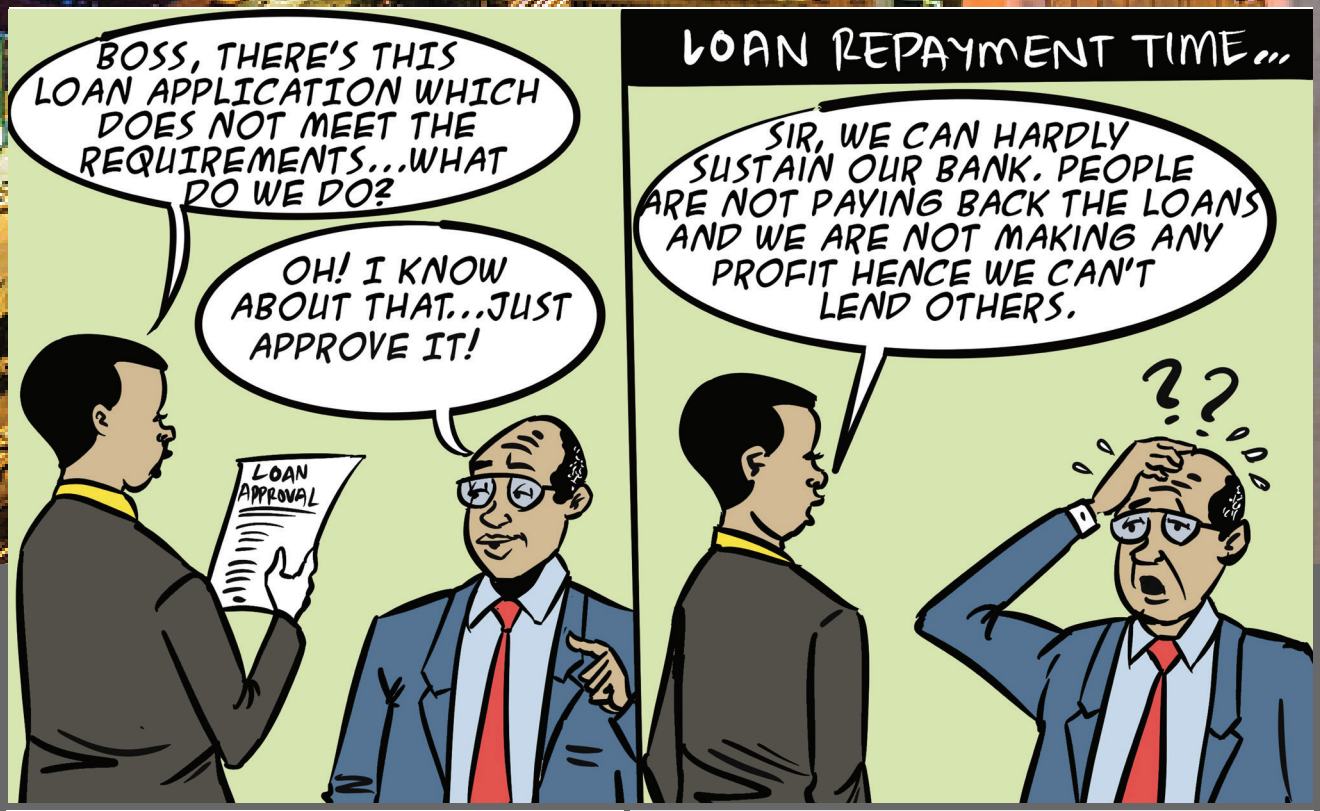
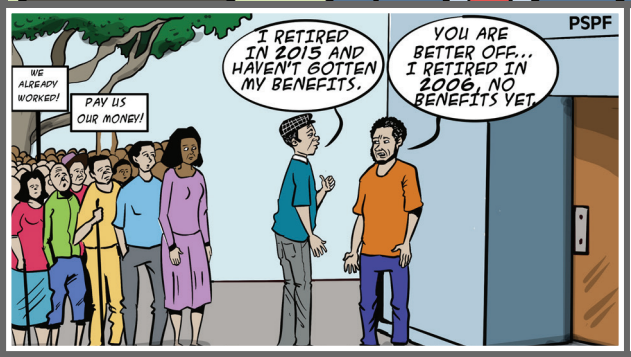
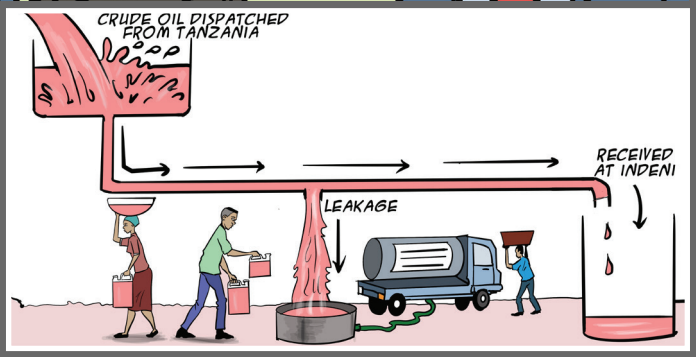
REPUBLIC OF ZAMBIA

OFFICE OF THE AUDITOR GENERAL

SIMPLIFIED REPORT OF THE AUDITOR GENERAL ON THE PARASTATAL BODIES AND OTHER STATUTORY INSTITUTIONS FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER 2019







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FOREWORD



I am delighted to issue the first simplified Report of the Auditor General on the Accounts of Parastatal Bodies and other Statutory Institutions for the financial year ended 31st December 2019. This report is intended to inform our stakeholders on how public resources were accounted for in Parastatal Bodies and other Statutory Institutions.

These institutions exist to offer service and contribute financial resources to the treasury, therefore, it is important that the stakeholders know how they are managed on behalf of the citizens.

The report consists of findings on financial performance of selected Parastatal Bodies and other Statutory Institutions that have been simplified in cartoons and infographics for ease of understanding.

My Office remains committed to engaging with its stakeholders and requests you to evaluate this simplified report by filling in an evaluation form which is either at the end of the report or on the website www.ago.gov.zm. The feedback is of great importance in our quest to serve you better.

Dr. Dick Chellah Sichembe
AUDITOR GENERAL

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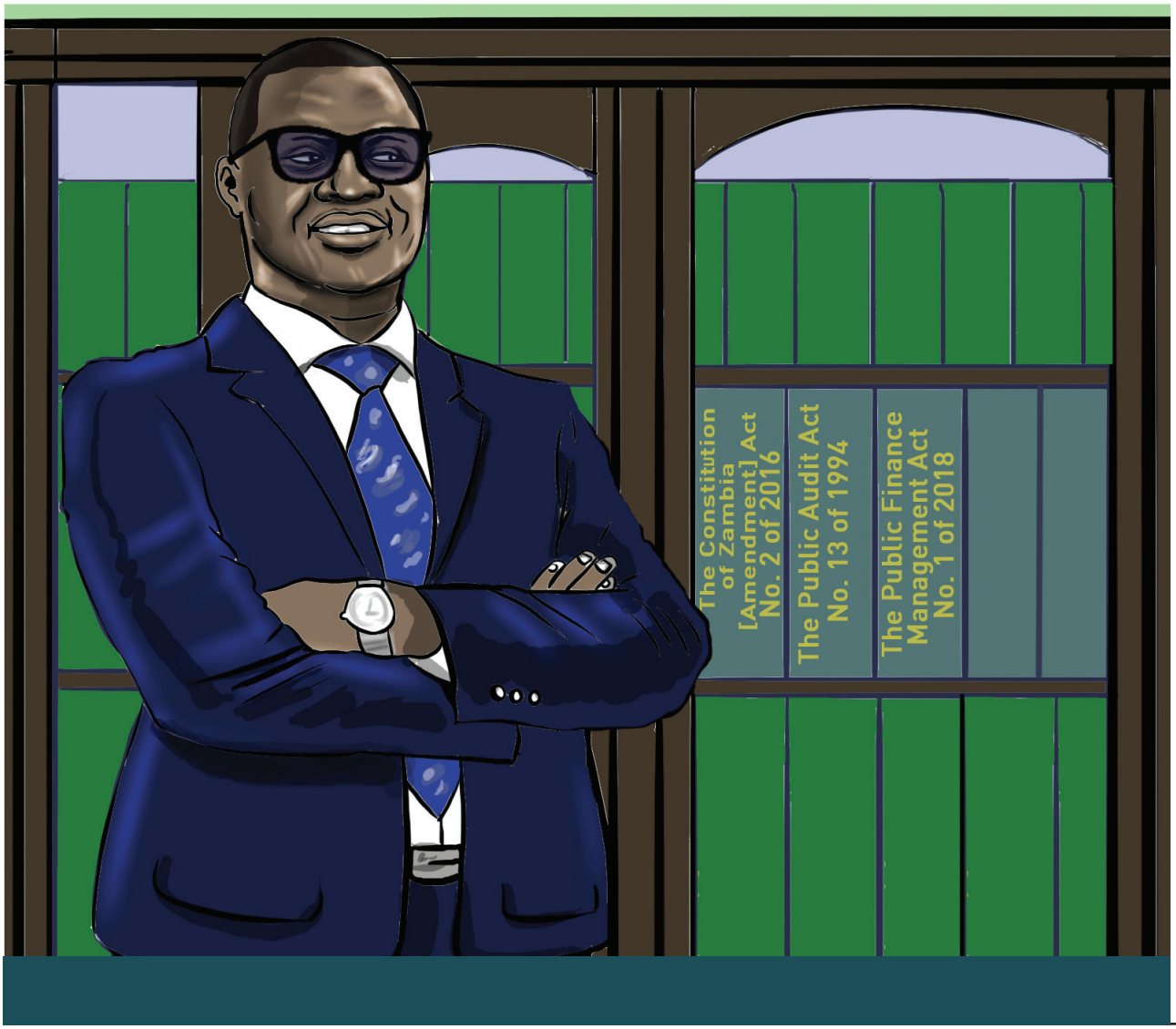
ACRONYMS

IDC	Industrial Development Corporation
INTOSAI-P12	International Organisation of Supreme Audit Institutions - Principle 12
LMIS	Loan Management Information System
MCL	Maamba Collieries Limited
MT	Metric Tons
NAPSA	National Pension Scheme Authority
OMCs	Oil Marketing Companies
PSPF	Public Service Pensions Fund
UPP	Uniform Petroleum Pricing Mechanism
ZNBS	Zambia National Building Society
ZCCM	Zambia Consolidated Copper Mines
ZCCM-IH	ZCCM Investment Holdings Plc
ZNPF	Zambia National Provident Fund

MANDATE

01

The Financial Statements for the year ended 31st December 2019 are subject to audit by the Auditor General in terms of **Article 250 of the Constitution of Zambia (Amendment) Act No. 2 of 2016, Public Audit Act No. 8 of 1980 and Public Finance Management Act No. 1 of 2018**.



ROLE OF THE AUDITOR GENERAL

02

The audit was conducted with the objective of expressing an opinion on the financial statements as well as the compliance with relevant governing laws and regulations.



03 Value and benefits of the OAG – INTOSAI-P12

...Making a difference to the Lives of the Citizens

According to the INTOSAI – P 12, SAIs are expected to make a difference in three ways:

- Strengthening the accountability, transparency and Integrity of government and public sector entities.
- Demonstrating ongoing relevance to citizens, Parliament and other stakeholders.
- Being a model organization through leading by example.

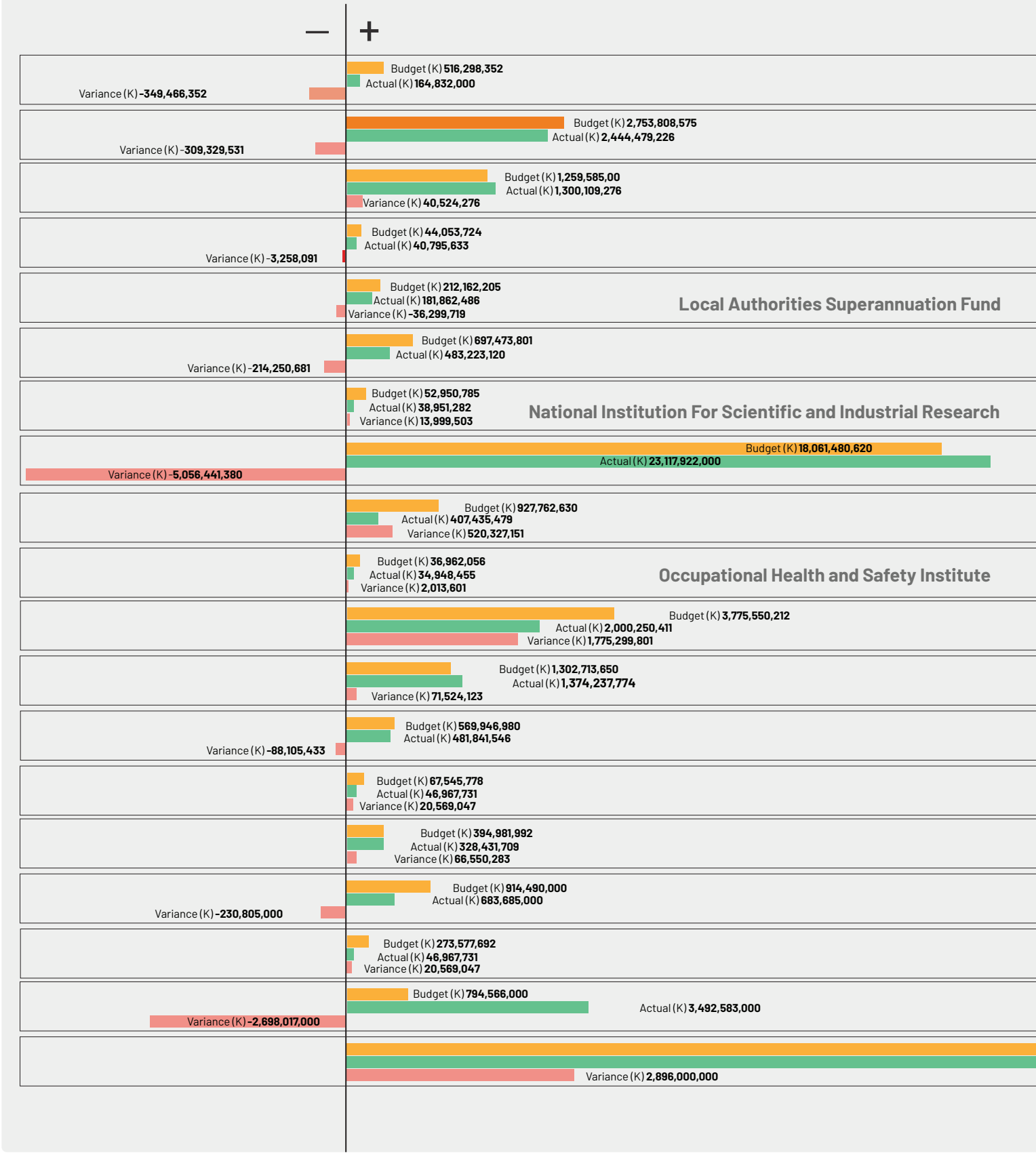


04 SCOPE OF AUDIT

This Audit Report is on selected Parastatal Bodies and other Statutory Institutions for the financial year ended 31st December 2019. The Report also covered financial years ended 31st December 2015, 2016, 2017 and 2018 for institutions that had not been audited for those periods.



Budget vs Actual



KEY

S/N	DETAILS	Budget K	Actual K	Variance K
1	Development Bank Of Zambia	514,298,352	164,832,000	-349,466,352
2	Energy Regulation Board	2,753,808,757	2,444,479,226	-309,329,531
3	Indeni Petroleum Refinery Company Limited	1,259,585,000	1,300,109,276	40,524,276
4	Kwame Nkrumah University	44,053,724	40,795,633	-3,258,091
5	Local Authorities Superannuation Fund	218,162,205	181,862,486	-36,299,719
6	Mulungushi University	697,473,801	483,223,120	-214,250,681
7	National Institute For Scientific And Industrial Research	52,950,785	38,951,282	13,999,503
8	National Pension Scheme Authority	18,061,480,620	23,117,922,000	-5,056,441,380
9	National Savings And Credit Bank	927,762,630	407,435,479	520,327,151
10	Occupational Health And Safety Institute	36,962,056	34,948,455.00	2,013,601
11	Public Service Pensions Fund	3,775,550,212	2,000,250,411	1,775,299,801
12	Tazama Pipelines Limited	1,302,713,650	1,374,237,774	71,524,124
13	University Teaching Hospitals	569,946,980	481,841,546	-88,105,433
14	Zambia Institute For Tourism And Hospitality Studies	67,545,778	46,976,731	20,569,047
15	Zambia National Broadcasting Corporation	394,981,992	328,431,709	66,550,283
16	Zambia National Building Society	914,490,000	683,685,000	230,805,000
17	Zambia Postal Services Corporation	273,577,692	212,530,129	61,047,563
18	ZCCM-IH	794,566,000	3,492,583,000	-2,698,017,000
19	Zesco Limited	44,846,000,000	41,950,000,000	2,896,000,000

Development Bank of Zambia

Energy Regulation Board

Indeni Petroleum Refinery Company

Kwame Nkrumah University

Mulungushi University

National Pension Scheme Authority

National Savings and Credit Bank

Public Service Pension Funds

Tazama Piplines limited

University Teaching Hospital

Zambia Institute for Tourism and Hospitality Studies

Zambia National Broadcasting Corporation

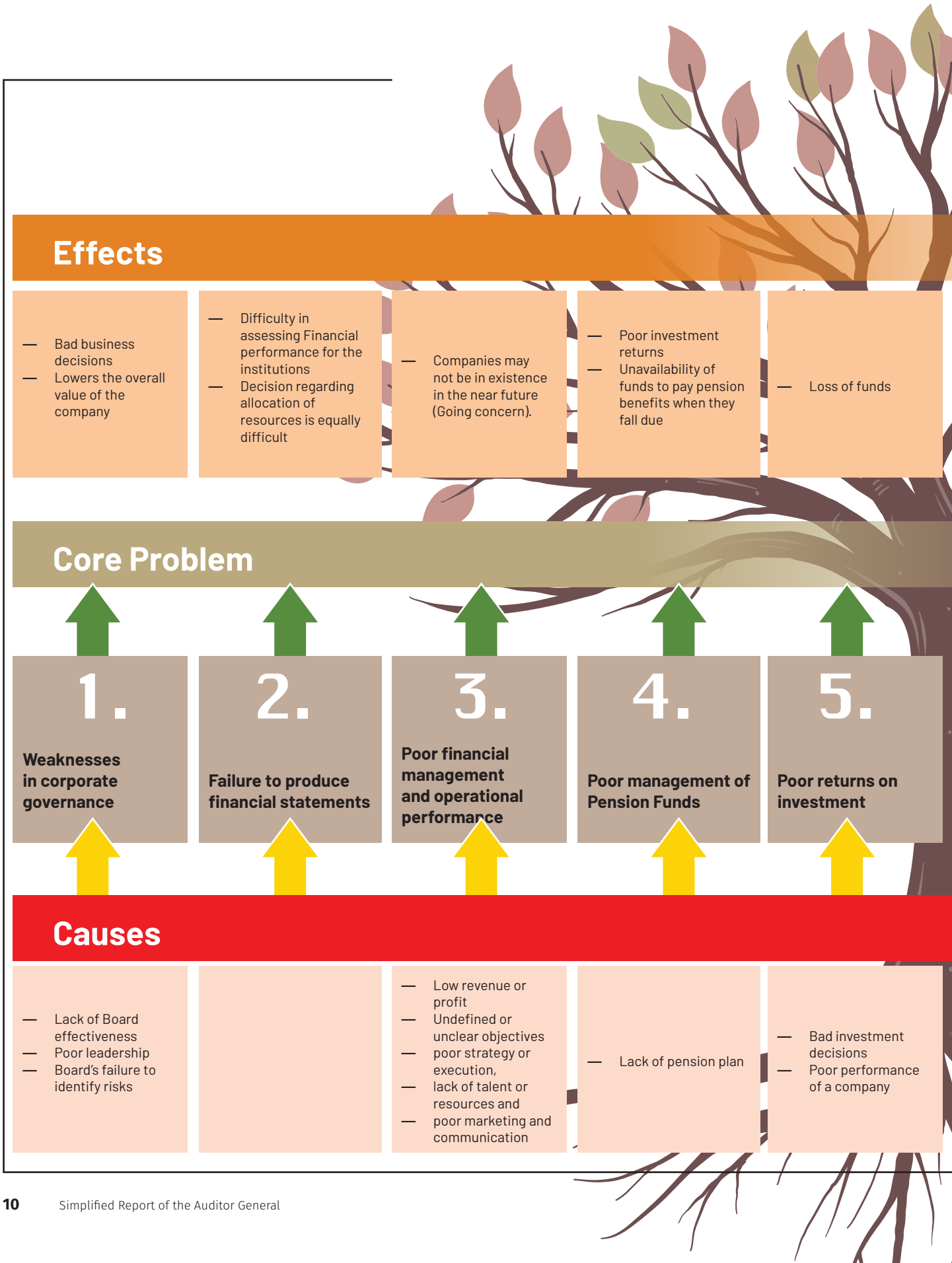
Zambia National Building Society

Zambia National Broadcasting Corporation

ZCCM-IH

Budget (K) **44,846,000,000**
Actual (K) **41,950,000,000**

PROBLEM TREE NON FINAN



Effects

— Bad business decisions — Lowers the overall value of the company	— Difficulty in assessing Financial performance for the institutions — Decision regarding allocation of resources is equally difficult	— Companies may not be in existence in the near future (Going concern).	— Poor investment returns — Unavailability of funds to pay pension benefits when they fall due	— Loss of funds

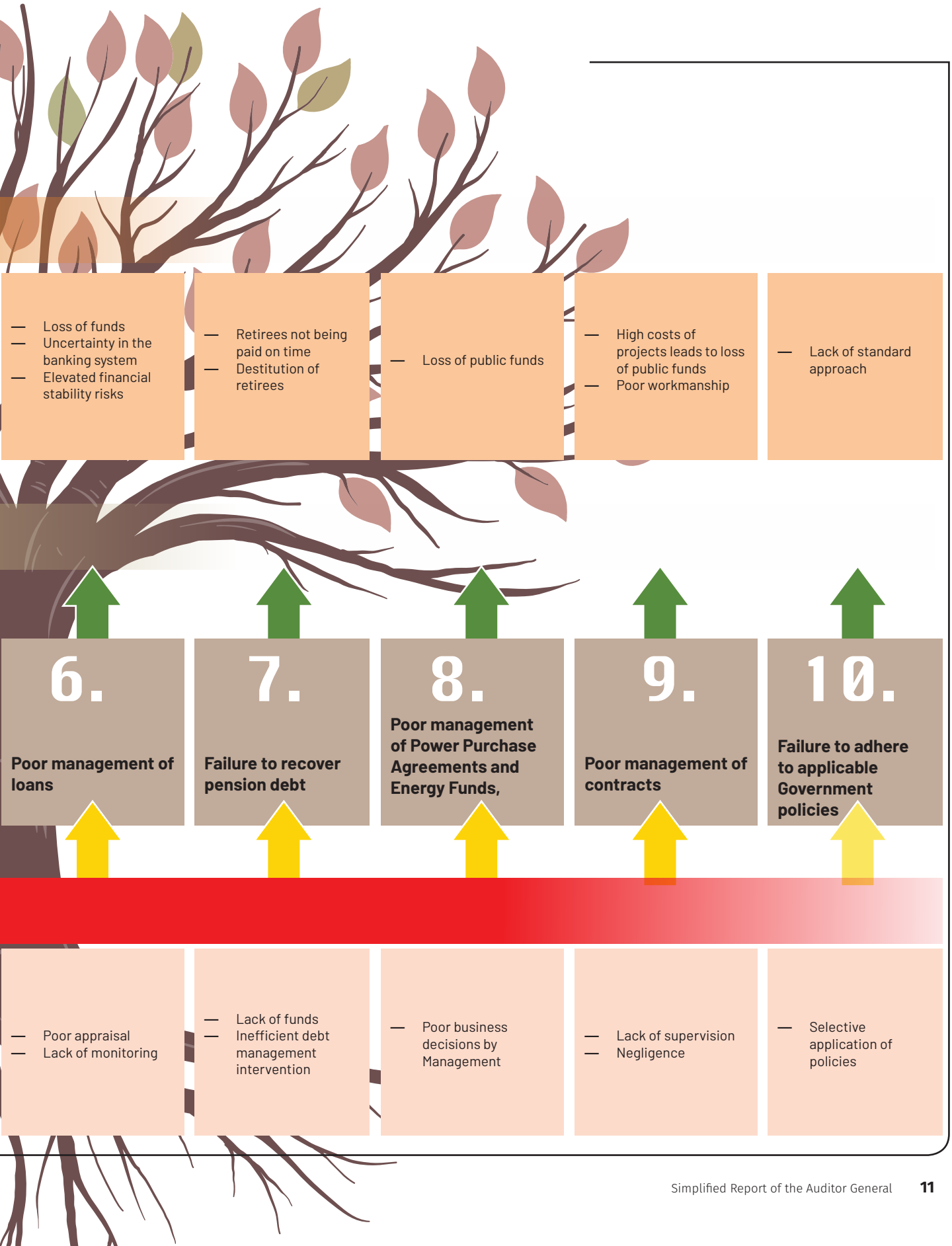
Core Problem

1.	2.	3.	4.	5.
Weaknesses in corporate governance	**Failure to produce financial statements**	**Poor financial management and operational performance**	**Poor management of Pension Funds**	**Poor returns on investment**

Causes

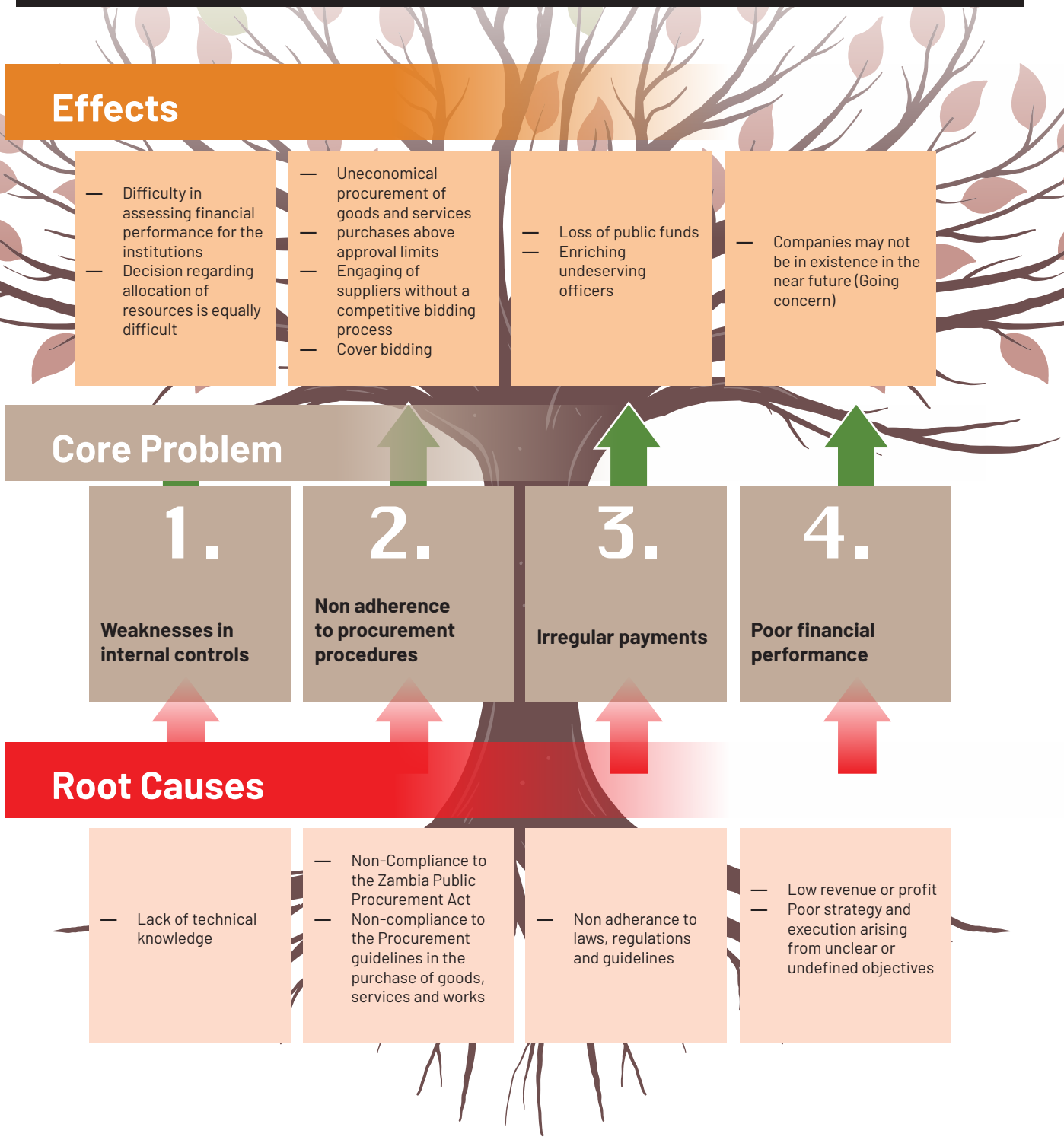
— Lack of Board effectiveness — Poor leadership — Board's failure to identify risks		— Low revenue or profit — Undefined or unclear objectives — poor strategy or execution, — lack of talent or resources and — poor marketing and communication	— Lack of pension plan	— Bad investment decisions — Poor performance of a company

CIAL AND OTHER MATTERS



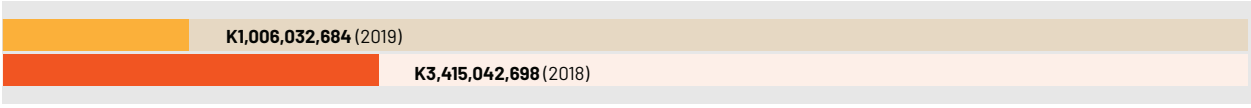
6.	7.	8.	9.	10.
Poor management of loans	**Failure to recover pension debt**	**Poor management of Power Purchase Agreements and Energy Funds,**	**Poor management of contracts**	**Failure to adhere to applicable Government policies**
— Loss of funds — Uncertainty in the banking system — Elevated financial stability risks	— Retirees not being paid on time — Destitution of retirees	— Loss of public funds	— High costs of projects leads to loss of public funds — Poor workmanship	— Lack of standard approach
— Poor appraisal — Lack of monitoring	— Lack of funds — Inefficient debt management intervention	— Poor business decisions by Management	— Lack of supervision — Negligence	— Selective application of policies

WEAKNESSES IN INTERNAL CONTROLS

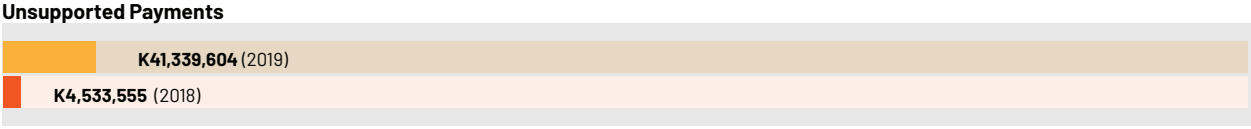


Summary of the Audit Findings

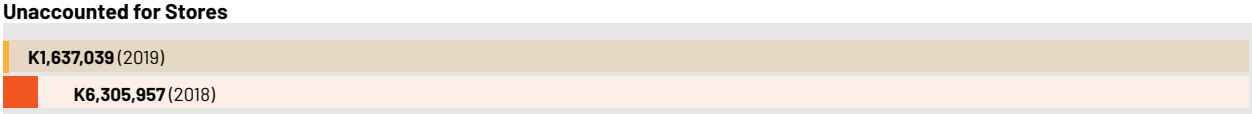
Failure to Settle/Remit Statutory Obligations



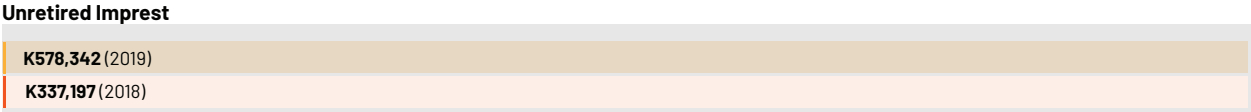
Unsupported Payments



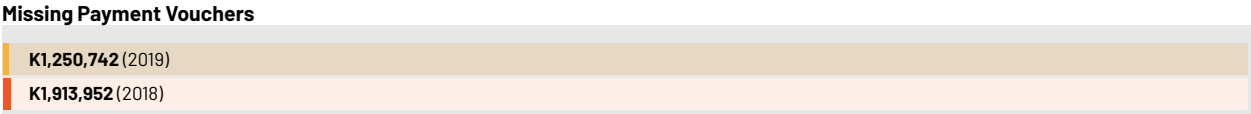
Unaccounted for Stores



Unretired Imprest



Missing Payment Vouchers



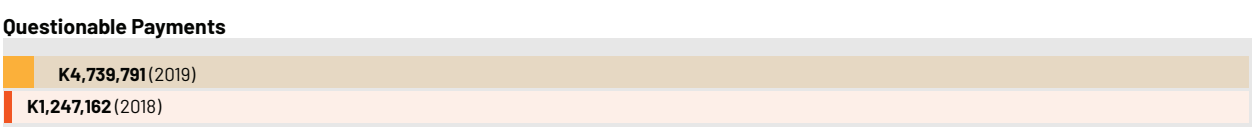
Wasteful Expenditure



Failure to Collect Funds



Questionable Payments



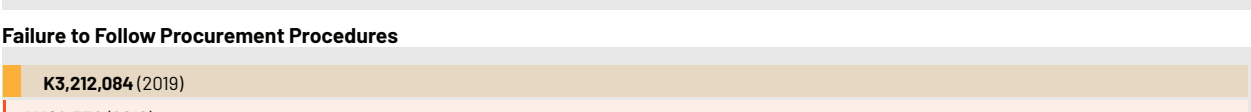
Irregular Payments



Failure to Recover Loans



Failure to Follow Procurement Procedures



Unaccounted for Revenue/Funds

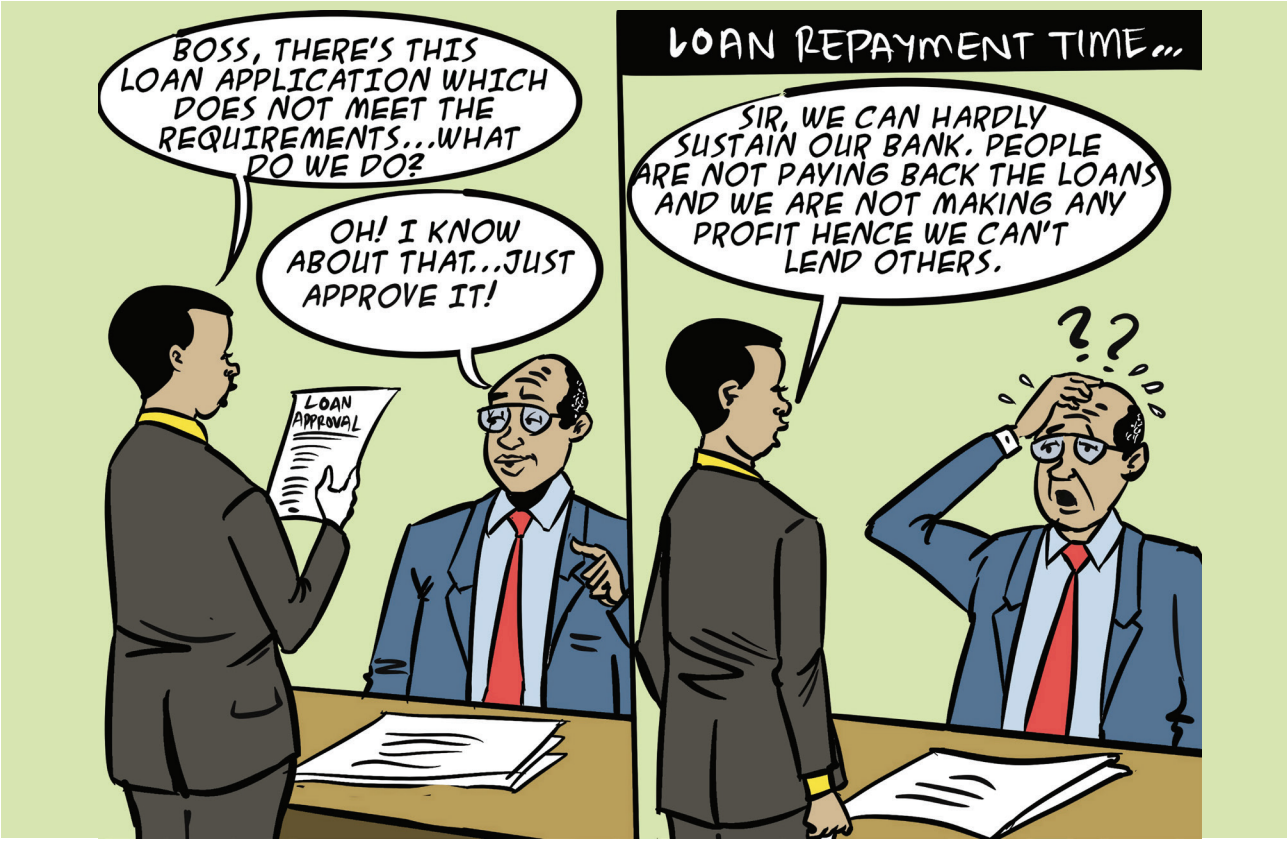


05 HIGHLIGHTS OF THE AUDIT FINDINGS

1. Development Bank of Zambia

Poor Performance of Loan Accounts

Contrary to **Statutory Instrument No. 142 of 1996**, three (3) financial Institutions had poor performing loans in amounts totalling **K128,700,227**.



Poor Performance of Loan Accounts

Top Three Institutions Affected

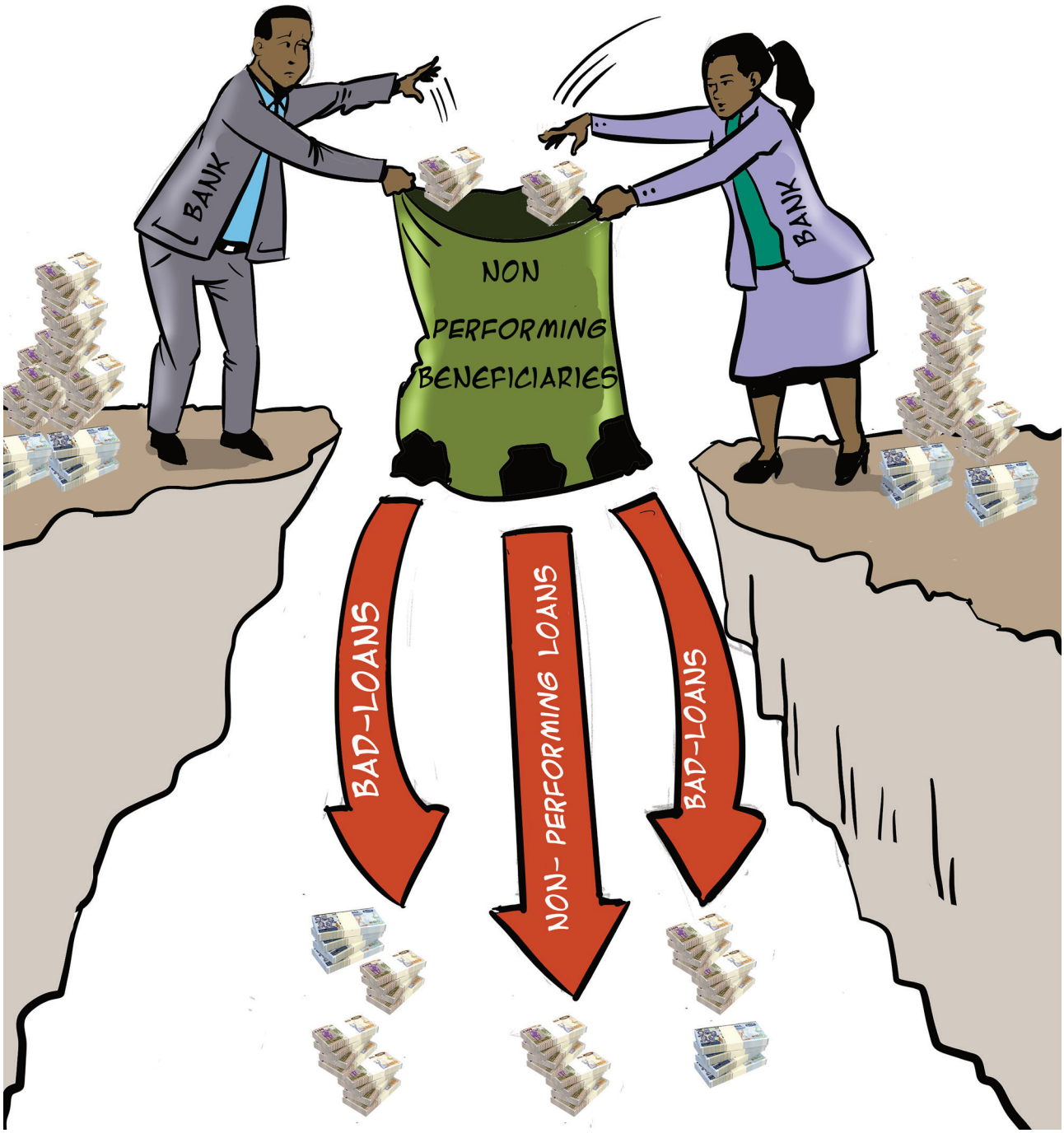
- Development Bank of Zambia **K125,360,938**
- Public Service Pensions Fund **K2,544,757**
- National Savings and Credit Bank **K794,532**

RISKS

- Loss of funds.
- Failure to pay new loan applicants as funds are held by non-performing loans.
- Liquidity challenges thereby affecting the Bank's going concern.

2. Bank not making profit

During the period under review, Development Bank of Zambia had a reduction in net interest percentage from 70% in 2018 to 35% in 2019 which resulted in **declining net profit margin of -296.51% in 2019 compared to -19.38% in 2018**.



3. Weakness in Corporate Governance - K16,373,216

- **Inter Company Borrowing without Board approval**

During the period under review, management of Zampost borrowed amounts totalling **K1,973,216 from Zampost Freight and Forwarding**. However, there was no board approval for the intercompany borrowings. As at 31st January 2021, the funds had not been reimbursed.



- **Payment of Advance to Maamba Collieries Limited (MCL)**

On 21st March 2019, the Chief Executive Officer of IDC requested the Board Chairperson of ZCCM-IH to advance MCL an amount of **US$10 million (K14,400,000) on or before 25th March 2019** which request was granted. However, there was **no Board approval by the Board of Directors of ZCCM-IH** and no **signed agreement between ZCCM-IH and MCL**. As at 31st December 2020, the advance had not been repaid.



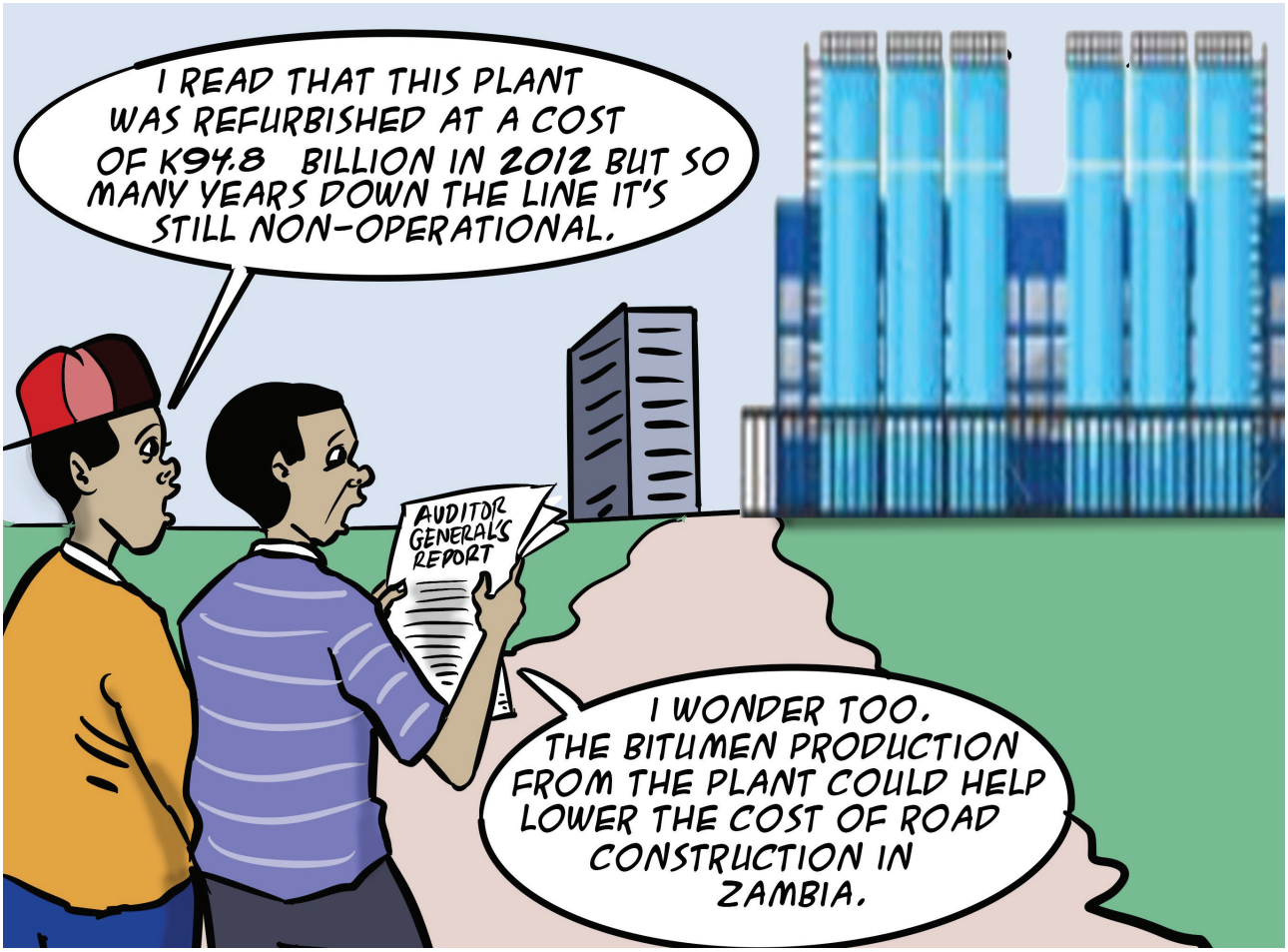
MAAMBA-COLLIERIES-OVERVIEW-OF-POWER-PLANT

RISK

- Loss of public funds.

4. Failure to Operationalise the Bitumen Plant

Indeni Petroleum Refinery Company did not **operationalise the bitumen plant** despite rehabilitation works amounting to **K94,837,872,195 (US$20,106,969.37) being completed**.



On 15th March 2010, the Ministry of Energy and Water Development engaged Dalbit Petroleum limited of Kenya to rehabilitate the Bitumen Plant at **Indeni Petroleum Refinery Company** at a contract sum of **K94,837,872,195 (US$20,106,969.37)** with an expected commencement date of 17th October 2011 and completion date of June 2012. Indeni Petroleum Refinery Company was appointed as the supervising agent of the project on behalf of Government.

The objective of the Project was to enable the Refinery produce bitumen for road constructions. As at 31st December 2014, works had been completed and the whole contract amount had been paid.
The plant has a capacity to produce 36,500mt of bitumen per year. However, as at 31st December 2020, the plant was not operational. Consequently, the company lost annual revenue of K250,017,335 at a price of K6,849.79/Mt as at 30th September 2020.

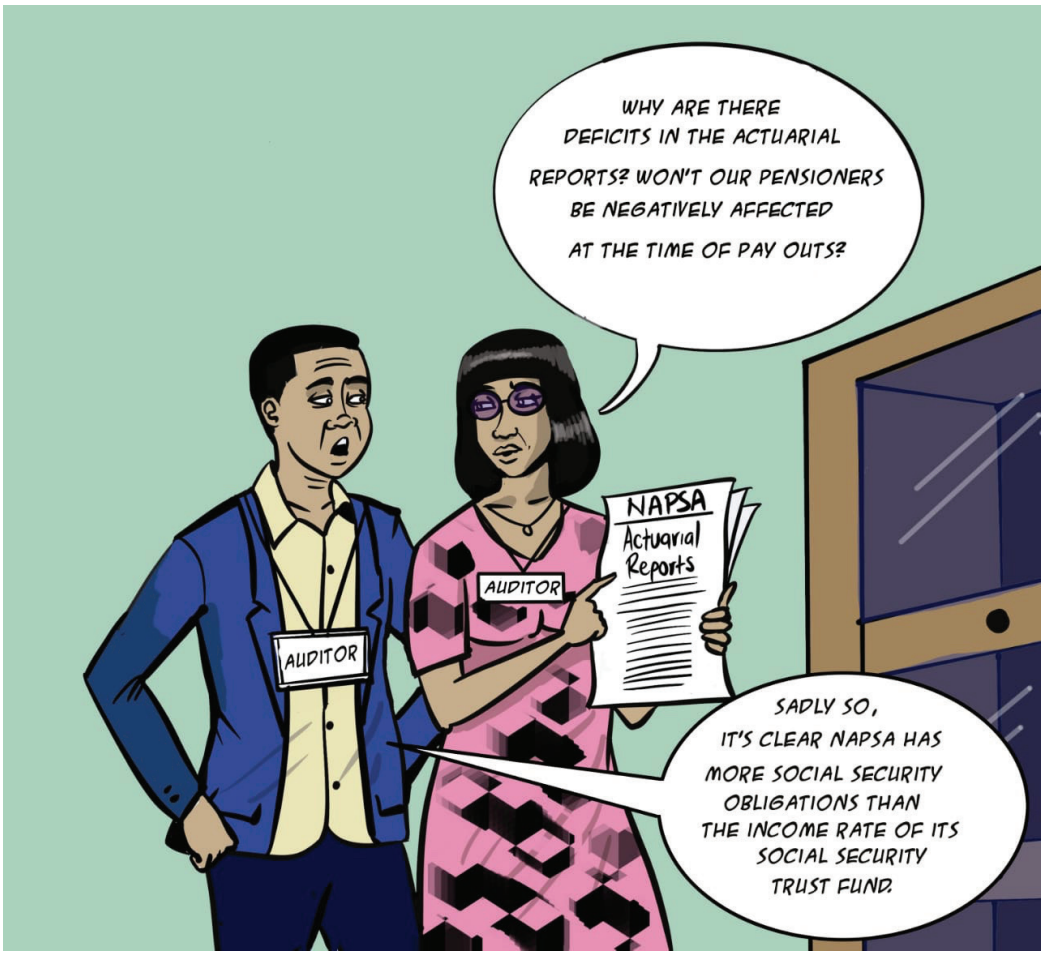
In a response dated 10th December 2020, management indicated that the plant **was not in use due to lack of suitable feedstock as not all crude oil produces bitumen**. However, it was not clear why management could not procure the suitable feedstock.

RISKS

- Wasteful expenditure
- Wear and Tear of the Plant

5. Weaknesses Reported in the Actuarial Reports

The National Pension Scheme Authority (NAPSA) had an actuarial deficit ranging from **K18,400,000,000 to K634,200,000,000 as at 31st December 2017**.



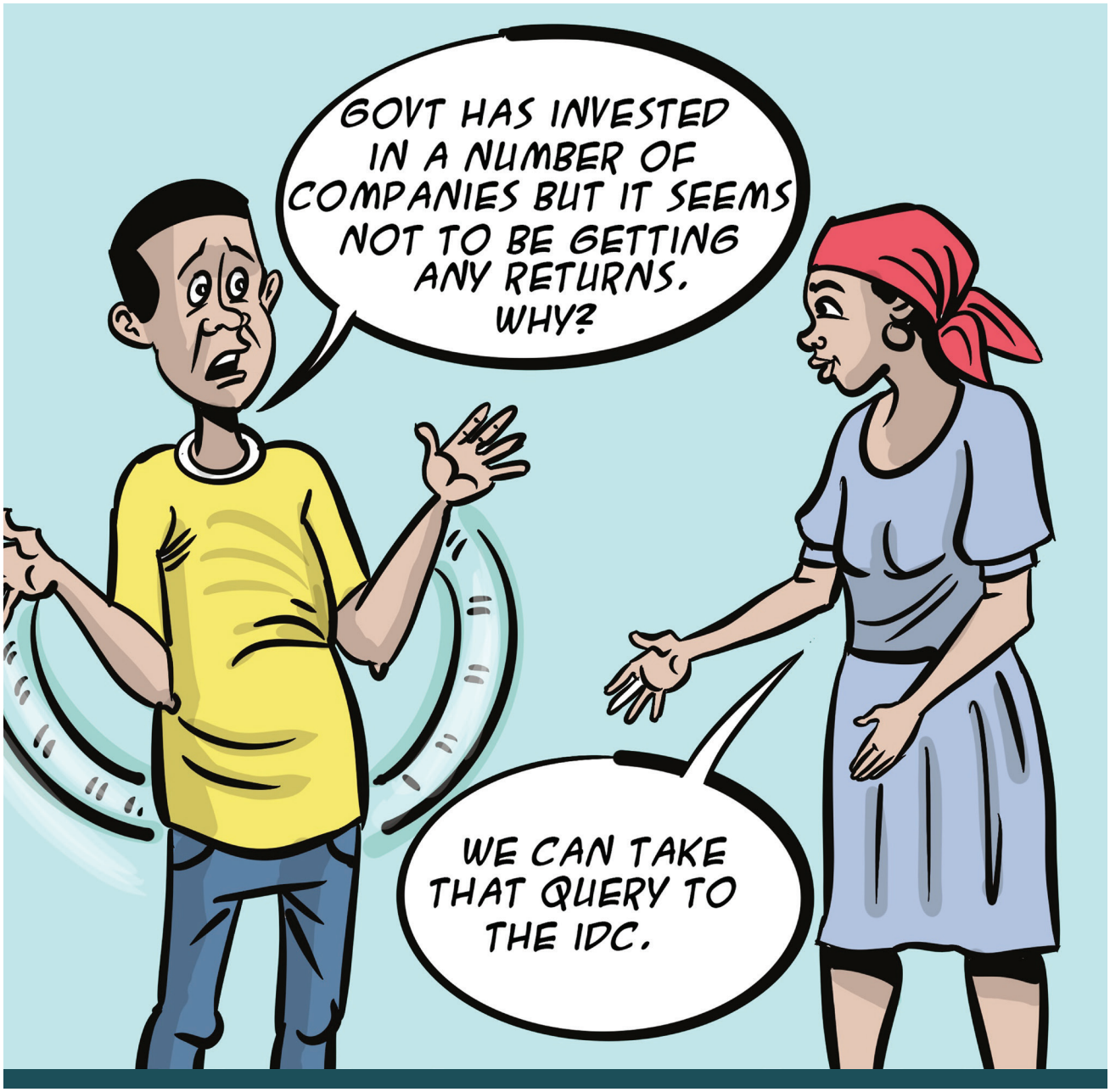
Description	Discounted + 5% K' Billion	Discounted + 0 % K' Billion	Discounted - 5% K' Billion
Value of Scheme Liability	40.8	115.1	656.6
Value of Scheme Assets	22.4	22.4	22.4
Surplus / (Deficit)	**(18.40)**	**(92.70)**	**(634.20)**
Funding Level (Asset as % of Liabilities)	55%	19%	3%

RISKS

- NAPSA may not be able to pay pensioners.
- Members may become destitutes.

6. Operational Matters – Failure to Declare Dividends by Investee Companies

During the period under review, ZCCM-IH had nineteen (19) **investee companies of which only two (2) companies declared dividends in amounts totalling K423,276,000**.



Below is the list of how the nineteen companies faired in terms of declaring dividends to the ZCCM-IH:

No.	Investee Dividends Received	2019 K'000	2018 K'000	2017 K'000	2016 K'000	TOTAL K'000
1	Ndola Lime Company	—	—	—	—	—
2	Misenge Enviromental & Technical Services Limited	—	—	—	—	—
3	Nkandabwe Coal Mine Limited	-	-			-
4	Mawe Exploration & Technical Services Limited & Nkandabwe Coal Mine Limited	-		-	-	-
5	Kariba Minerals Limited	-	-	-	-	-
6	Maamba Collieries Limited	-	-	-	-	-
7	Mopani Copper Mines	-	-	-	-	-
8	Konkola Copper Mines	-	-	-	-	-
9	Kansanshi Mining Plc	44,760	149,136	-	11,869	205,765
10	Copperbelt Energy Corporation Plc	88,563	50,705	41,330	36,913	217,511
11	CEC Africa Investments Ltd (CEC Africa)	-	-	-	-	-
12	Lubambe Copper Mine Limited	-	-	-	-	-
13	CNMC Luanshya Copper Mines Plc	-	-	-	-	-
14	NFC Africa Mining Plc	-	-	-	-	-
15	Chibuluma Mines Plc	-	-	-	-	-
16	InvestrustBank Plc	-	-	-	-	-
17	Chambishi Metals Plc	-	-	-	-	-
18	Nkana Alloy Smelting Company Limited				-	
19	Rembrandt Properties Limited	-	-	-	-	-
	TOTAL	**133,323**	**199,841**	**41,330**	**48,782**	**423,276**

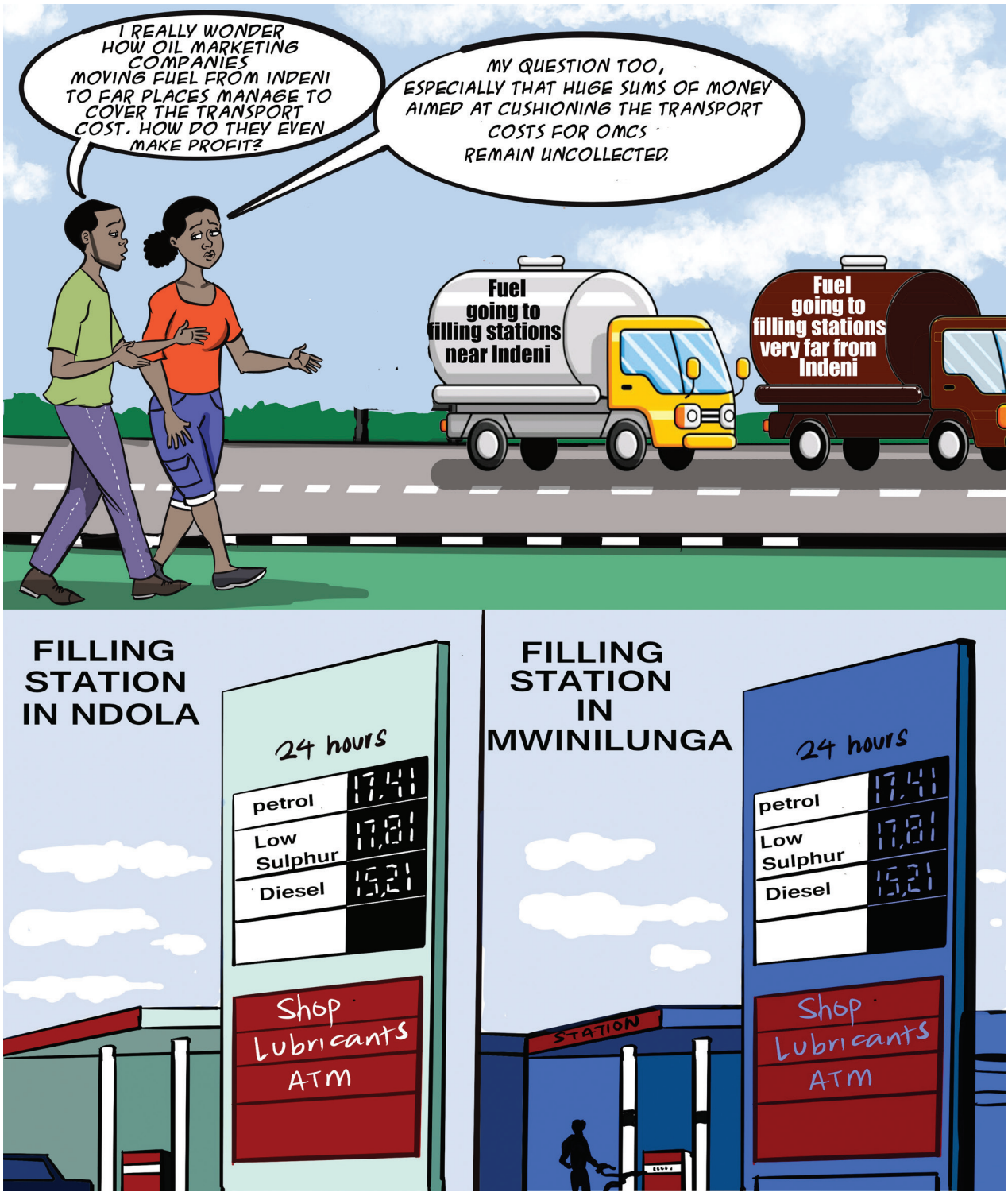
RISKS

- Lack of business growth on investments.
- Reduced cashflow.

7. Oil Marketing Company

Failure to Collect Funds

During the period under review, contributions from **twenty-two (22) Oil Marketing Companies** (OMCs) in amounts totalling **K76,338,855 under Uniform Petroleum Pricing (UPP) had not been remitted** for periods exceeding **twenty four (24) months.** As at 28th February 2021 the funds remained uncollected.



The table below shows uncollected funds from OMCs.

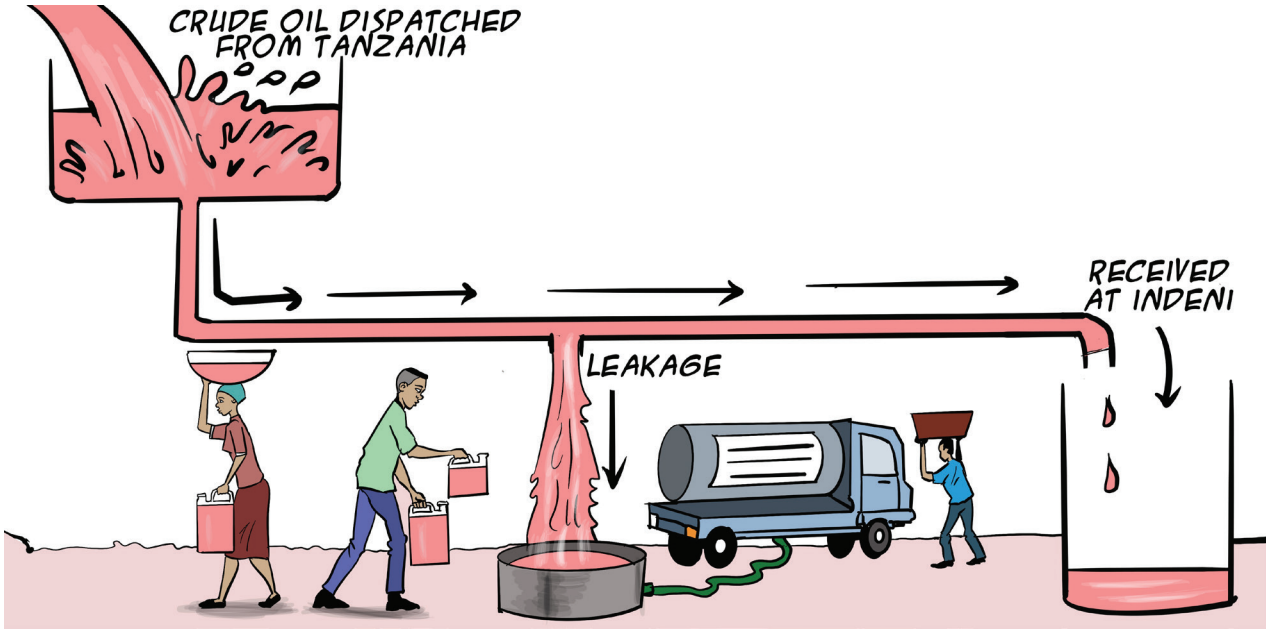
S/N	Name of OMC	Amount K
1	ALPHA	K100,444
2	CONTINENTAL OIL	K187,664
3	ENGEN PETROLEUM	K15,468,423
4	ENIGMA	K118,060
5	HASHI ENERGY	K419,290
6	HASS PETROLEUM	K211,335
7	KOBIL	K1,026,230
8	LAKE PETROLEUM	K11,572,933
9	MT MERU	K5,175,174
10	NGUCHA ENERGY	K2,138,219
11	PEGASUS	K1,389,761
12	PETRODA	923,071
13	PUMA ENERGY	K5,807,657
14	QUALITY PETROLEUM	-
15	RAVASIA	K261,557
16	SABOT	(K155,011)
17	SAMFUEL	K893,871
18	SGC	K11,049,337
19	STAR OIL	K1,483,632
20	SUBAN	K1,001,421
21	TOTAL	K17,090,195
22	WADA CHOVU	K166,075
23	ZACKS	K 9,517
	Omc Totals	**K 76,338,855**

RISKS

- There will be no inflows and the UPP fund will be depleted.
- Unauthorized utilisation of funds.

8. Loss of Revenue due to Pipeline Leakages

TAZAMA experienced thirty three **(33) leakages** along the pipelines **resulting in a total loss of 631.22 metric tons (MT) of crude oil valued at K4,413,029 (US$454,634.42.)**



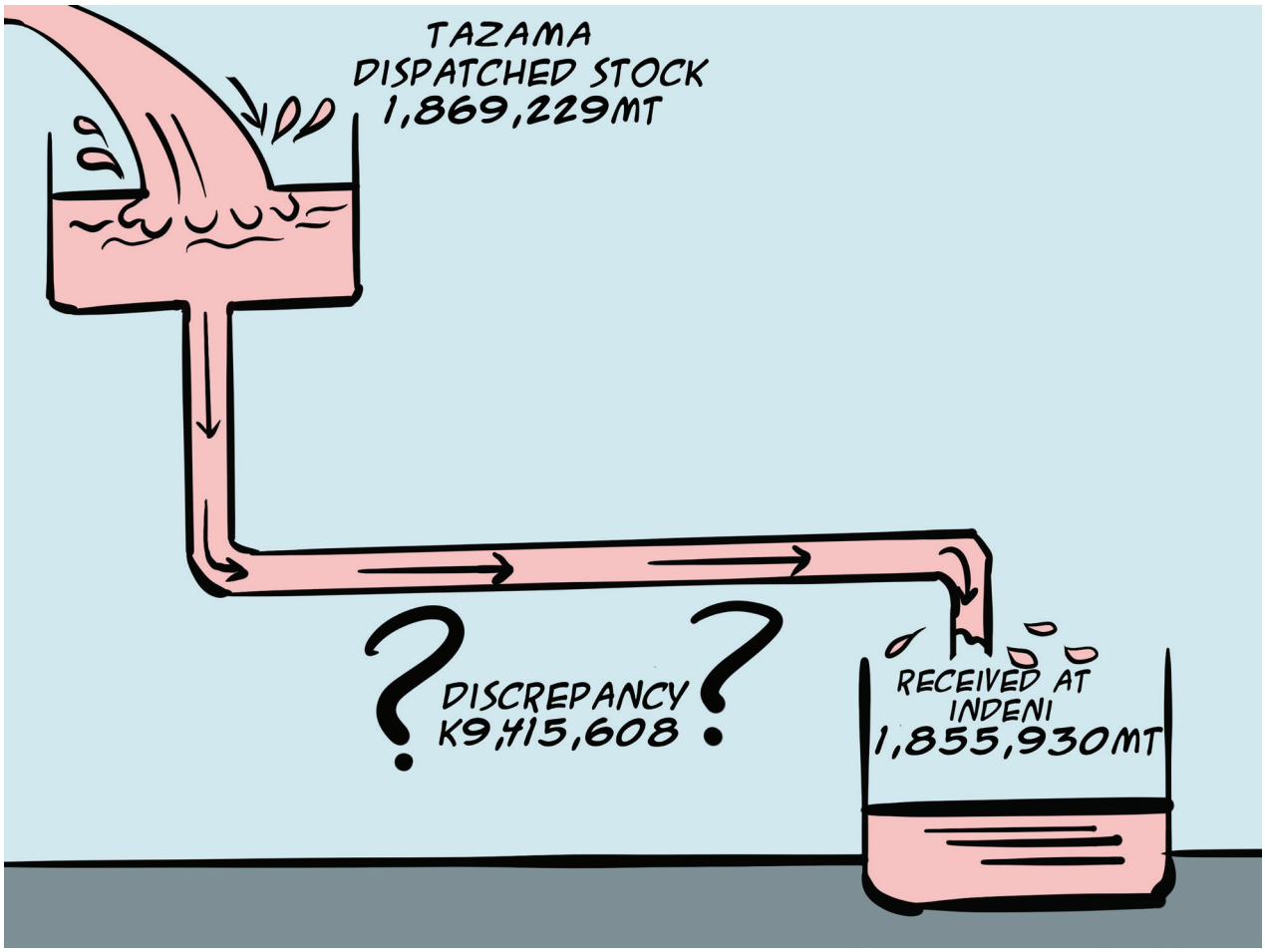
Year	Number of Pipeline Leakages	Crude Oil Loss MT	AmountUS$	Amount K
2017	15	114.18	68,681.96	653,852
2018	8	139.43	129,871.06	1,264,944
2019	10	377.61	256,081.40	2,494,233
Total	**33**	**631.22**	**454,634.42**	**4,413,029**

RISK

- Loss of public funds through leakages and theft.

9. Discrepancies in Metered Stockfeed between Tazama Pipelines and Indeni Refinery

Records from **INDENI showed that 1,855,930mt of stock was received while records from TAZAMA Pipelines showed** that stock totalling **1,869,229mt** was dispatched resulting in a discrepancy of **14,299mt**. Consequently, **INDENI lost K9,415,608 in processing fees**.



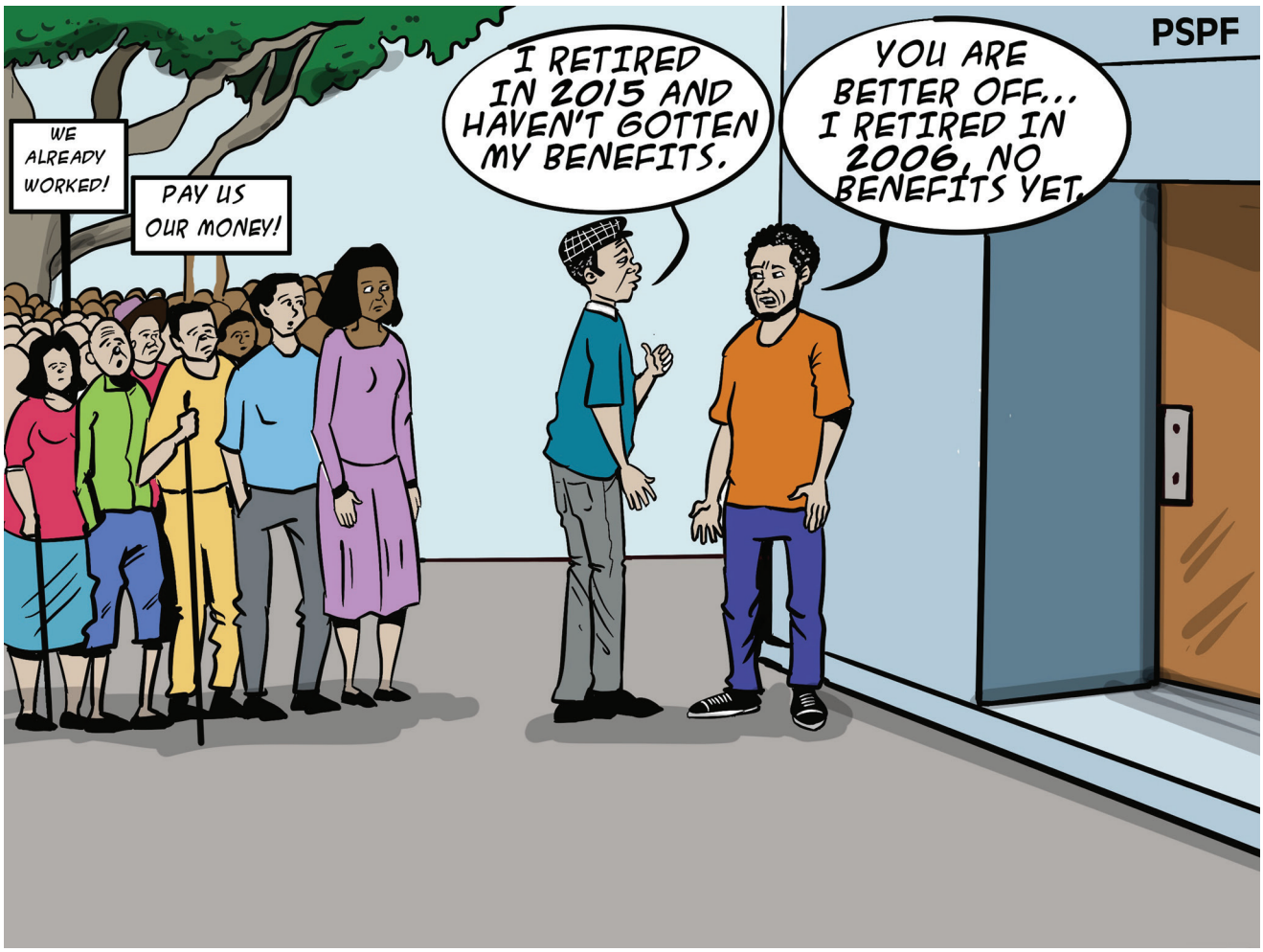
Year	Actual as per Tazama meter sent to Indeni Tanks	Actual as per Indeni Meter Receipted	Variance of crude oil not reconciled (MT)	Processing Fee Unit Price K	Loss of Processing Fee K
2019	642,047	640,327	1,720	782.25	1,345,470
2018	638,570	629,344	9,226	720.03	6,642,997
2017	588,612	586,259	2,353	606.52	1,427,142
Totals	**1,869,229**	**1,855,930**	**14,299**	—	**9,415,608**

RISK

- Loss of public funds.

10. Outstanding Pensions

During the period under review, **PSPF had 1,571 statutory retirement pensioners** and **1,527 early retirement pensioners** who had not received their lump-sum payments in amounts totalling **K767,332,099 from 2006 to 2019**.



RISK

- Loss of funds through litigations.

11. Failure to Fully Utilize Laboratory Equipment

Equipment valued at **K5,026,145.92 for research at Chilanga Campus (K899,576.11) and Kitwe Plant Science Institute (K4,126,569.81) for the National Institute for Scientific and Industrial Research (NISIR) had not been installed** and was therefore not being used for periods ranging between five (5) and eight (8) years after its delivery. See pictures below:

Figure A: Part of Equipment not being used in Kitwe





RISKS

- Equipment may become obsolete.
- Wasteful expenditure.

12. Poor Collection of Rental Arrears

Rentals in amounts totalling **K171,237,023** in respect of commercial properties were outstanding as at 31st December 2019.

NAPSA had several commercial properties which included Levy Business Park, Stay-Easy Hotels, Kalulushi Residential Houses and Ex-ZNPF Buildings in rental arrears in amounts totalling K171,237,023.



Rentals

Levy Business Park, Stay-Easy Hotels, Kalulushi Residential Houses and Ex-ZNPF Buildings in rental arrears of

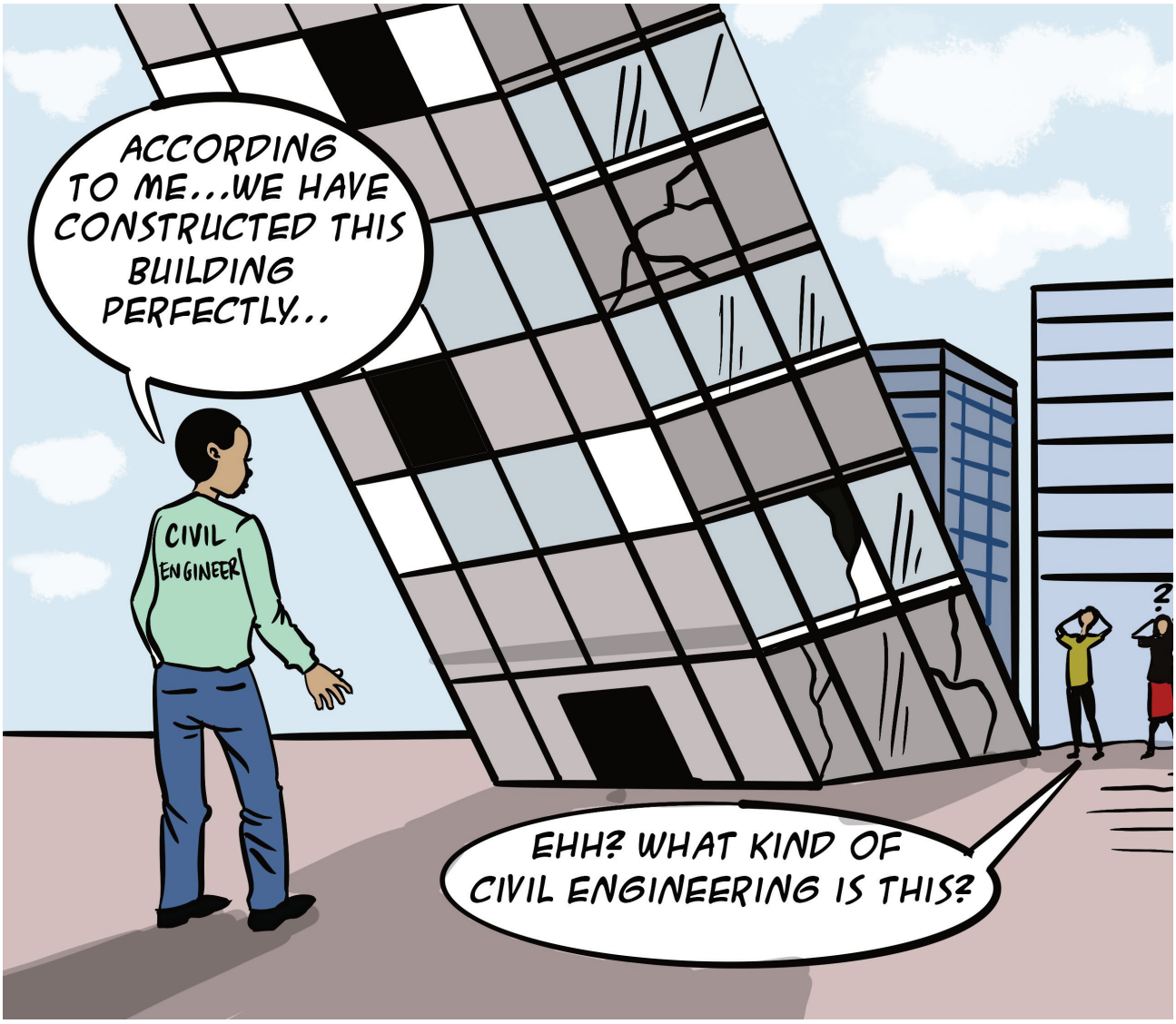
K171,237,023

RISKS

- Loss of revenue in case of bad debts.
- Delayed economic benefits.

13. Investment Matters – Construction Defects: Re-development of Society House and Central - Arcades Project

In 2011, NAPSA signed a concession agreement with Zambia National Building Society to construct and redevelop Society House and Central Arcades at a contract sum of K473,044,127 which later increased to K1,079,60,811 due to variation and Kwacha devaluation. However, inspections conducted in November 2019 reviewed multiple structural defects.



RISKS

- Loss of revenue as a result of clients leaving the building.
- The building is a danger to society.

06 RECOMMENDATIONS



The appointing authorities must always ensure that the parastatal bodies and other statutory institutions have functional boards of directors to strengthen corporate governance;



The boards of directors for parastatal bodies and other statutory institutions must ensure that financial reports are prepared annually in compliance with the Companies Act Chapter 338 of the Laws of Zambia;



The boards of directors for parastatal bodies and other statutory institutions must ensure that effective performance assessment systems for management are implemented;



Parastatal bodies and other statutory institutions must devise recapitalisation plans to improve their financial and operational performance;



The responsible ministries for parastatal bodies and other statutory institutions must ensure that sufficient funds are sourced to enable these institutions meet their mandate;



Management of parastatal bodies and other statutory institutions should address the internal control weaknesses identified in this report to enhance systems and protect assets. The controls include acquisition of title deeds for land owned by the institutions;



The responsible ministries for parastatal bodies and other statutory institutions must ensure that pensions funds are managed prudently;



The responsible ministries for parastatal bodies and other statutory institutions must ensure that there is optimal management of loans;



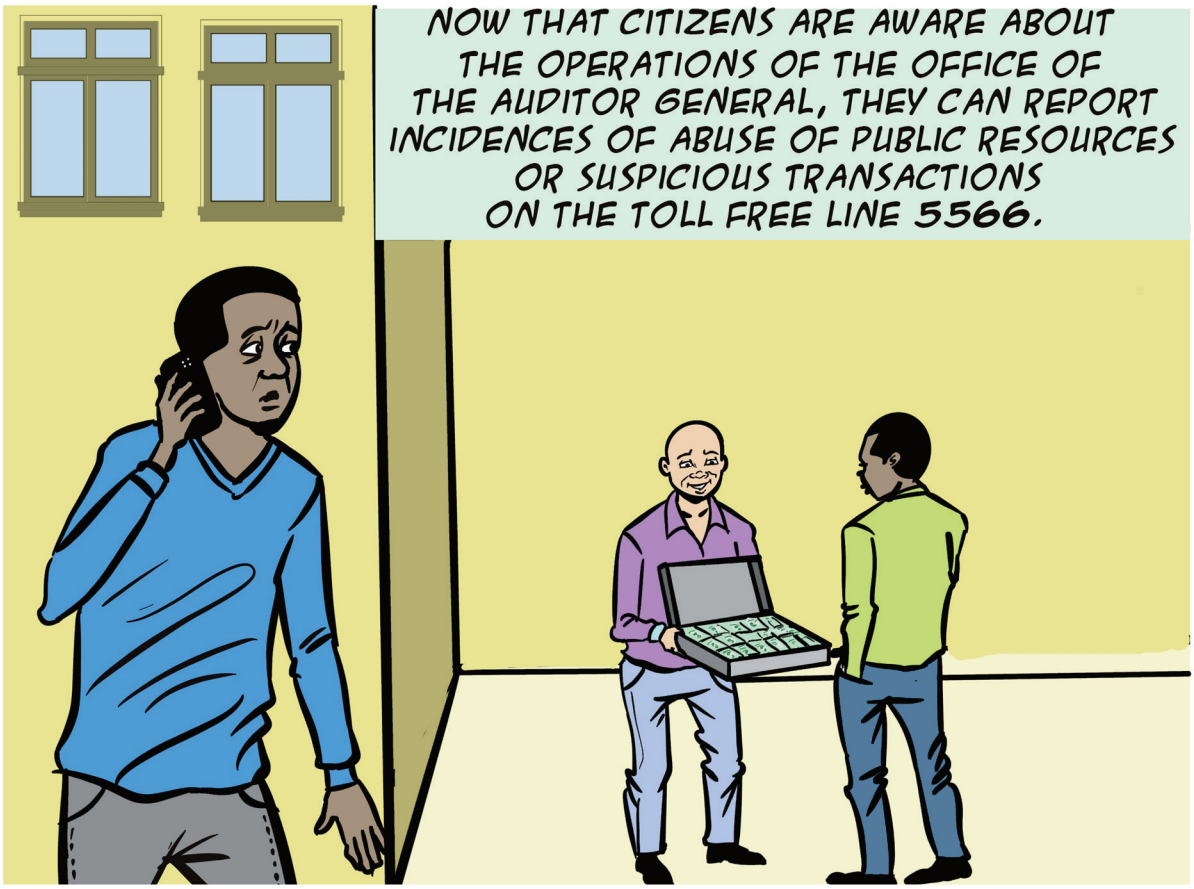
The responsible ministries for parastatal bodies and other statutory institutions must ensure that Energy Funds are managed prudently; and



The management of the parastatal bodies and other statutory institutions must ensure that weaknesses in contract management identified in this report are urgently addressed to enhance the ability of the affected entities to execute their mandates effectively.

06 HOW CITIZENS CAN USE THE **REPORT**

Citizens will be able to benefit from this report...



EVALUATION FORM

Name/Organisation:

Province:

Please answer each question honestly. Your response will be treated with complete confidentiality. If the questionnaire has not been hand collected, please email your completed questionnaire to **auditorg@ago.gov.zm**

Please select the rating for each section based on the following criteria:

5-Excellent **4**-Good **3**-Average **2**-Fair **1**-Poor

Please rate the content and structure of the Simplified Performance Audit Report on the following:

1. The structure of the Simplified Performance Audit Report.

   ☐ 05 ☐ 04 ☐ 03 ☐ 02 ☐ 01

2. Ability to explain and illustrate the Performance Audit Report findings

   ☐ 05 ☐ 04 ☐ 03 ☐ 02 ☐ 01

3. Ability to give an overview of Government measures to address the impact of climate change on food security in Zambia.

   ☐ 05 ☐ 04 ☐ 03 ☐ 02 ☐ 01

4. Ability to show the risks that climate change poses to national food security.

   ☐ 05 ☐ 04 ☐ 03 ☐ 02 ☐ 01

5. The report's ability to demonstrate the value and benefit of the work of the Auditor General in society

   ☐ 05 ☐ 04 ☐ 03 ☐ 02 ☐ 01

Open-ended comments on the 2019 Simplified Auditor General's Report

6. Has this Simplified Performance Audit Report helped to generate interest in you to know more

about Performance Audits? Explain briefly.

7. What did you like the most about the Simplified Performance Audit Report?

8. What specific things did you like the least about the Simplified Performance Audit Report?

9. What improvements do you want to see in the future Simplified Performance Audit Reports?

10. Did the Simplified Performance Audit Report Meet your expectations? Explain

Overall, you would rate the Simplified Performance Audit Report as:

☐ 05 ☐ 04 ☐ 03 ☐ 02 ☐ 01

General Comments:

Thank you for your feedback.

DESIGNED BY
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