs assessment conducted by the user departments before the Ministry entered into an agreement with Mikalile Trading Company Limited under the Supplier Credit Agreement resulting in the following:

i. Delivery of Computers to Schools without Power Source

A physical inspection carried out in August and September 2023 revealed that 1,161 computers costing US\$4,287,000 were delivered to 276 schools which were not connected to any power source and the equipment was therefore not being utilised. See table 21 below.

Table 21: Computers Delivered to Schools without Power Source

No.	Province	No of Districts	No. of Schools	Item Description	Quantity	Amount US\$
1	Luapula	5	20	Laptops	100	390,000
				Desktops	99	386,100
2	Western	5	55	Laptops	72	249,600
				Desktops	285	1,111,500
3	North-Western	3	4	Desktops	20	19,500
				Laptops	16	62,400
4	Central	1	1	Desktops	1	3,900
				Laptops	1	3,900
5	Muchinga	5	37	Desktops	44	171,600
				Desktops	155	604,500
6	Southern	9	50	Desktops	199	776,100
				Laptops	56	218,400
7	Copperbelt	7	31	Desktop	27	105,300
				Laptops	8	31,200
8	Northern	6	78	Desktop	63	94,500
				Laptops	15	58,500
	Total	41	276		1,161	4,287,000

ii. Distribution of Various Items to Schools without Suitable Infrastructure

A physical verification of selected schools revealed that seven (7) schools in six (6) districts with no staff rooms were issued with seven (7) conference tables costing US\$1,484. As a result, the conference tables were not being utilised and were kept in storerooms or classrooms. See table 22 below.

Table 22: Schools without Staff Rooms Allocated Conference Tables

Province	No. of Districts	No. of Schools	Item Description	Quantity	Unit cost US\$	Total Cost US\$
Muchinga	4	5	Conference table for staff room	5	212.00	1,060.00
Western	2	2	Conference table for staff room	2	212.00	424.00
Total	6	7		7		1,484.00

Furthermore, Mikalile Trading Company Ltd delivered furniture, laptops and desktops costing US\$708,370 to sixty six (66) schools in nineteen (19) districts with no suitable learning infrastructure to accommodate the furniture and ICT equipment. See pictures and table 23 below.



*Kasukwa Sec School-Lab
equipment in HODs Office*



*Dimbwe School lab
equipment and Carpentry*



Unutilised Furniture, Carpentry and Lap Equipment due to lack of Needs Assessments

Table 23: Items Delivered to School without Infrastructure

No.	Province	No. of District	No. of Schools	Item Description	Quantity	Amount US\$
1	Southern	2	10	Furniture	58	12,284
		3	17	Laptops	68	265,200
2	North Western	1	1	Carpentry tools	1	2,800
		3	6	Furniture	63	13,343
		3	6	Desktop	26	101,400
3	Western	1	9	Desktop	18	27,000
		1	2	Office Furniture	2	424
4	Copperbelt	5	15	Various		285,918
	Total	19	66		236	708,370

iii. Distribution of Carpentry Tools to Schools Not Offering Carpentry

A review of delivery notes and a physical inspection of selected school revealed that there were seventy six (76) schools in fifteen (15) districts that were not offering carpentry subjects but received 30,496 carpentry tools costing a total of US\$3,049,600. See table 24 below.

Table 24: Materials to Schools Not Offering the Subject

No.	Province	No. of Districts	No. of Schools	Item Description	Quantity	Unit Cost US\$	Total Cost US\$
1	Muchinga	4	10	Carpentry Tools	4,080	100	408,000.00
2	North Western	1	1	Carpentry Tools	325	100	32,500.00
3	Lusaka	4	47	Carpentry Tools	18,641	100	1,864,100.00
4	Western	6	18	Carpentry Tools	7,450	100	745,000.00
	Total	15	76		30,496		3,049,600.00

b. Overpricing of the Credit Facility

A review of the supplier's credit agreement revealed that the financing cost was negotiated at LIBOR +2.85% for ten (10) years. At the time of the agreement, LIBOR was at 2.5%. In addition, the financing cost included arrangement fees at 1.5%. In this regard, the effective cost of the loan was 5.35%. In the supplier credit agreement, an amount of US\$138,698,964 was indicated as the total cost of financing the supplier credit of US\$259,250,400.

However, a re-computation of the total interest payable using amortisation tables which are generally used for computation of interest by Ministry of Finance and National Planning, at the effective interest rate of 5.35% using amortisation tables revealed that the total interest payable under the terms and conditions of the agreement should have been US\$78,875,937.84 and not US\$138,698,964 thereby over pricing the loan facility by US\$59,823,026.16. See table 25 below.

Table 25: Recalculation of Cost of Loans using Amortisation Tables

Description	Lenders Computation US\$	Computation Using Amortisation Tables US\$	Variance US\$
Loan amount	259,250,400.00	259,250,400.00	-
Interest at LIBOR(2.5%) +2.85%	138,698,964.00	78,875,937.84	59,823,026.16
Arrangement fee	3,888,756.00	3,888,756.00	-
Total	401,838,120.00	342,015,093.84	59,823,026.16

As can be noted from the above table, the finance cost of US\$138,698,964 was 53.5% of the principal amount of US\$259,250,400.

c. Over Pricing of Items Supplied by Mikalile Company Limited

Regulation 30 (2) (b) of the Public Procurement Regulations of 2011 states, "A user department shall in estimating the value of the goods, works or services, ensure that the estimate is realistic and based on up-to-date information on economic and market conditions."

Contrary to the Regulation, a review of the contract documents for lot 3 and 4 for the supply of 10,000 laptops and 30,000 desktops at a contract sum of US\$39,000,000 and US\$45,000,000 respectively revealed that when compared to the ZPPA Price Index for 2021 and 2022, the equipment was overpriced by US\$52,796,500 (K831,250,000) in 2021 and US\$43,114,250 (K779,505,000) in 2022. See tables 26a and 26b below.

Table 26a: ZPPA Price Index and Purchase Prices (2021)

No.	Item Description	Quantities Supplied	ZPPA Price Index		Amount Charged by Mikalile Co Ltd		(Over) / Under Pricing	
			US\$	K	US\$	K	US\$	K
2021 MPI @ K16.67/US\$								
1	Laptop computer	10,000	630	10,508	3,900	65,013	(32,696,500)	(545,050,000)
2	Desktop	30,000	830	15,465	1,500	25,005	(20,100,000)	(286,200,000)
	Total						(52,796,500)	(831,250,000)

Table 26b: ZPPA Price Index and Purchase Prices (2022)

No.	Item Description	Quantities Supplied	ZPPA Price Index		Amount Charged by Mikalile Co Ltd		(Over) / Under Pricing	
			US\$	K	US\$	K	US\$	K
2022 MPI @ K18.08/US\$								
1	Laptop computer	10,000	714	12,918	3,900	70,512	(31,855,100)	(575,940,000)
2	Desktop	30,000	1,125	20,335	1,500	27,120	(11,259,150)	(203,565,000)
	Total						(43,114,250)	(779,505,000)

d. Questionable Pricing of Items in the Contract

A review of the items supplied and the product cost sheet revealed that procured equipment such as furniture, design and technology tools, carpentry tools and laboratory equipment had the same individual price regardless of the type or size.

For instance, a conference table and head teacher's chair under the category for furniture were each priced at US\$211.80. See table 27 below.

Table 27 Items with Questionable Prices

No.	Category	Product Name	Unit Price US\$
1	Furniture	Head and Deputy Head Teacher's Table	211.80
		Conference Table	211.80
		Visitors Chair	211.80
		Head and Deputy Head Teacher's Chair	211.80
2	Design and Technology	Compass and Dividers	20.00
		Copying Saw	20.00
		Mathematics Set	20.00
		Slasher	20.00
		Rake	20.00
		Shovel	20.00
3	Carpentry Tools	Measuring Tape	100.00
		Claw Hammer	100.00
		Hand Vice	100.00
		Metal Bench Vice	100.00
		Flat Screw Driver	100.00
		Set of Drill Bits	100.00
		Twist Bits	100.00
4	Laboratory Equipment	Microscope	37.00
		Hand Lenses	37.00
		Stop Watch	37.00
		Tripple Beam Balance	37.00
		Electronic Balance	37.00
		Test Tubes	37.00
		Small Mirrors	37.00
		Magnet Bar	37.00

e. Failure to Provide Procurement Minutes - Ministry of Education

According to Section 16(1)(2) of the Public Procurement Act No. 8 of 2020, a procuring entity shall, maintain minutes of any meetings related to the procurement, including pre-bid and negotiation and debrief meetings.

However, the Ministry of General Education did not provide procurement minutes relating to the Mikalile Trading Company Limited contract for the supply, delivery, and assembly of ICT, design, and technology, laboratory supplies and equipment, solar-powered computers, and carpentry tool kits in schools.

In this regard, in the absence of procurement minutes, it was not possible to establish how the bidding process changed from a limited bidding involving four (4) bidders namely Shenzhen CTCE Technology Company Limited, Ling Tuo (Beijing) Hua Gong Bo Li Yi Qi Company Limited and Guosheng Furniture Manufacturing Company Limited to direct bidding of Mikalile Trading Company Limited.

f. Non-Appointment of a Contract Manager

Section 213 (1) (1) of the Public Procurement Act No. 8 2020 states that a controlling officer or chief executive officer shall appoint a member of staff of the procuring entity as the contract manager for every contract awarded, except that where a contract is particularly large or complex, the controlling officer or chief executive officer shall appoint a team of staff to manage the contract. A controlling officer or chief executive officer may appoint a contract manager, or members of the contract management team, from the Procurement Unit, the user department, a stores department, or any other relevant part of the procuring entity, except that the contract manager or a member of the contract management team may be external to the procuring entity, where the required skills or experience are not available within the procuring entity.

However, there was no evidence that the Ministry of Education appointed a contract manager to oversee the execution of the contract which resulted in the lack of effective oversight and control over the contract's execution.

g. Irregularities - Pre-Shipment Inspections and Testing Procedures

Section 7 of the Special Conditions of Contract provided that the centre chosen by the purchaser for the inspection of various kinds of goods are town or port of export (Manufacturer's Premises) and the Ministry of General Education designated schools as indicated in the schedule of requirement immediately upon the delivery of goods to the specified destination. The clause further specifies that inspection and tests shall be done as specified in the Technical Specifications Section VII. The cost of inspections at the Manufacturer's warehouse will be the responsibility of the Purchaser.

In line with the above inspection clause, the Ministry of Education and the Supplier, Mikalile Trading Company undertook an inspection exercise between 8th September and 15th September 2020 with the objective of checking whether the Supplier had supplied the teaching and learning materials in line with the signed contract at the Suppliers facilities.

A review of the Inspection report dated 15th September 2020 revealed the following irregularities:

i. Questionable Manufacturer's Guarantee

A review of the Bid Documents submitted by Mikalile Trading Company Limited to the Ministry of Education dated 25th October 2017 revealed that Auping Furniture Company Limited was the manufacturer and guarantor of all the various school design and technology equipment, Office Furnitures, Laptop Computers, Desktop Computers, Laboratory Supplies / Chemicals, Laboratory Equipment, Solar to power Computers, Carpentry Tool Kits and accessories.

However, a physical inspection of Lots 3 and 4 for 10,000 laptops valued at US\$39 million and 30,000 desktops valued at US\$45 million revealed that the two products were under the manufacturing labels of Lenovo and Hasee. A response to an inquiry dated 14th September 2023 from Smart Zambia Institute revealed that Auping Furniture Company Limited was not an authorised manufacturer or distributor of Lenovo and Hasee products. In this regard, the authenticity of the laptops and desktops was questionable.

ii. Failure to Complete the Pre-Shipment Inspection Procedures

According to the Inspection Report Clause 7.0 *Recommendations*, the verification team was to be transformed into a Supervision Team for the purposes of close monitoring and supervision of the consignment by the supplier. Further, owing to the bulk nature of consignment acceptance of the respective items shall be done at the final point of the delivery as a way of physically checking the quantities before the recommendation for payment could be considered.

A review of the procurement documents for the transaction however revealed that contrary to the recommendation of Clause 7.0, there was no evidence that the Verification Team was transformed into a Supervision Team.

In addition, there was no Inspection Reports done at the final destinations which included schools and District Education Boards. In this regard, it could not be

established whether all items valued at US\$259,250,400 were delivered as prescribed in the contract, which could have served as a basis for making the payment.

h. Failure to Deliver Laboratory Chemicals

A review of the delivery notes and other records at Ministry of Education Headquarters and physical inspection at the various points of destinations (Schools) revealed that laboratory chemicals valued at US\$6,500,400 had not been delivered as 31st January 2024.

i. Failure to Carry Out Pre-Shipping Inspections and Testing

According to Article 8 of the General Conditions of the Contract and Clause 7.0 of the Special Conditions of the Contract, the Purchaser was to carry out the Inspection and testing procedures at both the manufacturer's premises and at the Ministry of Education designated schools as indicated in the schedule of requirements immediately upon delivery of the specified destination.

A review of the contract execution documentations revealed that there was no inspection and testing procedures conducted at either the manufacturer's premises before shipment or the Ministry of Education designated schools as indicated in the schedule of requirements immediately upon delivery to the specified destination for various school materials and equipment such as laptops, desktops and solar equipment to power computers; laboratory supplies and equipment; office furniture and carpentry tool kits at a total contract sum of US\$401,838,720 as at 31st January 2024. Further, there was no acceptance certificates issued to the effect that the goods complied with the specifications.

As a result of the above weaknesses in the management of the contract, the Office of the Auditor General engaged Smart Zambia Institute to provide expert advice on the quality and suitability of the laptops and desktops supplied and distributed to schools. Physical inspections were conducted in August and September 2023 at 1,238 schools representing 10% of the 12,055 beneficiary schools.

In their response dated 19th October 2023, Smart Zambia Institute indicated that the 841 laptops valued at US\$3,279,900 were not meant for the Southern African market but for the Asian and European markets.

The implication of this was that the Ministry of Education had no access to after-market sales services from the manufacturer.

j. Failure to Charge and Claim Liquidated Damages

According to Clause 23.1 of the General Conditions of the Contract, applicable rate for liquidated damages shall be paid at the rate of 0.5% of the contract price for the delayed goods or services per week subject to a maximum of 10% of the total contract price. When 10% of the contract price has been reached, the purchaser may consider cancelling the contract.

Although the supplier had not delivered 998 items such as, desktop computers, tables, chairs, carpentry tools and laboratory equipment costing US\$77,085.85 to thirty four (34) schools in thirteen (13) districts and laboratory chemicals costing US\$6,500,400 as at 31st January 2024, the Ministry did not charge liquidated damages 4 years after the expiry of the contract.

k. Irregularities in the Distribution of School Requisites

i. Failure to Deliver Contracted Items to Schools

A physical inspection and examination of documents of 200 schools out of the targeted 10,000 revealed that most schools had not received the complete set of all items contracted to be delivered. The school materials not delivered included desktop computers, laptop computers, visitors chairs, headmaster chairs, conference tables, try squares, G clamps, compass and dividers, copying saw, conference table, measuring tape, steel rules, microscope slides (slide set comprising of twenty five (25) microscope slides general zoology and botany for secondary school use), voltmeters, glass prisms, burettes 50 ml and burettes 100 ml, costing US\$12,045,901. See table 28 below.

Table 28: Province with Undelivered Items

No.	Province	No. of Districts	Number of Schools Visited	Value of Items not Delivered US\$
1	Luapula Province	5	18	350,000
2	Muchinga Province	3	30	9,349,742
3	Northern Province	11	120	77,570
4	Central Province			
5	Copperbelt Province	10	62	313,574
6	North Western Province	4	15	23,315
7	Western Province	4	30	1,120,000
8	Southern Province		0	-
9	Eastern Province		0	-
10	Lusaka Province	4	40	811,700
	TOTAL			12,045,901

Further, a physical inspection and examination of documents at four (4) schools in Kalomo district and one (1) school in Zimba District revealed that the five (5) schools had not received Primary and Community Schools equipment such as mathematical sets, computer, and furniture costing US\$7,094 which was contracted to be delivered as at 26th September 2023.

ii. Partial Delivery of Assets Assembly Components

A verification of the assets conducted in eight (8) schools in two (2) districts namely Pemba and Zimba revealed that the supplier did not deliver complete assembly parts such as external speakers for computers and rake handles in respect of fifty-two (52) items costing US\$21,774.40.

As at 31st January 2024, the items remained unassembled and unused since their delivery in September 2021.

iii. Delivery of Defective Laboratory Equipment – Southern Province

A physical verification carried out at Muzoka and Nakowa Primary and Secondary Schools in Pemba and Zimba Districts respectively revealed that Mikallile Trading Company Limited delivered broken laboratory equipment such as eleven (11) evaporation dishes and seven (7) water bath accessories (1000 ml beakers) costing US\$666. See table 29 below.

Table 29: Delivery of Defective Laboratory Equipment

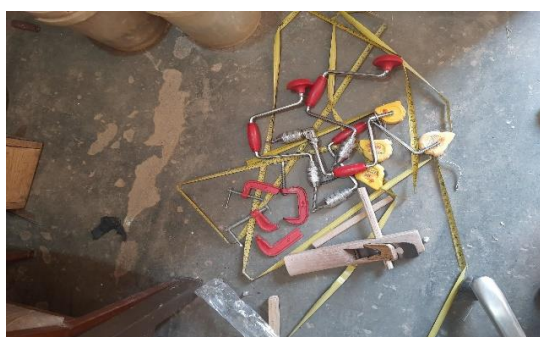
District	Name of School	Description of Items	Number of Defective Items	Unit Price US\$	Amount US\$
Zimba	Nakowa Secondary School	Water bath accessories	7	37	259.00
Pemba	Muzoka Secondary School	Evaporation Dishes	11	37	407.00
Total			18		666.00

iv. Defective Equipment-Jasmine Boys Secondary School – Central Province

Physical inspection of school requisites delivered to Jasmine Boys Secondary School in Kabwe revealed that eighty (80) items were defective or broken at the time of delivery. See table 30 below.

Table 30: Defective Equipment

No.	Equipment	Qty.	Unit Price US\$	Amount US\$	Comment
1	Ratchet Brace	10	23	230	Broke on first use and top knob comes off easily
2	G-clamp	20	23	460	Broke on first use
3	Smooth plane	10	23	230	Not able to plane-Unusable
4	Measuring tape	30	23	690	Got damaged on first use. Tape cannot rewind as spring for real back is broken
5	Rakes	10	20	200	Broken
	Total	80		1810	

*Broken and Unusable Tools*

v. Items Delivered with Defects – Northern Province

A physical verification carried out in August 2023 at various schools in Northern province revealed that the following items were delivered with defects;

- Twelve (12) visitors chairs costing US\$2,541 were delivered with no arms and one (1) office chair costing US\$211.8 had no backrest and seat. Further, another office chair had no arm rests.
- One (1) conference table was delivered without screws, as a result it could not be assembled.
- Solar power installed at Chingoyo primary school in Kaputa District malfunctioned few hours after installation.

vi. Failure to Install Solar - Choonga Secondary School – Kalomo District

A scrutiny of records and a physical inspection and inquiries made with management at Choonga Primary and Secondary School in Kalomo District revealed that Mikalile Trading Company delivered solar kits in August 2021 to power computers at a cost of US\$118,750. As at 31st January 2024, the solar kits had not been installed at the school.

vii. Poor Workmanship in Lab Installations

On 9th and 18th April 2021, Mikalile Trading Company carried out lab installations at Siachitema Secondary School in Kalomo district and at Zimba Secondary School in Zimba District. See table 31 below.

Table 31: Laboratory Installations at Siachitema and Zimba Secondary Schools

School	Scope of Works	Observation
Siachitema	<ul style="list-style-type: none"> • Fitting of eleven (11) double LPG laboratory taps; • One (1) single LPG laboratory tap; • Thirty six (36) metres 5/8" medical grade copper; • Seven (7) metres 3/8" medical grade copper pipe; • One (1) 1 x 2 manual changeover manifold c/w a2.8 kPa; • 4kg/h LPG regulator; and • one (1) gas shut off valve. 	<p>One (1) laboratory tap and one 1 x 2 manual changeover manifold c/w a2.8 kPa were not installed.</p> <p>Ten (10) laboratory taps were not fitted properly in that they were not covered with concrete.</p>
Zimba	<ul style="list-style-type: none"> • Fitting fourteen (14) double LPG laboratory taps; • One (1) single LPG laboratory tap; • Thirty six (36) metres 5/8" medical grade copper; • Three (3) metres 3/8" medical grade copper pipe; • One (1) 1 x 2 manual changeover manifold; • 4kg/h LPG regulator; and • one (1) gas shut off valve. 	<p>Five (5) laboratory taps were not fitted properly in that they were not covered with concrete and copper pipes were not covered with concrete covers.</p>

See pictures below.



Gas taps not properly fitted at Zimba and Siachitema Secondary Schools

In the absence of the unit costs of the works done by the supplier, it was not possible to ascertain the costs attributed to incomplete works which had since been billed.

viii. Failure to Deliver and Install Laboratory Equipment

According to the contract, Lot 6 was for the procurement of 800 sets of laboratory equipment at the cost of US\$42,000,000 (US\$52,500 per set) with a delivery period of 12 months. Further, Lot 9 was for procurement of services and accessories, transport, assembly and installation of equipment to all the 12,055 schools at a cost of US\$12,000,000 translating to (US\$996 per school)

A physical inspection of seven (7) schools namely Simudivwi, Luyaba, Jonathan Sim, Muzoka, Jembo, Chikankata Day and Nasenga Secondary schools in four (4) districts

revealed that the Supplier did not supply and install laboratory equipment costing US\$374,472.

ix. Delivery of Poor - Quality Assets

Public Procurement Regulations No. 148 (b) of 2011 requires the procurement entity to ensure that the goods, works or services meet the technical standards defined in the contract.

A physical inspection carried out in September 2023 of items delivered at 773 schools revealed that 45,554 items procured such as slashers, copying saws, rakes and wooden planes costing US\$1,781,880 were broken and not being used. Further inquiries from schools management revealed that the items were broken within the first month of delivery due to poor quality. See table 32 below.

Table 32: Poor Quality Items

No.	District	No. of Schools	Item Description	Quantity Broken	Unit Price US\$	Total Amount US\$
1	Luapula	43	Rakes	427	20	8,540
			Slashers	1157	20	23,140
			Copying Saws	120	20	2,400
			Planes	1290	100	129,000
			Claw Hummers	860	100	86,000
2	Eastern Province	57	Rakes	570	20	11,400
			Slashers	1710	20	34,200
3	Central Province	142	Rakes	620	20	12,400
			Slashers	1860	20	37,200
			Copying Saws	1860	20	37,200
			Claw Hummers	2840	100	284,000
4	Southern	102	Rakes	1020	20	20,400
			Slashers	3060	20	61,200
5	Lusaka	210	Rakes	2100	20	42,000
			Slashers	6300	20	126,000
			Planes	4200	100	420,000
6	North - Western	89	Rakes	890	20	17,800
			Slashers	2670	20	53,400
7	Coperbelt	130	Rakes	3900	20	78,000
			Slashers	1300	20	26,000
8	Northern	136	Rakes	4200	20	84,000
			Slashers	2100	20	42,000
9	Western	50	Rakes	500	20	10,000
			Slashers	1500	20	30,000
10	Muchinga	132	Rakes	1320	20	26,400
			Slashers	3960	20	79,200
	Total	773		45,554		1,781,880



Broken Metal Bench vice and G Clamps at Mwata School

x. Supply of Laptops with Fast Draining Batteries

According to the Government Office Equipment Standards developed in September 2014 by the Department of Office Equipment and Maintenance Services, the minimum power retention of a new battery for a laptop must not be less than 2 hours.

A physical inspection of the laptops and inquiries made with management revealed that 259 laptops costing US\$1,010,100 that were delivered to sixty one (61) schools in ten (10) districts of Luapula and Western provinces had batteries lasting for half an hour to less than two (2) hours contrary to the Government minimum standards. As a result, the utilisation of the Laptops for ICT awareness was limited. See the table 33 below.

Table 33: Districts with Faulty Laptop Batteries

Provinces	No. of Districts	No. of Schools	No. of Laptops	Unit Price US\$	Total Cost US\$
Luapula	5	35	158	3,900	616,200
Western	5	26	101	3,900	393,900
Total	10	61	259		1,010,100

xi. Missing Computers

Regulation 179 (1) of the Public Finance Management (General) Regulations, 2020, states, “An office holder who loses public monies or stores shall immediately notify the office

holder's supervisor the nature, extent and date of the loss and shall submit to the supervisor a report on the loss of public monies or stores in Accounts Form X set out in the Schedule and attach a police report, where necessary."

Contrary to the Regulation, 192 computers costing US\$564,000 at ninety-three (93) schools could not be accounted for in that the schools indicated that they were stolen.

However, the thefts were not reported to the Police and there were no loss reports prepared by the respective DEBS. See table 34 below.

Table 34: Missing Computers

No.	Province	No. of Districts	Number of School	No. of Lap Tops	No. of Desk Tops	Amount US\$
1	Eastern	5	22	31	16	183,300
2	Luapula	4	4		6	23,400
3	North Western	4	8	2	7	18,300
5	Copperbelt	8	39	23	47	160,200
6	Western	6	17	37	13	163,800
7	Northern	1	3		10	15,000
	Total		93	93	99	564,000

xii. Unaccounted for Stores Items

Public Stores Regulation No.16 requires that every stores officer or any other officer having in his charge any public stores or other articles of public property must keep and maintain record of the receipt and issue of such public stores.

Contrary to the Regulation, a review of the delivery notes and Ministry of Education distribution lists revealed that there were no receipt and disposal details in respect of stores items costing US\$438,631.57 comprising furniture, computers and laboratory equipment. Further, physical inspection revealed that the items mentioned were not at the schools at the time of audit in January 2024. See table 35 below.

Table 35: Stores Items without Disposal Details

No.	Station	No. of Schools	Furniture Quantity	Desktops Quantity	Laptops Quantity	D&T Equipment Quantity	Carpentry Equipment Quantity
1	Mwinilunga DEO	9	2	0	9	396	0
2	Mushindamo DEO	13	13	10	15	391	48
3	Manyinga DEO	11	17	6	5	592	780
4	Kabompo DEO	19	47	16	41	1807	0
5	Ikelenge DEO	21	0	3	22	358	120
	Total	73	79	35	92	3544	948
	Unit Price in US\$		211.80	3,900.00	1,500.00	20.00	37.00
	Total Value in US\$	73	16,732.20	136,500.00	138,000.00	70,880.00	35,076.00
	Grand Total				438,631.57		

xiii. Retrieval of Delivered Laptops – Mwinilunga District Education Office

On 9th February 2022, the supplier delivered seven (7) laptops to Lunga Day Secondary School in Mwinilunga valued at US\$10,500. However, on 10th February 2022 the supplier retrieved four (4) laptops valued at US\$6,000, without issuing a debit note or any other documentation showing that the supplier had collected the laptops for repair. As at the time of audit in January 2024, the assets had not been returned to the school by the supplier twenty three (23) months after being collected from the school.

xiv. Failure to Inscribe Assets.

Public Stores Regulation No. 154 stipulates that all furniture and equipment belonging to the Government must be clearly marked with distinguishing letters of Government of the Republic of Zambia (GRZ) in an inconspicuous part of the asset to identify it as Government property.

Contrary to the Regulations, furniture, computers and laboratory equipment costing US\$13,016,759.40 procured during the year under review had not been marked with the appropriate identification marks. See table 36 below.

Table 36: Government Property Not Inscribed with Special GRZ Marks

No.	Province	No. of Districts	No. of Schools	Item Description	Quantity	Amount US\$
1	Luapula	6	88	Desktops	1502	5,857,800.00
				Laptops	119	178,500.00
				Furniture	1308	277,034.40
2	North Western	7	154	Desktops	670	2,613,000.00
				Laptops	357	535,500.00
				Furniture	2321	491,587.80
3	Eastern			Desktops	562	2,191,800.00
				Laptops	230	345,000.00
				Furniture	1264	267,715.20
4	Copperbelt	4	18	Desktops	90	135,000.00
				Laptops	16	62,400.00
				Furniture	290	61,422.00
	Total	17	260		8,729	13,016,759.40

xv. Failure to Maintain and Record Asset in the Asset Register

The Public Stores Regulation No. 90 (2) states that there should be recorded in the plant, tools and equipment control ledger (Miscellaneous Form 59) the serial number, make, type and model of each machine, the department having charge of the machine and the station at which it is located.

Contrary to the Regulation, 154 schools did not maintain Asset Registers. Consequently, furniture, desk and laptop computers and laboratory equipment costing US\$4,513,033.80 which was delivered during the period under review had not been recorded in the Asset Registers as at 31st January 2024. See table 37 below.

Table 37: Furniture and Equipment Not Recorded in Asset Register

No.	Station	No. of Schools	Furniture Quantity	Desktops Quantity	Laptops Quantity
1	Mwinilunga DEO	22	373	123	51
2	Mushindamo DEO	14	238	70	48
3	Manyinga DEO	15	17	6	5
4	Kabompo DEO	17	271	79	56
5	Ikelenge DEO	29	491	160	93
6	Kasempa DEO	14	219	64	20
7	Solwezi DEO	21	339	83	20
8	Kalumbila DEO	22	373	85	64
9	Copperbelt	195	970	165	16
Total Quantities		349	3291	835	373
Unit Price in US\$			211.80	3,900.00	1,500.00
Total Value in US\$		349	697,033.80	3,256,500.00	559,500.00
Grand Total in US\$					4,513,033.80

xvi. Non-Functional Computers

A scrutiny of records revealed that Mikalile Trading Company Ltd supplied nineteen (19) desktops and seventy three (73) laptops costing US\$199,200 to fifty-eight (58) schools in fifteen (15) districts during the period under review.

A physical verification of the assets and inquiries made with management revealed that the computers were not functional due to malfunctional software and hardware defects.

Included in the nineteen (19) desktops were four (4) desktops costing US\$6,000 which were non-functional at the time they were delivered to Mweebo Primary and Chidi Primary Schools of Kalomo and Chirundu Districts respectively. However, as at 31st January 2024, the supplier had not replaced the faulty computers, twenty seven (27) months after being notified of the defects in 2021 by the schools through their respective DEBS. See table 38 below.

Table 38: Non-Functional Computers

No.	Province/ District	No.of Schools	No. of Laptops	No. of Desktops	Total Cost in US\$
1	Zimba	3	3	3	16,200
2	Kalomo	5	2	3	12,300
3	Pemba	3	1	2	6,900
4	Chikankata	3	1	3	8,400
5	Chirundu	3	3	0	11,700
6	Chingola	2	1	3	8,400
7	Kalulushi	4	4	10	30,600
8	Luanshya	3		7	10,500
9	Lufwanyama	6	2	5	15,300
10	Masaiti	4	2	6	16,800
11	Mpongwe	3	0	3	4,500
12	Mufurila	3	0	5	7,500
13	Ndola	4	2	8	19,800
14	North Western	11	1	16	27,900
15	Northern	11	2	14	28,800
16	Western	1	0	1	1,500
	Total	69	24	89	227,100

xvii. Unusable Delivered Items

A physical verification of furniture and equipment carried out in September 2023 revealed that forty-six (46) schools in the five (5) districts in Southern Province received a total of 1,239 carpentry tools and furniture such as conference tables, jack and smooth planes and

twist bits costing US\$87,850.15 which were not in use. Inquiry made with the Head Teachers and Head of Departments revealed that the equipment supplied could not be used as the planes did not have knobs for holding. See table 39 below.

Table 39: Delivery of unusable Items

No.	District	No.of Schools	No. of Items	Amount US\$
1	Zimba	4	40	4,261.76
2	Kalomo	12	128	13,594.12
3	Pemba	9	136	8,370.59
4	Chikankata	7	140	15,929.41
5	Chirundu	14	795	45,694.27
	Total	46	1239	87,850.15

Further, included in the amount of US\$87,850.15 were tables and chairs costing US\$15,385.29 which were not in use as they were delivered without assembling accessories such as screws, base, legs while the other tables and chairs were damaged due to improper assembling. See pictures below.



Siamankuli Primary – no unassembled table



Njame School- assembling accessories



Unassembled chair at Lisutu Community School



Defective drawers - Munyeye Primary School



Sichikwalula Primary School – damaged conference table and chairs

xviii. Supply of Items without Accessories

A physical verification carried out in September 2023 revealed that various items such as conference tables, office chairs, visitor's chairs and office tables costing a total of US\$3,812.40 delivered at eight (8) schools in four (4) districts were unusable in that they had missing accessories at the time of delivery. As at 31st January 2024, the supplier had not delivered the missing accessories. See table 40 below.

Table 40: Unusable Items

No.	District	No. of Schools	No. of Faulty Items	Unit Price US\$	Total US\$
1	Isoka	2	7	211.8	1,482.60
2	Lavushimanda	1	1	211.8	211.80
3	Mafinga	2	2	211.8	423.60
4	Nakonde	3	8	211.8	1,694.40
	Totals	8	18		3,812.40

xix. Unusable Items - Copperbelt Province

Five (5) schools in Mufulira, Kalulushi and Masaiti Districts received a total of fifty four (54) items such as office furniture, computers and carpentry tools costing US\$194,400 which were either of wrong size or had missing components making them unusable.

xx. Unaccounted for School Items – Southern and Copperbelt Provinces

Regulation No. 16 of the Finance (Control and Management) (Public Stores) Regulations states, "Every stores officer or any other officer having in his charge any public stores or other articles of public property must keep and maintain records of the receipt and issue of such public stores."

Contrary to the regulation, laboratory equipment, carpentry tools, design and technology equipment costing US\$2,676,038 delivered at 133 schools were not accounted for in that there were no disposal details. Further, at the time of verification the items were not at the 133 schools. See table 41 below.

Table 41: Unaccounted for Laboratory Equipment, Carpentry Tools and Design and Technology Equipment

Province	District	Number of Schools	Amount US\$
Southern Province	Kalomo	13	236,859
	Zimba	12	47,129
	Pemba	11	155,240
	Chikankata	9	95,262
	Chirundu	12	94,637
Copperbelt Province	Chililabombwe	7	22,400
	Chingola	8	315,000
	Kalulushi	7	325,980
	Luanshya	7	72,500
	Lufwanyama	1	5,000
	Mpongwe	16	556,530
	Mufulira	12	512,501
	Ndola	18	237,000
Total		133	2,676,038

xxi. Failure to Avail Items for Audit – Muchinga Province

Fifty-two (52) schools that received 12,804 assorted items costing a total of US\$701,817.17 did not avail the items for physical verification. In this regard, it was not possible to ascertain whether the items had been delivered to the schools or establish the state of the items. See table 42 below.

Table 42: Failure to Avail School Items for Audit

No.	District	No. of Schools	Unaccounted for Items	Total Cost US\$
1	Isoka	9	3,600	163,440.00
2	Kanchibiya	14	3,518	257,768.84
3	Lavushimanda	3	508	18,160.00
4	Mafinga	14	2,202	90,417.75
5	Nakonde	12	2,976	172,030.58
	Totals	52	12,804	701,817.17

Further, a physical inspection carried out at Lusitu and Kapululira Secondary schools in Chirundu district revealed that three (3) laptops (for Lusitu Secondary School) and twenty

(20) carpentry and 662 laboratory items (for Kapululira Secondary School) costing US\$4,396,554 were not physically verified as they were not availed for audit. In this regard, it was not possible to ascertain whether the items were delivered to the schools.

xxii. Missing Carpentry Tools and Design and Technology Equipment – Southern and Copperbelt Provinces

Public Stores Regulation No. 16 states, “Every stores officer or any other officer having in his charge any public stores or other articles of public property must keep and maintain records of the receipt and issue of such public stores.”

Contrary to the regulation, forty five (45) schools in nine (9) districts could not account for distributed items costing US\$189,740, as no report to District Education Board Secretaries (DEBs) and Police Reports were availed for audit verification. Consequently, no action by the DEBS had been taken and the lost items had not been replaced as at 30th September 2023. See table 43 below.

Table 43: Lost Tools and Equipment

District	No. of Schools	Description of Items	Number of Lost items	Unit Price US\$	Amount US\$
Zimba	1	D & T Equipment	182	20	3,640.00
Kalomo	1	Carpentry Tools	229	100	22,900.00
Chililabombwe	7	ICT	14	1500/3900	30,600.00
Chingola	3	ICT	3	1500	4,500.00
Kalulushi	10	ICT	15	1500/3900	34,500.00
Luanshya	4	ICT	5	1500/3900	12,300.00
Lufwanyama	1	ICT	2	1500	3,000.00
Masaiti	7	ICT	10	1500	15,000.00
Mpongwe	11	ICT	23	1500/3900	63,300.00
Total	45		411		189,740.00

xxiii. Unverified Items – Copperbelt and Northern Provinces

Laboratory equipment, desktop and laptop computers costing US\$59,7651.64 at twenty (20) schools in five (5) districts could not be verified as they were not availed for audit. See table 44 below.

Table 44: Unverified Items

No.	District	No. of Schools	Value of Items US\$
1	Kalulushi	5	60,800.00
2	Masaiti	6	123,600.00
3	Mpongwe	5	239,400.64
4	Mufulira	3	27,000.00
5	Kaputa	1	146,851.00
	Total	20	597,651.64

xxiv. Undelivered Items

According to the Ministry of Education Delivery Schedule, 2,832 items were supposed to have been delivered at twenty six (26) schools as at December 2020. However, a physical inspection conducted in September 2023 revealed that only 1,753 items were delivered leaving a balance of 1,079 items costing US\$1,037,100 undelivered. See table 45 below.

Table 45: Undelivered Asset and Stores Items

No.	Discription of Item	Expected Quantities	Actual Deliveries	Undelivered Items	Unit Cost	Total Cost US\$
1	Computer and Laptops	116	91	25	3,900	97,500
2	Design and Technology Equipment	330	252	78	500	39,000
3	Office Furniture	18	0	18	3,600	64,800
4	Carpentry Tools	1,040	693	347	1,000	347,000
5	Laboratory	1,328	717	611	800	488,800
	Total	2,832	1,753	1,079		1,037,100

xxv. Failure to Deliver Contracted Items to Schools - Southern

A physical inspection and examination of documents at 108 schools in five (5) districts of the Southern Province, revealed that eighteen (18) schools had not received primary and secondary school laboratory equipment such as troughs, burettes (100 ml), mathematical sets and computers costing US\$26,581 as at 31st December 2023. See table 46 below.

Table 46: Undelivered items

No.	District	Number of Schools	Value of Items not Delivered (US\$)
1	Kalomo	5	2,403
2	Zimba	1	3,900
3	Pemba	4	10,433
4	Chikankata	5	5,305
5	Chirundu	3	4,540
	Total	18	26,581

xxvi. Questionable Delivery of Items to Schools not on the Distribution Schedule – Western Province

In the supply contract, Mikalile Trading Co. Limited was to supply and deliver items to schools following an approved distribution schedule. An examination of the distribution schedules for five (5) districts in Western Province revealed that twelve (12) beneficiary schools which were not on the distribution schedule received items valued at US\$336,703 from the supplier.

The delivery of items to schools which were not on the approved distribution schedule was therefore questionable.

xxvii. Other Irregularities in Distribution and Installations

A review of accounting and other documents and physical inspections on the procurement, distribution and installation of school requisites in the Province revealed the following:

- **Ineffective Solar to Power Computers - Kabanga Christian School – Zimba District – Southern Province.**

A physical inspection and inquiry from management revealed that in 2021 Mikalile Trading Company Ltd installed solar equipment at Kabanga Christian Secondary School in Zimba District. The installations included among others; twelve (12) 200AH 12V deep cycle batteries with stands, sinewave inverter charge 5KVA and eight (8) monocrystalline/polycrystalline 300W 36V solar panels, costing US\$118,750.

However, it was observed that the solar system was only being used for lighting school bulbs for a few hours as it could not support the powering of computers and printers.

Consequently, the solar equipment installed was not serving the purpose for which it was intended.

- **Non-Functional Computers – Copperbelt Province**

A physical examination of computers carried out on 19th and 20th January 2022 at Kabundi and St Marceline’s Secondary Schools in Chingola and Kalulushi districts respectively revealed that four (4) computers costing US\$6,000 were non-functional.

Inquiries made with school management at Kabundi Secondary School revealed that the three (3) non-functional computers failed to power on when they were tested after delivery in August 2021 while the other computer at St Marceline’s Secondary School stopped functioning in October 2021 two (2) months after being delivered.

- **Retention of Items by DEBs Offices - Copperbelt Province**

Desktops and laptop, office tables, office chairs, conference tables and conference chairs costing US\$83,772 which were intended to be distributed to ten (10) schools were instead retained and utilised at four (4) District Education Board Secretary’s (DEBS) Offices. See table 47 below.

Table 47: Retention of Items without Authority

No.	District	No. of Schools	Value of Items US\$
1	Chililabombwe DEBS	4	31,782.60
2	Kalulushi DEBS	4	30,989.40
3	Mpongwe DEBS	1	1,500.00
4	Mufulira DEBS	1	19,500.00
	Total	10	83,772.00

- **Undistributed Items – Chipangali, Lusangazi and Vubwi Districts - Eastern Province**

According to the Ministry of Education distribution list a total of 1,264 schools were supposed to benefit from the procurement of various school requisites and equipment from Mikalile Trading Company Limited in Eastern Province. However, physical inspections of schools in Chipangali, Lusangazi and Vubwi districts revealed that forty (40) schools had not collected the supplied items in amounts totalling US\$2,196,680 as they had no office space to accommodate the supplied items. As at 31st January

2024, the uncollected items were kept at the DEBS offices and Zonal centres in three districts and were therefore not being used for their intended purpose. See table 48 and pictures below.

Table 48: Schools with uncollected items

No.	District	No. of Schools	Values of Uncollected Items US\$
1	Chipangali	25	1,372,925.00
2	Lusangazi	11	604,087.00
3	Vubwi	4	219,668.00
	Total		2,196,680.00



Uncollected office furniture stored at Sonja Girls Secondary School – Lusangazi

I. Irregularities Identified after Technical Assessment - Laptops and Desktops

A physical inspection and examination of 1,500 devices across 600 schools in the ten (10) provinces carried out in November 2023 revealed the following:

i. Failure to Conform to Specifications

A comparison of the contract specifications against the physical inspection of the laptops and desktops revealed significant discrepancies in that out of the fifteen (15) contract specifications, only four (4) were met. See tables 49 and 50 below.

Table 49: Desktop Specifications

No.	Description	Contract Specifications	Audit Findings
1	Operating System	Windows 10 Professional	Not Complied
2	Productivity Software	MS-Office 2013 Pre-installed Volume License	Not Complied
3	External Mouse	USB Optical Scrolling	Complied
4	Processor	Inter Pentium INTEL PENTIUM DUAL CORE.3.0 GHz	Not Complied
5	Memory	Minimum 4GB DDR/PC3200 (2DIMM)	Not Complied
6	Storage	Minimum 500GB SATA Hard Drive	Not Complied
7	Connectivity	10/100 inbuilt	Complied
8	Wireless	External D-Link Wireless 3945ABG (802.11a/b/g)	Not Complied
9	Screen	FP7317 17"LCD Flat panel monitor	Complied
10	Primary CD/DVD/Drive	GH60L DVD RW/DVD ATA DRIVE	Not Complied
11	Graphics	Integrated Intel Graphics Media Accelerator	Not Complied
12	Warranty	1 - year standard limited warranty	Not Complied
13	Network	Fast Ethernet NIC 10/100 with WOL	Not Complied
14	Front Productivity Ports	9 in 1 Card reader, 3USB, plus front ports	Complied
15	Speakers	External Speaker and JBL Platium Speakers W/Digital audio port	Not Complied

Table 50: Laptop Specifications

No.	Description	Contract Specifications	Audit Findings
1	Operating System	Windows 10 Professional	Not Complied
2	Productivity Software	MS-Office 2013 Pre-installed Volume License	Not Complied
3	External Mouse	USB Optical Scrolling	Complied
4	Processor	Inter Pentium INTEL PENTIUM DUAL CORE.3.0 GHz	Not Complied
5	Memory	Minimum 4GB DDR/PC3200 (2DIMM)	Not Complied
6	Storage	Minimum 500GB SATA Hard Drive	Not Complied
7	Connectivity	10/100 inbuilt	Complied
8	Wireless	External D-Link Wireless 3945ABG (802.11a/b/g)	Not Complied
9	Screen	FP7317 17"LCD Flat panel monitor	Complied
10	Primary CD/DVD/Drive	GH60L DVD RW/DVD ATA DRIVE	Not Complied
11	Graphics	Integrated Intel Graphics Media Accelerator	Not Complied
12	Warranty	1 - year standard limited warranty	Not Complied
13	Network	Fast Ethernet NIC 10/100 with WOL	Not Complied
14	Front Productivity Ports	9 in 1 Card reader, 3USB, plus front ports	Complied
15	Speakers	External Speaker and JBL Platium Speakers W/Digital audio port	Not Complied

In particular, the following were observed:

- The supplied Hasee desktops and Lenovo laptops did not meet the minimum specifications for the processor type required. The supplied processors for the desktops were Intel Celeron processors while the processors for the laptops were AMD processors.
- The operating system supplied for the desktops and laptops was Windows 10 Education instead of the specified Windows 10 Professional.

ii. Lack of Authenticity and Executable Warranties

An examination of the authenticity of the Lenovo laptops and Hasee desktops revealed the following:

- A standard electronic computing device has a serial number. However, physical inspections and test commands carried out on 607 Hasee desktops valued at US\$910,000 revealed that the computers did not have visible serial numbers and could not be retrieved through the test commands. In this regard, since there were no imprints of serial numbers of desktops in the software or on the hardware, the authenticity of the computers could not be ascertained and was therefore questionable.
- The Lenovo laptops did not have executable warranties in Zambia. Even if such warranties were available, they could not be pursued as the Smart Zambia Institute in correspondence dated 4th December 2023 indicated that the supplier was not a Lenovo registered reseller of the laptops.

7.5 Review of Internal Audit Report Findings

A review of Internal Audit Report No. 16 of November 2023 under the Ministry of Finance and National Planning on verification of various Learner Materials supplied by Mikalile Trading Company Limited revealed among other things the following:

a. Failure to Distribute Solar Panels to Earmarked Schools

One of the contract deliverables was Lot 7 procurement of two hundred (200) sets of solar power kit in amounts totalling US\$23,750,000 within twelve (12) months after signing the contract.

However, a review of the distribution schedule for the solar power kit and physical inspection revealed that five (5) schools earmarked to receive solar power kit did not receive despite them receiving electronic gadgets such as laptops and desktops. In this regard, solar power kits in amounts totalling US\$593,750 remained unaccounted for.

b. Failure to Deliver School Requisites to Five (5) Community Schools in Sinda – Eastern Province

A review of the distribution list for schools earmarked to receive learning materials, revealed that five (5) community schools under Sinda District in Eastern Province did not receive any learning materials from Mikalile Trading Company Limited. There was no explanation from Ministry of Education as to why the five (5) community schools did not receive the learning materials.

c. Questionable Transportation Arrangements for Distribution of Schools Requisites

Clause 24 (24-1) of the contract states, “the Purchaser, without prejudice to any other remedy for breach of contract, by written notice to the default sent to the supplier, may terminate this contract in whole or in part;

- If the supplier fails to deliver any or all of the goods within the period(s) specified in the contract, or within any extension thereof granted by the purchaser pursuant to GCC Clause 22:
- If the supplier fails to perform any other obligations under the contract.”

A review of the distribution list report issued by DEBS Office in Petauke revealed that forty (40) Community Schools had their furniture and other learning equipment stored at Petauke Boarding Secondary School. To this effect, the distributors from Mikalile Trading Company Limited deposited K8,000 on 24th March 2022 into Petauke DEBS account held at ZANACO to be shared among the forty (40) Schools for transporting of furniture to designated schools. This meant that each school would be given a K200.

However, a review of the state of the distribution revealed that the distribution of furniture and other learning equipment to the forty (40) community schools had not been undertaken due to inadequate transportation funds. This was despite the contract providing for accessories, transport, assembling and installation of equipment at schools in amounts totalling US\$12,000,000.

d. Questionable Distribution of Furniture and Learning Materials to Private Schools

The contract provided for supply, transportation, installation and assembly of Education Equipment, Furniture and Chemicals to government Schools country wide.

A review of the distribution lists for Pemba and Mazabuka revealed that fourteen (14) private schools were allocated furniture and other learning materials in amounts totalling US\$54,000. However, there was no satisfactory explanation from Ministry of Education as to why the private schools received the furniture and other learning materials.

e. Questionable Distribution of Learning Materials to Unknown / Non-Existent Schools.

The Contract provided for supply, transport, install and assemble Education Equipment, Furniture and Chemicals to government Schools country wide.

A review of the distribution schedules and interviews with management representatives revealed that the schedules included eight (8) schools that were unknown or believed to be non-existent. In this regard, furniture and other learning materials in amounts totalling US\$204,000 remain unaccounted for.

7.6 Utilisation and Performance of Selected Loan Facilities

7.6.1 Failure to Conduct Monitoring and Evaluation of Projects Financed through Government Borrowing

Section 55 of the Public Finance Management Act No.1 of 2018 states, “The Minister shall develop a supervisory and performance monitoring framework and put in place an appropriate institutional arrangement for the coordination and supervision of statutory corporations and state-owned enterprises.”

During the period from February 2009 to April 2022, the Government contracted thirty (30) loans in amounts totalling US\$2,045,076,759 on behalf of seventeen (17) State Owned Enterprises (SOEs) for various purposes such as water sanitation, digital migration, power transmission and increased access to electricity, among others, that could not be financed by the SOEs. The projects were meant to supplement Government’s effort to keep the SOEs afloat and increase revenue generation.

However, during the period under review, no monitoring and evaluation was conducted by the Ministry to ascertain the progress made on the actualisation of the projects.

7.6.2 Questionable Advance Payment - Construction of FTJ Chiluba University

On 24th April 2017, the Government entered into a financing agreement with the Industrial and Commercial Bank of China of US\$191,250,000 to finance the construction of the FTJ Chiluba University at a total cost of US\$225,000,000. The Government was to contribute 15% of the total cost of construction being US\$33,750,000 as counterpart funding.

In this regard, on 28th July 2017, the Ministry of Education engaged China Energy Engineering Group Hunan Electric Power Design Institute Co. Limited (CEEC-HEPDI) at a contract sum of US\$225,000,000 with a contract duration of thirty six (36) months commencing on 23rd September 2017.

The scope of works included

- a) Administration blocks; libraries;
- b) Lecture theatres and laboratory buildings; student dormitories;
- c) Residences for Lecturers, the resident engineer, and the vice chancellor; and
- d) Recreational facilities that include a student center, football field, swimming pool and other related facilities;

As at 30th June 2018, the contractor had been paid amounts totalling US\$33,750,000 as advance payment.

Arising from the decision of Cabinet made at its sitting on 28th July 2022, prior to any disbursement being made, the financing agreement was cancelled. Subsequently, as at 31st December 2022, the contract was terminated. However, as at 31st January 2024, the cost of the works done at the time of termination could not be ascertained as management did not provide the project closure accounts, the engineers estimates and the consulting engineer's report. It was therefore not possible to ascertain what was due to either the Government or the contractor at the time of termination.

7.6.3 Questionable Procurement of Fertilizer

On 19th February 2019, the Ministry of Finance and National Planning entered into a financing agreement of US\$44,854,511.60 with African Export – Import Bank (EXIM AFRICA). The loan

was meant to finance the contract between ZAMCAPITOL Enterprises Limited (a company wholly owned by the Ministry of Defence) and United Fertilizer Company Limited of Mauritius signed on 23rd October 2018 for the importation of 33,000 metric tonnes of fertilizer for onward sell to farmers for the 2018/2019 farming season.

On 8th February 2021, an amount of K21,600,000 was released to EXIM AFRICA for handling fees. On 19th December 2019 and 27th December 2019, the Bank disbursed US\$22,935,000 and US\$21,919,511 respectively, bringing the total loan amount disbursed to the supplier to US\$44,854,511.

The following were observed:

a. Failure to Appoint a Contract Manager

Section 57 (1) of the Public Procurement Act No. 12 of 2008 requires a procuring entity to appoint a contract manager for every contract awarded. The contract manager is responsible for managing the obligations of the procuring entity specified in the contract and ensuring that the supplier performs the contract in accordance with the terms and conditions specified in the contract.

Contrary to the Act, no evidence was availed for audit to show that a contract manager was appointed.

b. Questionable Use of Fertiliser for Debt Swap

On 26th April 2019, the Secretary to the Treasury wrote to the Ministry of Defence acknowledging receipt of a letter from the Zambia Fertiliser Company Limited proposing a debt swap involving part of the fertilizer supplied to Zamcapitol Enterprises Limited based on outstanding payments to Zambia Fertiliser Company Limited by Nitrogen Chemicals of Zambia and the Ministry of Community Development and Social Services (MCDSS).

Further, the Treasury indicated that it had reviewed the proposed debt swap and advised the Ministry of Defence to proceed under the following conditions:

- That the swap will not affect supply to intended beneficiaries;
- That the parties concerned should sign a debt swap agreement;

- That the swap will cancel the existing debt between Government and Zambia Fertilizer Company Limited;
- That the debt swap should be in consultation with Nitrogen Chemical of Zambia and MCDSS;
- That the Ministry of Defence should clear the debt swap agreement with the Attorney General before execution; and
- That the agreement should be submitted to the Treasury for its records after signing.

Contrary to the guidance given, the parties to the debt agreement (Nitrogen Chemical Zambia Limited and the MCDSS) were not parties to the debt swap agreement and no documentation was availed to show that they were actually owing US\$28,833,283.50 to Zambia Fertiliser Company Limited. The following were also not provided for audit:

- The letter from Zambia Fertilizer Company Limited proposing a debt swap;
- Documentation to support the debt of US\$28,833,283;
- Breakdown of the debt between Nitrogen Chemical of Zambia and MCDSS;
- An explanation why contrary to the guidance, the debt swap agreement was only signed by Ministry of Defence and Zambian Fertilizer Company Limited, to the exclusion of Nitrogen Chemicals of Zambia and MCDSS;
- Proof that Nitrogen chemical of Zambia and MCDSS were consulted over the debt swap; and
- The clearance of the debt swap agreement by the Attorney General.

In this regard, it could not be ascertained whether the Zambia Fertilizer Company Limited was actually owed any amount rendering the fertiliser debt swap questionable.

c. Questionable Delivery of Fertiliser – Debt Swap Agreement

On 24th July 2019, the Permanent Secretary in the Ministry of Defence wrote to the United Fertilizer Company Limited to request that the procured fertiliser of 28000MT be bagged into Falcon branded bags and allocated to Zambia Fertilizer Company Limited and the

balance of 5000MT be bagged into Zamcapitol branded bags and delivered to the Zamcapitol Warehouse to ease marketing and storage.

On 29th August 2019, United Fertilizer Company Limited issued a goods delivery note to ZAMCAPITOL for 32,000MT delivered to a rented warehouse in Chinika Industrial Area in Lusaka. On the same date, Zamcapitol issued a Goods delivery note to Zambia Fertilizer Company Limited for delivery of 32,000MT at the same location. On the same date, Zambia Fertilizer Company Limited issued a goods received note acknowledging receipt of the 32,000MT of fertilizer at the same location.

Although the contract and the instructions for packaging the fertilizer were for 33,000MT, United Fertilizer Company Limited delivered 32,000MT leaving a balance of 1000MT undelivered.

Further, the rationale for delivering the whole consignment to Zambia Fertilizer Company Limited was questionable considering that the Ministry had instructed that only 28,000MT was to be issued to Zambia Fertilizer Company Limited.

7.6.4 Contract for the Supply of Solar Powered Milling Plants

On 22nd July 2016, the Government contracted a loan from China Development Bank in amounts totalling US\$170,000,000 to finance a contract in amounts totalling US\$200,000,000 for the delivery and installation of 1000 solar powered milling plants in all the parts of the Country. The contract was to be undertaken by Shandong Dejian Group Company incorporated in China. Subsequently, the Government and Zambia Co-operative Federation Limited (ZCF) signed a memorandum of understanding in which ZCF was appointed as a project implementing agent.

The contract provided among other things the following:

- The contract price be a fixed total price and should not be altered, unless the alteration is based on a change in the project and the change is otherwise stated in the contract;
- Each unit of solar powered milling plants should consist of 40 x 12 V/200AM batteries;
- The completion period be twenty four (24) months from date of commencement; and
- The warrant period be five (5) years and all equipment parts arising from normal use should be replaced.

As at the time of the audit in March 2022, the funds had been paid in full.

The following were observed:

a. Failure to Deliver the Project within Contracted Period

A review of the Contract clause No. 8.2.1 revealed that the project was to commence the works once the 15% deposit prescribed had been paid to the contractor and that the completion date was to be within twenty four (24) months after receipt of the deposit amounts. On 7th March 2016, the contractor was paid the deposit amount in full. In this regard, the expected completion date was 6th March 2018 which was revised to January 2019.

However, a review of the Project Progress Reports for the year ended 31st December 2021 and physical inspection of selected sites revealed that the project was still incomplete as at 31st March 2022, thirty eight (38) months after the scheduled completion date. There was no evidence that the contract completion date had been varied.

Out of the contracted 1,583 units (1,553 units of solar powered milling plants and 30 units of solar powered rice mills), twelve (12) rice mills had not been completed. It was further observed that of the completed solar milling plants a total of 555 plants were nonfunctional as at the time of audit in January 2024.

b. Irregular Collection of Revenue

Section 28 of the Public Finance Management Act No. 2 of 2018 provides that General Revenues collected by appointed agents on behalf of Government should be transmitted to the Consolidated Fund as prescribed by the Treasury and that subject to any express direction of the Secretary to the Treasury in respect of the operation of any Fund or working account, all monies received by an accounting officer or any office holder responsible for the collection of money should be deposited into the Consolidated Fund not later than the next business day following the day of receipt, unless otherwise directed by the Secretary to the Treasury.

During the period from January 2017 to January 2024, the Zambia Co-operative Federation Limited collected amounts totalling K15,468,184 as lease fees from co-operatives operating the Solar Powered Milling Plants across the country. Contrary to the Act, as at 31st January 2024, the collected amount had not been deposited in the Consolidated Fund.

7.6.5 Design and Construction of Airport Infrastructure (Green Field) in Ndola

According to a Status Report submitted by the Ministry of Infrastructure, Housing and Urban Development for March 2023, the Government entered into a financing agreement with the Industrial and Commercial Bank of China for the design and construction of Airport infrastructure (Green field) in Ndola.

Subsequently, on 11th September 2013, the Government engaged AVIC International Holding Corporation for the design and construction of the Airport infrastructure in Ndola at a contract sum of US\$397,201,694 for a duration of thirty six (36) months.

A review of the documentation availed by the Ministry of Finance and National Planning and the Ministry of Infrastructure Housing and Urban Development revealed the following.

a. Failure to Provide Financing Agreement and Amortisation Schedules

According to the Status Report submitted, the total contract price was US\$397,201,694 for the Design and construction project and would be funded by the Export-Import Bank of China. An examination of loan agreements provided by the Ministry of Finance and National Planning revealed that there was only one Financing Agreement signed between the Government of the Republic of Zambia and the Industrial and Commercial Bank of China dated 31st July 2017 availed for audit in which Section 3.1 of the Agreement states that “The borrower shall apply all amounts borrowed by it under the facility solely and exclusively towards the satisfaction of up to 15% of the Borrower’s payment obligations to the contractor under the commercial contract” which translates to US\$59,580,254 of the total value of the commercial contract.

However, the Financing Agreement for the 85% remainder of the value of commercial contract amounting to US\$337,621,439.90 was not availed for audit. In this regard, the terms of the loan contract could not be ascertained. In addition, no amortisation for the loan were availed.

b. Increased Debt Obligation as a Result of Delayed Payments to Contractor

Section 14.7 (b) of the commercial contract entered into with AVIC international stated, “the client shall pay the amount which is due in respect of each statement, other than the final statement within 56 days after receiving the statement and supporting documents and (c) the

final amount due within 42 days after receiving the final statement and written discharge.” Section 14.8 further states, “if the contractor does not receive payment in accordance with the above two clauses, the contractor will be entitled to receive financing charges compounded monthly on the amount unpaid during the period of delay.”

A review of the status report on the project revealed that the contractor had submitted twenty two (22) IPCs worth US\$375,398,803.53 on dates from 27th November 2017 to 31st December 2023 of which only IPCs numbers 1 to 13 were fully paid, while IPC14 was partially paid while the remaining eight (8) IPCs remained unpaid as at 31st January 2024. This resulted in total payments made amounting to US\$287,195,779.46 against the total submitted IPCs leaving amounts totalling US\$88,203,024.06 outstanding.

The status report also stated that, due to the delay in honouring the payment certificates the contractor had submitted indicative accrued interests on the delayed payments which the Department of infrastructure has not yet verified and approved.

7.6.6 Failure to Provide Information on the Contraction and Utilisation of Loan Facility

On 31st December 2019, the Government and Eastern and Southern African Trade and Development Bank (TDB) signed a Multi-Tranche Loan Facility in amounts totalling US\$590,000,000. The loan was meant to liquidate arrears that had accrued under the Ministry of Energy on importation of petroleum products.

In addition, on 31st December 2019, an additional loan of US\$95,100,000 was provided by TDB for liquidation of arrears that had accrued under the Farmer Input Support Programme (FISP) under the Ministry of Agriculture.

However, documents supporting the debt accrued which necessitated the contraction of the loans were not provided for audit as at 31st January 2024.

7.6.7 Delayed Implementation of the Projects

During the period from 29th March 2016 to 15th November 2017, the Government signed three (3) Financing Agreements with the World Bank (WB), African Development Bank (AfDB) and European Investment Bank (EIB) in amounts totalling US\$221,690,720.19 while Kreditanstalt fur Wiederaufbau (KfW) and Bill and Melinda Gates Foundation funded part of the Project in form of a grant in amounts totalling US\$38,052,490 bringing the total funding to US\$259,743,211.02.

As at 31st December 2022, a total of US\$100,209,573.11 representing 39% of total funding had been disbursed to the Project leaving a balance of US\$159,533,637.91. See table 51 below.

Table 51: Lusaka Sanitation Program Funding and Disbursements

LOAN ID	LENDER CLASSIFICATION	CREDITOR NAME	NAME	DATE SIGNED	DATE DRAWING LIMIT	DATE EFFECTIVE	LOAN AMOUNT IN US\$	DISBURSED AMOUNT IN US\$	OUTSTANDING 31st DEC 2022 US\$	FINANCING %
	LOANS									
21300136	MULTILATERAL	AFRICAN DEVELOPMENT BANK	Lusaka Sanitation Programme	3/29/2016	12/31/2023	7/7/2016	50,000,000.00	35,516,498.17	14,483,501.83	71.03
25806060	PLURILATERAL	E I B	Lusaka Sanitation Programme	11/15/2017	12/31/2023	1/1/2020	108,875,160.91	2,695,447.47	106,179,713.44	2.48
2005646	MULTILATERAL	IDA	Lusaka Sanitation Programme	3/17/2016	4/30/2024	6/17/2016	62,815,559.28	61,635,465.13	1,180,094.15	98.12
	TOTAL LOANS						221,690,720.19	99,847,410.77	121,843,309.42	45.04
	GRANTS									
		KfW	Lusaka Sanitation Programme	3/17/2016			35,052,490.83	362,162.34	34,690,328.49	1.0
		BMGF	Lusaka Sanitation Programme	3/17/2016			3,000,000.00		3,000,000.00	0.00
	TOTAL GRANT						38,052,490.83	362,162.34	37,690,328.49	1.0
	GRAND TOTAL						259,743,211.02	100,209,573.11	159,533,637.91	38.58

The Lusaka Sanitation Program (LSP) was one of the first steps towards implementing the Lusaka Sanitation Master Plan. The Government of the republic of Zambia is implementing the Lusaka Sanitation Master plan with the aim of providing adequate sanitation facilities to all urban citizens of Lusaka Province, starting with investments in Lusaka City. The LSP is being implemented by Lusaka Water and Sanitation Company and cover investments consistent with the Lusaka sanitation Master Plan. The LSP is divided into the four components based on the nature of works and included Sewerage Improvement (all works related to rehabilitation, upgrading and expansion of all sewer collection networks), Onsite sanitation (supporting on-site sanitation services and systems in priority areas), institutional strengthening and capacity building and Program Management.

However, the following was observed:

a. Delayed Implementation of the Project

According to the implementation plan the Project was scheduled to commence in 2017 and completed 2021. However, a review of the Third Quarter Report for the year ended 31st December 2022 by Lusaka Water and Sanitation Company revealed that the major components of the project were still outstanding as shown in the table 52 below.

Table 52: Delayed Components of the Projects

No.	Component	Contractor	Estimated Cost in US\$	Expected Start Date	Actual Start Date	Expected End Date	Actual End Date	Status	Audit Finding
1	Consultancy - Developing of Procurement Documents for the Project	GITEC GmbH, Hydroment & Bari Z Ltd	5,512,319	Jun-19	Jun-21	Jun-24		As at 31st December 2022, the tasks on Consultancy - Developing of Procurement Documents for the Project was at 88%	A review of documentation submitted for audit, revealed that the project had made draw down of amounts totaling US\$ 99,847,410.77 against total committed amounts of US\$ 221,690,720.19 representing a 45% drawdown. However despite the 45% disbursements from the Committed amount made, there has been no significant achievement or progress has been made on the core components of the project as the project has been delayed by 4 years.
2	Consultancy - Designs Tendering and Construction Supervision for the Project	Fitchner Water and Transportation GmbH in JV with FCG International Limited	4,312,146	Jun-19	Jun-21	Jun-24		As at 31st December 2022, the tasks on Consultancy - Designs Tendering and Construction Supervision for the Project was at 88%	A review of documentation submitted for audit, revealed that the project had made draw down of amounts totaling US\$ 99,847,410.77 against total committed amounts of US\$ 221,690,720.19 representing a 45% drawdown. However despite the 45% disbursements from the Committed amount made, there has been no significant achievement or progress has been made on the core components of the project as the project has been delayed by 4 years.
3	Rehabilitation, Upgrade and Expansion of Sewerage Infrastructure	Sinohydro Corporation Limited		mid-2019,	Not Yet Commenced	Jun-22	Not Yet Commenced	The Project had not started as at 31/12/2022 and had been delayed for over Four Years.	A review of documentation submitted for audit, revealed that the project had made draw down of amounts totaling US\$ 99,847,410.77 against total committed amounts of US\$ 221,690,720.19 representing a 45% drawdown. However despite the 45% disbursements from the Committed amount made, there has been no significant achievement or progress has been made on the core components of the project as the project has been delayed by 4 years.
4	Construction of Household On-Site Sanitation (OSS) Systems	Not yet appointed		mid-2019,	Not Yet Commenced	Jun-22	Not Yet Commenced	Submissions closed on 14 September 2018, and assessments are now underway. But as at 31/12/2022 the Contractor had not been appointed	A review of documentation submitted for audit, revealed that the project had made draw down of amounts totaling US\$ 99,847,410.77 against total committed amounts of US\$ 221,690,720.19 representing a 45% drawdown. However despite the 45% disbursements from the Committed amount made, there has been no significant achievement or progress has been made on the core components of the project as the project has been delayed by 4 years.
5	Contractor for Wastewater Treatment Works	Not yet appointed	96,772,152	Jun-19	Not Yet Commenced	Jun-24	Not Yet Commenced	The Project had not started as at 31/12/2022 and had been delayed for over Four Years.	A review of documentation submitted for audit, revealed that the project had made draw down of amounts totaling US\$ 99,847,410.77 against total committed amounts of US\$ 221,690,720.19 representing a 45% drawdown. However despite the 45% disbursements from the Committed amount made, there has been no significant achievement or progress has been made on the core components of the project as the project has been delayed by 4 years.
6	Construction of Sewer Extensions, Main Sewer Collector, Pump Stations, Septage Station and Industrial Measuring Equipment.	Not yet appointed	28,574,990	Jun-19	Not Yet Commenced	Jun-22	Not Yet Commenced	The Project had not started as at 31/12/2022 and had been delayed for over Four Years.	A review of documentation submitted for audit, revealed that the project had made draw down of amounts totaling US\$ 99,847,410.77 against total committed amounts of US\$ 221,690,720.19 representing a 45% drawdown. However despite the 45% disbursements from the Committed amount made, there has been no significant achievement or progress has been made on the core components of the project as the project has been delayed by 4 years.
7	Procurement of Trade Effluent Monitoring Equipment	Not yet appointed	424,880	Jul-19	Jun-23	Jun-25	Not Yet Commenced	The Project had not started as at 31/12/2022 and had been delayed for over Four Years.	A review of documentation submitted for audit, revealed that the project had made draw down of amounts totaling US\$ 99,847,410.77 against total committed amounts of US\$ 221,690,720.19 representing a 45% drawdown. However despite the 45% disbursements from the Committed amount made, there has been no significant achievement or progress has been made on the core components of the project as the project has been delayed by 4 years.
Total			135,596,486						

In this regard, the significant delay in the commencement works of the major components of the Project by Lusaka Water and Sanitation Company from the time the Financing Agreements was signed in 2017 to June 2023 (Delayed period representing over six (6) years) has hindered Government's efforts in addressing the challenges of contamination of underground water and the reduction of water-borne disease.

An inquiry with the Ministry on the updated status of the project was made. However, as at 29th February 2024, there had been no feedback provided.

b. Slow Absorption Rate of the Loan Facility

A review of documentation submitted for audit revealed the Loan Facility signed by the Ministry of Finance and National Planning and the European Investment Bank (EIB) on the 15th November 2017 had a Drawdown Limit of 31st December 2023.

However, as at 31st December 2022, the Project had made a total drawdown of amounts totalling US\$2,695,447.47 against a total committed amount of US\$108,875,160.91 representing a 2% drawdown. In this regard, there is a risk that the Loan Facility maybe cancelled after the drawdown limit and thus causing a financial loss or increased costs as the Government may have to seek refinancing the Loan Facility for the LSP to be completed.

An inquiry with the Ministry on the updated status of the project was made. As at 29th February 2024, there had been no feedback provided.

7.6.8 Questionable Acquisition of Counterpart Funding

Counterpart funding involves a borrowing where funds are accessed on conditions that the borrower contributes a certain amount or percentage of the loan required. In 2014, the Government embarked on a project to construct three (3) university colleges at a total cost of US\$183,650,000.

On 26th February 2014, the Government and the Abu Dhabi Fund for Development entered into a financing agreement of US\$36,730,000 at an interest rate of one and a half percent (1.5%). The purpose of the loan was to provide twenty percent (20%) counterpart funding for the construction of three (3) university colleges as follows:

- Sesheke University College of Mathematics and Science in Western Province;
- Solwezi University College of Technology in North-Western Province; and
- Petauke University College of Applied Arts in Eastern Province.

On 30th June 2020, the Government received US\$36,730,000 representing twenty percent (20%) counterpart funding from the Abu Dhabi Fund for Development. Although the Government procured 20% counterpart funding, there was no loan for the funding of the remaining 80% cost of the project. In this regard, the acquisition of 20% counterpart funds without securing the 80% loan to fund the project was questionable.

Consequently, as at 31st January 2024, the project had not been implemented and the funds were unaccounted for. In addition, the loan had accumulated interest charges amounting to US\$3,409,003.12.

An inquiry with the Ministry on the updated status of the project was made. However, as at 29th February 2024, there had been no feedback provided.

7.6.9 Failure to Pay Contractor - Implementation of Kalabo - Sikongo Road Project

During the period from 2019 to 2012, the Government signed Financing Agreements for the implementation of the Kalabo – Sikongo road project with four (4) lenders. The lenders through a syndicate loan collectively agreed to lend amounts totalling US\$46,000,000. As at 31st December 2022, amounts totalling US\$19,411,881 had been drawn against the facility. See table 53 below.

Table 53: Loans for the Kalabo -Sikongo Roads

Lender	Loan No.	Date Contracted	Initial Facility Amount (US\$)	Revised Facility Amount (US\$)	Amounts Drawn (US\$)	Funds Not Drawn as at 31/12/22 (US\$)
BADEA	1405	31/072010	14,000,000	11,690,000	4,189,345	7,500,635
KAFED	811	26/08/2010	12,000,000	12,000,000	4,879,362	7,120,638
OFID	1246P	03/05/2012	10,000,000	10,000,000	4,434,084	5,565,916
SFD	3/559	13/02/2009	10,000,000	10,000,000	5,909,090	4,090,910
TOTAL		TOTAL	46,000,000	43,690,000	19,411,881	24,278,099

In addition, an amount of US\$28,640,000 was provided for as counterpart funding from which amounts totalling US\$16,319,713 had been drawn.

On 13th December 2016, the Government through Road Development Agency (RDA) awarded Stefanutti Stocks and Consolidated Contractors Company Joint Venture (SS/CCC JV) the contract for the construction of 85 km of the Kalabo – Sikongo Road at a contract Sum of K959,182,051.33 with a contract period of two (2) years commencing on 3rd April 2017 and ending on 2nd April 2019, which was later revised to 1st April 2020.

The engineers that were engaged for the construction supervision were Wanjohi Consulting Engineers of Kenya, in association with WCE Zambia Limited and Industrial & Engineering Consulting Office (INCO) of Kuwait.

The scope of works included the upgrading to bitumen standard with two lanes each 3.4 m wide carriageways and 1.5 m shoulders on either side, construction of 30 mm asphalt concrete surfacing for carriageways and shoulders, 150 mm crushed stone base, 200 mm cement stabilized gravel

sub-base, 300 mm improved selected subgrades, general earthworks, drainage works and drainage structures with one (1) main bridge at Sikongo over the Lueti River, ancillary works, road marking, road furniture.

A review of documents and a physical inspection of the road site revealed the following:

a. Delayed Commencement of the Project

According to the initial project contract, the physical execution of the project was expected to commence during the third quarter of 2011 and last for a period of thirty six (36) months, to be completed by the third quarter of 2014.

However, it was observed that the contract for the execution of works was only signed on 13th December 2016, with actual works commencing on 3rd April 2017 with an expected completion date of 2nd April 2019, which was further revised to 1st April 2020. This resulted into a five (5) year delay in implementing the project despite the Government securing the funds for this project in between 2010 and 2012.

b. Wasteful Expenditure on Kalabo Sikongo Road Project

Although various works had been undertaken on the road for which as at 31st December 2022, amounts totalling US\$19,411,901 had been drawn from the Lenders to facilitate the implementation of the Project with the Government provided counterpart funding in amounts totalling US\$16,319,713 bringing the total funding spent on the Project to US\$35,731,614 which represented 49.4 % of the total funding of the Road Project.

A physical inspection of the Road Project revealed that all milestones that were achieved in 2017 by the contractor may have to be revisited as the vegetation has grown in the bypass roads, the camp site has been vandalised because of the Contractor demobilising from the site. In this regard, spending a total of US\$35,731,614 on milestones for the Road Project that will need to be redone before the project's completion constitutes wasteful expenditure.

Further, the funds expended may not fulfil their intended purpose in that despite incurring this debt, there was lack of evidence demonstrating the execution of the project, raising questions about the proper utilisation of the funds. As at the time of audit, in June 2023, neither the Ministry of Finance and National Planning (MOFNP) nor the Road Development Agency (RDA) had furnished expenditure returns regarding these loans.

c. Failure to Release Advance Payment and Pay Certified IPCs

Regulation No. 122 (1) The Public Procurement Regulations of 2011 states, “A procuring entity shall, after a contract award decision by an approvals authority, commit the required funds before proceeding to award the contract.”

According to the contract, the contractor was entitled to be paid an advance payment of K95,847,605.13 by 17th May 2017. As at 31st March 2019, the contractor had issued an additional twenty three (23) Interim Payment Certificates (IPCs) bring the total amount owed K400,761,816.53.

The works done and interest claimed under the IPCs amounted to K304,914.40 out of which a total of K203,423,094.78 was paid, leaving a balance of K197,338,721.75 outstanding.

7.6.10 Unaccounted for Funds - Construction of 321 km Lusaka - Ndola Dual Carriage Way

On 31st May 2017, RDA engaged China Jiangxi Corporation for International Economic and Technical Cooperation (CJIC) to construct approximately 321 km of the Lusaka to Ndola dual Carriage way including bypass roads in Kabwe and Kapiri Mposhi, 45 km of the Luanshya – Fisenge – Masangano Road, toll plazas, RDA Headquarters and filling stations at a contract sum of US\$1,245,775,987. The completion period was forty-eight (48) months.

According to Clause 6 of the contract, the contractor was to facilitate the financing arrangements for the project. In this regard, on 28th May 2019, the Minister of Finance of the Republic of Zambia and China Jiangxi Corporation for International Economic and Technical Cooperation agreed to a credit facility of US\$187,000,000 for the purpose of financing 15% of the commercial contract of US\$1,245,775,986.98 for the Lusaka-Ndola dual carriage way project. The credit facility was for a period of forty eight (48) months, commencing on the later of either the date on which the disbursement period expires or the date on which the grace period expires and ending on the final repayment date.

In addition, Clause 2.2 of the Credit Facility Agreement stated that the entire proceeds of the facility shall be applied by the borrower for the sole purpose of the payment of not exceeding 15% of the contract and not be used for payment, of brokerage fees, agency fees or commissions. The borrower agreed to pay interest on the full loan amount at the rate of three per cent (3%) per annum plus six (6) months LIBOR.

As at 30th June 2023, the Loan had been fully disbursed by the Lender from which US\$ 30,000,000 was drawn on 14th October 2019 while the balance of US\$157,000,000 was drawn on 31st October 2021.

The following were observed:

a. Questionable Contraction of Works Contract before Commitment of Funds

Regulation 122 (1) of the Public Procurement Regulations of 2011 states, “A procuring entity shall, after a contract award decision by an approvals authority, commit the required funds before proceeding to award the contract.”

Contrary to the regulation, despite the RDA having entered into a contract of US\$1,245,775,986.98, only an amount of US\$187,000,000 representing 15% of the contract sum had been secured and committed for the execution of the project.

In addition, despite the contract for the construction of the Lusaka – Ndola Dual Carriage Way having been signed on 31st May 2017, the funds were only secured on 28th May 2019 which was two (2) years after the works contract had been signed.

In a letter dated 11th October 2020, Ministry of Finance and National Planning and National Planning advised RDA that the treasury was not in a position to secure financing for the 85% component in amounts totalling US\$1,057,909,588.98 of the project cost due to fiscal constraint that were being experienced.

In this regard, the rationale of signing a Lusaka – Ndola Dual Carriage Way works contract before securing the financing of the Project was questionable.

b. Unaccounted for Advance Payment

Clause 48.1 of the Credit Financing Agreement provided that the contractor was to use the advance payment only to pay for equipment, plant, material and mobilisation expenses required specifically for execution of the contract. The contractor was to demonstrate that advance payment has been used in this way by supplying copies of invoices or other documents to the project manager.

On 14th October 2019, the contractor was paid an advance payment of US\$30,000,000.

However, a scrutiny of documentation availed for audit and a physical inspection of the Lusaka - Ndola Dual Carriage Way, revealed that there were no copies of invoices or any other documents and physical evidence that the Contractor had expended the US\$30,000,000 advance payment on the Project. Consequently, the utilization of the advance payment could not be determined, rendering it unaccounted for.

8 Recommendations

a. Adherence to Public Debt Management Act

All borrowings should be made in line with the Public Debt Management Act No. 15 of 2022 by ensuring that the proposed debt is included in the Annual Borrowing Plan before being contracted.

b. Project Financing

All borrowings in respect of project financing must conform with the provisions of the Public Investment Management Guidelines of 2023 issued by the Ministry of Finance and National Planning.

c. Recognition of Debt - Supply Credit Agreement Loans

The Ministry of Finance and National Planning should tighten controls regarding contraction of loans through Supplier Credit Agreements by ensuring that the loans are only recognised as debt upon successful delivery of goods or services.

d. Contract Management

The Ministry of Finance and National Planning and implementing Ministries and Entities should ensure that where there is supply of goods and services or construction of infrastructure, debt is recognised upon issuance of fully approved interim payment certificates and acceptance certificates.

e. Adherence to Public Procurement Act

Contracts for the supply of goods and services which are financed through debt must be executed after the securing of funds by signing the financing agreement in line with Section 56 (2) (a) Public Procurement Act No. 8 of 2020.

9 Conclusion

The report has identified several internal control weaknesses in the management of external public debt. It is imperative that the weaknesses identified are addressed to ensure the effective, efficient and economical contraction and utilisation of the external public debt as well as debt sustainability.

