



REPUBLIC OF ZAMBIA

REPORT

OF THE

COMMITTEE ON PARASTATAL BODIES

ON THE

**REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF PARASTATAL
BODIES AND OTHER STATUTORY INSTITUTIONS FOR THE FINANCIAL
YEAR ENDED 31ST DECEMBER, 2024**

FOR THE

FIFTH SESSION OF THE THIRTEENTH NATIONAL ASSEMBLY

Published by the National Assembly of Zambia

FOREWORD

The Committee on Parastatal Bodies, considered the Report of the Auditor General on the Accounts of Parastatal Bodies and Other Statutory Institutions for the Financial Year Ended 31st December, 2024, in accordance with its terms of reference as espoused under Standing Order 207 (g) of the National Assembly of Zambia Standing Orders, 2024.

The Report of the Auditor General on the Accounts of Parastatal Bodies and Other Statutory Institutions for the Financial Year ended 31st December, 2024, was prepared in accordance with the Provisions of *Article 250 of the Constitution of Zambia (Amendment) Act, No. 2 of 2016*; the *Public Audit Act, No. 13 of 1994*; and the *Public Finance Management Act, No. 1 of 2018*.

Although the Report covers the Financial Year ended 31st December, 2024, the Report also includes audits covering the Financial Years 2022; and 2023, for institutions that had not been audited for those years.

The Committee held twenty-five meetings to consider both written and oral submissions from the Controlling Officers and the Chief Executive Officers of the sixteen Parastatal Bodies and Statutory Institutions cited in the Audit Report, with technical guidance from the Auditor-General; the Accountant-General; and the Controller of Internal Audit. Additionally, the Committee interacted with the Secretary to the Treasury, who commented on the Auditor General's recommendations.

The Report is presented in two parts: Part I deals with the Auditor General's comments; responses from the Secretary to the Treasury and the Committee's recommendations; while Part II captures the responses from the Controlling Officers on the individual audit queries, the Committee's observations and recommendations on those queries; as well as the conclusion of the Report.

The Committee wishes to pay tribute to all the witnesses who appeared before it and made both written and oral submissions. It also wishes to thank the Speaker and the Office of the Clerk of the National Assembly and her staff, for the services rendered throughout its deliberations. The Committee is confident that the observations and recommendations contained in this Report will be favourably considered and fully implemented by the Executive, in the interest of the Nation.



Dr Chitalu Chilufya, MP
CHAIRPERSON

April, 2026
LUSAKA

LIST OF ACRONYMS

Animal Science Research Centre (ASRC)
Competition and Consumer Protection Commission (CCPC)
Chief Executive Officer (CEO)
Development Bank of Zambia (DBZ)
Energy Development Research Centre (EDRC)
Energy Regulation Board (ERB)
Enterprise Resource Planning (ERP)
Food Science and Research Centre (FSRC)
General Conditions of Service (GCS)
General Nursing Council of Zambia GNCZ)
Information and Communication Technology (ICT)
Industrial Development Corporation (IDC)
International Standards of Supreme Audit Institutions (ISSAI)
Kawambwa Tea Industries Limited (KTIL)
Learning Management System (LMS)
Low Sulphur Gasoil (LSG)
Lusaka South Multi-Facility Economic Zone (LS_MFEZ)
Managing Director (MD)
Marine and Environmental Research Centre (MERC)
Material, Engineering and Technical Services (METC)
Mulungushi International Conference Centre (MICC)
Management Information System (MIS)
Mulungushi Village Complex Limited (MVCL)
National Health Insurance Management Authority (NHIMA)
National Pension Scheme Authority (NAPSA)
Oil Marketing Companies (OMCs)
Particular Conditions of Contract (PCC)
Public Service Fund Board (PSFB)
Plant Science Research Centre (PSRC)
Rural Electrification Authority (REA)
Special Conditions of Contract (SCC)
Supervisory Control and Data Acquisition (SCADA)
Skills Development Levy (SDL)
Securities Exchange Commission (SEC)
Statutory Instrument (SI)
Shimini Investment Limited (SIL)
Student Information System (SIS)
Special Purpose Vehicle (SPV)
Tanzania Railway Authority (TRA)
Tanzania Zambia Railway Authority (TAZARA)
Temporary Speed Restriction (TSRs)
University of Zambia (UNZA)
Value Added Tax (VAT)
Workers Compensation Control Board Fund (WCCBF)

Withholding Tax (WHT)
Zambia Development Agency (ZDA)
Zambia Environmental Management Agency (ZEMA)
Zambia Forestry and Forest Industries Corporation (ZAFFICO)
Zambia Information and Communications Technology Authority (ZICTA)
Zambia Public Procurement Authority (ZPPA)
Zambia Revenue Authority (ZRA)
Zambia Railways Authority (ZRL)
Zambia Tourism Agency (ZTA)

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1.0 COMPOSITION OF THE COMMITTEE

The Committee consisted of Dr Chitalu Chilufya, MP (Chairperson); Mrs Mutinta C Mazoka, MP (Vice Chairperson); Mr Anthony Kasandwe, MP; Ms Julien Nyemba, MP; Mr Mubita Anakoka, MP; Mr Vumango P Musumali, MP; Mr Stephen Kampyongo, MP; Mr Brian Mundubile, MP; Mr Herbert Mapani, MP and Mr Stanley Kakubo, MP.

PART I

2.0 AUDITOR GENERAL'S COMMENTS, RESPONSES BY THE SECRETARY TO THE TREASURY AND THE COMMITTEE'S RECOMMENDATIONS

2.1 Auditor General's Comments

The Report of the Auditor General on the Accounts of Parastatal Bodies and Other Statutory Institutions for the Financial Year ended 31st December, 2024, was prepared in accordance with *Article 250 of the Constitution of Zambia (Amendment) Act, No. 2 of 2016*; the *Public Audit Act, No. 13 of 1994* and the *Public Finance Management Act, No.1 of 2018*.

During the audit process, the Office engaged Controlling Officers and Chief Executive Officers (CEO) whose accounts were audited to clarify issues and allow for corrective action. The Report only includes audit findings that remained unresolved by the end of the audit for the 2024 financial year and provides recommendations to address those issues.

Submission by the Secretary to the Treasury

The Secretary to the Treasury acknowledged the Auditor General's mandate and committed to ensuring that parastatal bodies and statutory institutions comply with Public Financial Management laws to minimise audit queries. This would be achieved through continuous sensitisation, monitoring, and providing guidance. He also encouraged Controlling Officers and CEOs to fully utilise the opportunity to respond to draft audit findings in order to resolve issues before the final report is issued.

Committee's Observations and Recommendations

The Committee observes that there is a growing tendency among parastatal bodies and statutory institutions of not taking the audit process seriously. The Committee notes that most of the entities fail to provide documentary evidence when it is required, in contravention of section 11(1)(p) of the *Public Finance Management Act, No. 1 of 2018*. Consequently, they request the Auditor General to undertake verification visits which lead to additional costs that can be avoided. In view of the foregoing, the Committee recommends that officer(s) that fail to take the audit process seriously should be prosecuted under section 51 (a) and (b) of the *Public Finance Management Act, No. 1 of 2018*.

PART II

3.0 CONSIDERATION OF SUBMISSIONS FROM THE CONTROLLING OFFICERS AND CHIEF EXECUTIVE OFFICERS OF THE SIXTEEN PARASTATAL BODIES AND STATUTORY INSTITUTIONS CITED IN THE AUDIT REPORT

The Committee considered submissions from the Controlling Officers and Chief Executive Officers under whose portfolios the institutions cited in the Report of the Auditor General fell. The submissions are as set out below.

3.1 COMPETITION AND CONSUMER PROTECTION COMMISSION

Audit Findings

A review of the accounting and other records maintained by the Competition and Consumer Protection Commission (CCPC) for the period under review revealed the following irregularities to which the Controlling Officer responded as highlighted below.

a. Revenue Budgets and Actual Collections

The Controlling Officer submitted that the Commission attributed the revenue collections recorded to the following factors:

- i. In 2021, the economy was still recovering from the effects of the COVID-19 pandemic, which resulted in reduced collection of fees and penalties. The Committee was informed that the Tribunal was non-operational as the tenure of the majority of its members had expired. Further, the Committee was informed that, being an election year, Parliament had been dissolved and there was no Minister in office to appoint new Tribunal members. This situation delayed the disposal of cases before the Tribunal, consequently affecting revenue collection.
- ii. in 2022, significant penalty collections were recorded following the settlement of a case by an erring enterprise. It was reported that, during the year under review, the enterprise paid a sum of K25 million, which substantially contributed to the revenue collected.
- iii. in 2023, following the Government's revision of the Merger Notification Threshold from 50 million Fee Units (K15 million) to 100 million Fee Units (K30 million) as a measure to ease the cost of doing business for Small and Medium Enterprises (SMEs), certain transactions that were previously notifiable no longer met the prescribed threshold. Consequently, such transactions were no longer being notified to the Commission, thereby affecting revenue collections.
- iv. as regards the collection of outstanding fines and penalties, the Committee was informed that there had been notable delays in the submission of financial statements required for the determination and enforcement of penalties against entities. The Committee further heard that mandatory order applications filed before the Tribunal to compel erring enterprises to submit financial statements could not be heard and determined in a timely manner, as the Tribunal had been non-operational from 2021 to 2023.
- v. in 2024, the Government revised the Fee Unit value for Statutory Fees and Penalties from 30 Ngwee to 40 Ngwee. The Committee heard that this revision led to a further upward adjustment of the merger notification threshold from K30 million to K40 million. It was submitted that this adjustment had the same effect as that detailed in 2023.

As part of the measures to enhance revenue collection and meet its revenue targets, the Committee was informed that members of the Competition and Consumer Protection Tribunal were appointed by the Minister of Commerce, Trade and Industry in May, 2023 and subsequently commenced the disposal of pending matters before the Tribunal.

The Committee further heard that the *Competition and Consumer Protection (Amendment) Act, No. 21 of 2023* introduced penalties against natural persons for violations of the Act, thereby broadening the enforcement framework. Additionally, the Commission relied on the Settlement Guidelines of 2016, which allowed businesses to enter into staggered payment arrangements (time-to-pay agreements) towards penalties, as a measure to ease the cost of doing business for SMEs.

The Committee was informed that in December 2024, the Board of Commissioners resolved to cap staggered payments (time-to-pay agreements) at twelve months as a measure to improve revenue collection. The Committee was further informed that, for cases where

penalties were not appealed at the Tribunal and remained unpaid, such amounts became civil debts owed to the State. The Commission, therefore, collected these debts through summary proceedings in the Courts of Law.

The Committee was further informed that Statutory Fees were collected whenever businesses decided to merge or seek agreements or exemptions, and were therefore inherently unpredictable. It was noted that statutory fees were collected at the time of notification and were not subject to delays, unlike penalties, which arose from violations of the law. The Committee also heard that the challenges affecting the operations of the Tribunal were well known. The Commission had, therefore, submitted proposals to the Ministry of Commerce, Trade and Industry (MCTI) on measures to improve Tribunal operations, including increased funding and making the Tribunal a permanent body rather than an ad hoc one.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the appointment and operationalisation of Tribunal members to ensure the timely disposal of cases and enforcement of penalties. The Committee further urges the Controlling Officer to ensure that there is strict monitoring and enforcement of time-to-pay agreements within the twelve-month cap to enhance revenue collection efficiency. The Committee urges the Controlling Officer to actively follow up with the Ministry of Finance and National Planning on measures to support improved revenue collection and ensure timely funding of the Commission's operations. The Committee will await a progress report on the matter.

b. Basing Merger Notification Fees on Un-Audited Financial Statements

The Controlling Officer informed the Committee that in relation to the Syngenta and Synergy transaction, the Commission relied on management accounts due to the applicants' request for expediency in the assessment of the transaction. The applicants needed to prepare the site (land) for operations, while retaining 50 employees from the seller, and site preparation had to be undertaken before the harvest commenced, creating a time-sensitive situation. The Committee was further informed that the applicants subsequently submitted the Audited Financial Statements (AFSs) on 10th April, 2025 following which the balance of K112,805.89 was paid by the applicants.

Regarding the Mercury and Blackstar transaction, the Committee was informed that the initial financial statements submitted were not signed by the auditor engaged. The Commission subsequently received the signed Audited Financial Statements on 21st April, 2025 and confirmed that the notification fee corresponded with the figures in the Audited Financial Statements.

The Committee was informed that, as a corrective measure, the Commission now processes merger applications only on the basis of fully signed Audited Financial Statements.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that all future Merger Applications are assessed strictly on the basis of fully signed Audited Financial Statements, in full compliance with the law. The Committee further urges the Controlling Officer to ensure that the Commission strictly adheres to the legal provisions regarding the determination and collection of merger notification fees. The Committee will await a progress report on the matter.

c. Failure to Maintain Updated Database for Fines with Monetary Amounts

The Committee was informed that the format of the database had been prepared in line with the requirements of the Board of Commissioners, and that Turnover was not originally a

requirement of the information requested by the Board. However, the Committee noted that turnover was detailed in the client file, which served as the source of information included in the database.

The Committee was further informed that, as a corrective action, the database had been amended to include turnover as the basis for calculating penalties to ensure that future penalty assessments were accurate and reflective of the relevant financial data.

Committee’s Observations and Recommendations

The Committee urges the Commission to ensure that all databases used for financial assessments and penalty calculations are comprehensive, accurate, and regularly updated. The Committee further urges the Controlling Officer to ensure that the Commission establishes a formal verification process to cross-check information in the database against client files before calculating penalties. The Committee will await a progress report on the matter.

d. Failure to Enforce Collection of Fines Revenue from Non-Compliant Entities - - K32,771,579

The Committee was informed that in an effort to assist businesses in reducing the cost of doing business, the Commission allowed flexible payment conditions for most penalties payable by erring parties. These staggered payments ranged between 6 and 20 months prior to the introduction of the capped time-to-pay agreements. Consequently, the Commission had to adhere to its contractual obligations with enterprises that entered into these agreements before the cap was introduced.

The Committee further heard that the Commission continued to collect penalties in line with the staggered payment arrangements. However, the Board of Commissioners passed a resolution in December, 2024 stipulating that staggered payments should be capped at twelve months to enable the Commission to recover outstanding penalties within the relevant financial year.

The Committee was informed that, to date, the Commission successfully collected K22,095,028 of the total K32,793,232 in outstanding penalties, while K10,698,205 related to cases pending before the courts of law, as indicated in the table below:

Year	Category	No. of Entities	Amounts	Amounts Collected	Balance
2022, 2023	Restrictive Business Practices and Consumer Protection Cases	8	1,486,554	1,486,554	
2024	Restrictive Business Practices	6	31,306,679	20,608,474	10,698,205
	Total	14	32,793,232	22,095,028	10,698,205

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the Commission strictly enforces the collection of outstanding penalties to ensure compliance and timely revenue recovery. The Committee further urges the Controlling Officer to closely monitor cases pending before the courts of law and take all necessary legal measures to expedite collection of amounts owed to the State and will await a progress report on the matter.

e. Failure to Collect Fines

Regarding the matter of uncollected fines, the Committee was informed that the Ministry of Commerce, Trade and Industry, through the Commission, noted the Auditor’s observation. It was explained that the erring enterprise had appealed against the decision of the Board to the Competition and Consumer Protection Tribunal, which ruled in favor of the enterprise. Being aggrieved by the judgment of the Tribunal, the Commission subsequently appealed to the Court of Appeal. The Committee was informed that, at the time of reporting, the appeal was yet to be heard, and the fines had, therefore, not been collected.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to enhance collaboration between Management and the Board to ensure coordinated decision-making and timely follow-up on outstanding fines. The Committee further urges the Commission to explore all legally permissible measures to ensure timely enforcement of fines once judgments are delivered and will await a progress report on the matter.

f. Failure to Settle Statutory Obligations - K4,834,727

The Committee was informed that failure to settle statutory obligations arose from cash flow challenges experienced by the Commission between October 2022 and March 2023. This situation resulted in the accumulation of unremitted Pay As You Earn (PAYE) contributions owed to the Zambia Revenue Authority. The Committee was further informed that the Commission had a budget of K38.4 million for 2022, of which K32.68 million, representing 84 per cent, was allocated to staff emoluments. The cash flow challenges also contributed to high staff turnover.

Regarding the Commission’s National Pension Scheme Authority (NAPSA) account, a balance of K87,328 was in credit due to the non-capture of a 2008 return during the NAPSA system migration in 2024. The Committee was informed that the Commission had since corrected the balance and was up to date with its statutory and contractual obligations to both NAPSA and the National Health Insurance Management Authority (NHIMA).

The Committee was further informed that the Ministry of Commerce, Trade and Industry and the Commission lobbied for additional funding through Appropriation in Aid (AIA), which was increased by the Ministry of Finance and National Planning in 2024 and 2025. This enabled the Commission, as of 31st December, 2025 to pay all outstanding amounts to ZRA as per the returns. Between May 2023 and December 2025, the Commission paid a total of K4,163,014.47 towards the PAYE debt. The Commission was in the process of applying for a waiver of accumulated interest and penalties from ZRA following formal engagements.

The Committee learnt that the Commission engaged NAPSA to correct the lost returns, and the account balance had since been adjusted accordingly, as indicated in the table below:

No.	Institution /Period	Amount (K)	Paid (K)	Balance (K) Comment
1.	ZRA	4,712,449	1,918,201	2,794,248 Balance of penalties and interest to be applied and written off
2.	NHIMA	34,950	34,950	Nil balance
3.	NAPSA	87,323		Nil balance Return found balance cleared

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the Commission strengthens its financial management and cash flow forecasting mechanisms to ensure that statutory

obligations are prioritised and remitted within the prescribed timelines. The Committee further urges the Controlling Officer to expeditiously conclude engagements with the Zambia Revenue Authority to secure a waiver of the accumulated penalties and interest. The Committee urges the Ministry of Commerce, Trade and Industry, in collaboration with the Ministry of Finance and National Planning to ensure adequate funding to enable the Commission to effectively discharge its mandate without compromising statutory compliance and will await a progress report on the matter.

g. Effecting Responsibility Allowance without Approval from the Executive Director

The Controlling Officer submitted that, according to the CCPC Terms and Conditions of Service of 2020, clause 9.2 relating to responsibility allowance stated that an officer who was assigned to perform the duties of more than one post for fifteen days or more was, in addition to his or her salary, entitled to be paid a responsibility allowance equivalent to 20 per cent of his or her monthly full pay. The clause further provided that the Human Resource Department was required to notify the Finance Department in writing.

The Committee was further informed that the role of the Human Resource Department was to notify the Director Finance upon verification that the officer had fulfilled the requirements as stipulated in clause 9.2 of the CCPC Terms and Conditions of Service of 2020. The Controlling Officer explained that the CCPC Terms and Conditions of Service of 2020, did not require the Executive Director's approval at that stage, as the allowances were approved together with the payroll for each respective month.

To address the matter, in 2025 the CCPC Terms and Conditions of Service were aligned with the guidelines from the Emoluments Commission, which resulted in the abolition of the payment of the responsibility allowance. Prior to that, the Commission ensured that all payroll-related entries, including the responsibility allowance, were approved by the Executive Director.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to provide all supporting documents to the Office of the Auditor General (OAG) for verification and will await a progress report on the matter.

h. Contract for the Procurement of Office Building

i. Irregular Approval by the Procurement Committee

The Controlling Officer submitted that the Procurement Committee had only noted the procurement after contract execution due to a procedural anomaly, which was self-identified. In addition, all relevant documentation had been provided for investigations by the Financial Intelligence Centre and the Anti-Corruption Commission, which were still ongoing.

The Committee was informed that, upon identifying the procedural anomalies, the Commission had self-reported the matter to the Ministry of Finance and National Planning; the Attorney General's Office; the Office of the Auditor General; and the Zambia Public Procurement Authority, and sought guidance on how to rectify the anomaly. These offices advised the Commission that the procurement of the building could not be rectified or ratified retrospectively. However, the Commission ensured that such anomalies were not repeated by strictly adhering to the procurement laws and regulations and by involving the procurement unit from the Ministry of Commerce, Trade and Industry in subsequent processes.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that punitive measures are instituted against the erring officers. The Committee also urges the Controlling Officer to ensure that the Commission continues to strengthen its procurement processes to guarantee full compliance with the public procurement laws and regulations. The Committee further urges the Controlling Officer to ensure that all future procurements are reviewed and approved prior to contract execution by the Procurement Committee to prevent any recurrence of procedural anomalies. The Committee will await a progress report on the matter.

ii. Irregular Direct Bidding of Marigold Properties Limited

The Controlling Officer submitted that the matter was still under investigation by the Anti-Corruption Commission. The Committee was informed that the Commission had since ensured that such anomalies were not repeated and that all procurement laws and regulations were being strictly adhered to.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure strict adherence to all procurement laws and regulations in all future transactions to prevent any recurrence of irregular direct bidding. The Committee further urges the Commission to conduct regular capacity-building programs for procurement staff to reinforce compliance with statutory and regulatory requirements and will await a progress report on the matter.

iii. Failure to Obtain Approval from Attorney General

The Controlling Officer submitted that the matter was still under investigation by the Anti-Corruption Commission. The Committee was informed that the Commission had since ensured that such anomalies were not repeated and that all procurement laws and regulations were being strictly adhered to.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the Commission obtains all necessary approvals, including from the Attorney General, for all future procurements to prevent recurrence of irregularities. The Committee will await a progress report on the matter.

i. Wasteful Expenditure – Procurement of Air Ticket Before Approval of Visitors Information Stay Admission (VISA) – K37,160

The Controlling Officer submitted that the issue arose due to delays in visa processing in South Africa and delayed communication regarding the rejection of the Executive Director's authority to travel. The Committee was informed that the Commission ensured that air tickets were purchased only after visas had been approved.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to put in place measures to ensure strict adherence to financial regulations and internal controls governing travel and procurement procedures. The Controlling Officer is further urged to continuously monitor compliance with these measures. The Committee urges the Controlling Officer to avail supporting documents to the OAG for audit verification and resolves to await a progress report on the matter.

j. Lease Agreement with Securities Exchange Commission (SEC)

i. Failure to Remit Tax on Rental Income – K755,109

The Controlling Officer submitted that the Commission had been of the understanding that when the Secretary to the Treasury approved the request for the Commission to obtain a loan to complete the purchase of the building, approval had also been granted for the rentals from the building to be used to service the debt. The Committee was informed that this arrangement formed part of the conditions of the loan agreement and that all rentals collected had been recovered at source by Investrust Bank to service the loan, as the funds were not regarded as income for the Commission.

The Committee was further informed that the Commission, with the assistance of the Ministry of Commerce, Trade and Industry and the Ministry of Finance and National Planning, had paid off the loan in February, 2024. The Committee learnt that the Commission had since relocated to its Head Office at Stand No. 3827, Parliament Road, and no longer leased out the property.

Committee’s Observations and Recommendations

The Committee notes the response and urges the Controlling Officer to ensure strict compliance with all statutory tax obligations, going forward. The Controlling Officer is urged to avail supporting documents to the OAG for audit verification, after which the matter should be closed.

ii. Failure to Collect Rental Income – Lease agreements with Avenis Group

The Controlling Officer submitted that the Commission entered into a contract with the tenant who did not fulfil their contractual obligations and was immediately evicted after he failed to make rental payments in line with the lease agreement.

The Committee was informed that the Commission commenced legal action against Avenis and that judgement was rendered in favour of the Commission. In addition, the Commission engaged the services of the Sheriff of Zambia in seeking avenues for recovering the unpaid rentals from the former tenant, who could not be traced. Tracing the tenant posed a challenge, as even the records at the Patents and Companies Registration Agency (PACRA) were not adequate to assist in that regard. The Committee was further informed that the Commission would proceed with other available courses of action as provided for under the relevant laws.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to strengthen pre-contract due diligence procedures to ensure that all prospective tenants are properly vetted and traceable through the Patents and Companies Registration Agency (PACRA) and other relevant institutions. The Committee will await a progress report on the matter.

3.2 INDENI ENERGY COMPANY LIMITED

Audit Findings

A review of accounting and other records maintained at INDENI Energy Company Limited for the period under review, revealed the following irregularities to which the Controlling Officer responded as highlighted below.

a. Weaknesses in the Management of the Transition from Refinery to Oil Marketing Company

i. Failure to Dispose Decommissioned Refinery Assets

The Controlling Officer submitted that, following the change in business model from refining to oil marketing, the refinery assets had been placed under care and maintenance pending a formal decision on disposal. The disposal process had been delayed due to the need to establish fair market values, obtain the necessary technical assessments, and secure appropriate Board and shareholder approvals, which resulted in continued preservation costs being incurred.

The Committee was informed that Management initiated the disposal process in line with INDENI's Asset Disposal Policy. To support an informed and transparent disposal process, both a private sector valuer and a Government valuer from the Ministry of Infrastructure, Housing and Urban Development was engaged to conduct independent valuations of the decommissioned refinery assets. This step was undertaken to ensure that disposal decisions were based on credible valuations and were aligned with public sector governance requirements.

The Committee was further informed that the valuation exercises were completed, and the valuation reports were submitted to Management. The reports were scheduled for presentation to the Board of Directors and the Industrial Development Corporation (IDC), as shareholder, for consideration and approval of the appropriate disposal method and implementation timeline.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the disposal of the decommissioned refinery assets by ensuring that all outstanding approvals from the Board of Directors and IDC are obtained without further delay. The Controlling Officer is also urged to implement a clearly defined disposal timeline with specific milestones to avoid prolonged inactivity and continued incurrence of maintenance and preservation costs. Further, the Committee urges the Controlling Officer to ensure that the disposal process is conducted in a transparent and competitive manner, in strict adherence to the Asset Disposal Policy and applicable public procurement regulations, in order to safeguard value for money. The Committee will await progress report on the matter.

ii. Payment for Works not Done and Materials not Delivered - Contract for Construction Design, Procurement and Construction of New Crude Oil Storage Tank

The Controlling Officer submitted that the root cause of the alleged payment for works not executed and materials not delivered under the contract for the construction of Crude Oil Storage Tank No. 4 was that the contractor, Yarden Engineering Services, held two separate contracts with the Company, namely:

- (a) Rehabilitation of Existing Crude Oil Storage Tank – Tank S2; and
- (b) Design and Construction of New Crude Oil Storage Tank – Tank S4.

The total amount of US\$2,667,585 represented cumulative payments made across the two contracts. The payments amounting to US\$1,546,904, were made specifically in relation to Tank S4 (Phase 1) as at 17th June, 2025.

Following the Government policy decision to cease refinery operations, the Tank S4 contract was terminated on 30th June, 2022 and the matter proceeded to contract close-out and arbitration. At the point of contract frustration, the project had not progressed to the stage of procurement or delivery of construction materials for the tank foundation. The measured and

certified works executed were agreed at US\$1,534,171.17, which excluded materials. The perception of payment for undelivered materials arose from the aggregation of payments across both contracts and the interpretation of Interim Payment Certificate (IPC) No. 3, which formed part of the final account prepared during arbitration.

The Committee was informed that the Company subjected the contract to formal arbitration, during which the measured works, liabilities, and penalties were independently determined. A court-guided payment plan was agreed upon to liquidate the adjudicated amount, inclusive of certified works, legal fees, and penalties arising from delayed settlement.

In addition, Management strengthened contract management and payment certification controls, including enhanced segregation of contracts, verification of physical works prior to certification, and clearer reconciliation of interim payment certificates to executed works. Further, payments to the contractor continued in accordance with the arbitration award and court directives. Management complied with the agreed payment plan while ensuring that no further payments were effected outside certified and legally sanctioned obligations.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to strengthen oversight and internal controls over contract execution and payment processes to prevent the recurrence of payments for works not done or materials not delivered. The Committee further urges Management to ensure clear segregation, monitoring, and tracking of multiple contracts with the same contractor in order to eliminate any risk of misinterpretation of payments. The Committee also urges the Controlling Officer to ensure full and timely compliance with the agreed payment plan arising from arbitration and to take all necessary measures to avoid any further financial exposure resulting from penalties, interest, or delayed settlements. The Committee will await a progress report on the matter.

b. Financial Analysis

i. Statement of Profit or Loss and Other Comprehensive Income

• Non-Attainment of Set Operating Profit Margin Ratio

The Controlling Officer submitted that the primary cause of the underperformance was the fundamental transition of INDENI from a crude oil refinery to an OMC following the Government policy decision in 2021 to cease crude oil processing and adopt the importation of finished petroleum products. Under the refinery model, the Company generated revenue through value addition from processing crude oil, which supported comparatively high operating margins. Following the transition, INDENI adopted a bulk fuel trading model, which had been inherently characterised by high volumes and low margins, particularly within regulated and contract-based fuel supply arrangements.

In 2023, trading activity was severely constrained as fuel supply to First Quantum Minerals (FQM) commenced only in the last quarter of 2023. Consequently, revenue for the year amounted to K169.57 million, representing only three months of trading activity. Despite the limited revenue base, the Company continued to incur full-year fixed overheads, including staff costs, insurance, utilities, and maintenance of legacy refinery infrastructure, resulting in a negative operating margin of 26 per cent.

In 2024, the Company secured a full-year fuel supply contract with FQM, which led to a significant increase in revenue to K1.76 billion. However, operating margins remained negative at 4 per cent due to the thin trading margins inherent in the OMC model, coupled with the continued burden of fixed and legacy costs. As a result, the operating profit margin

targets of 69 per cent and 71 per cent, which had been set based on refinery-era assumptions, were not attainable under the prevailing OMC operating environment.

The Committee was further informed that Management implemented a multi-pronged response aimed at restoring operating viability, including:

- i) scaling up trading volumes with mining companies and other bulk fuel customers to improve gross contribution and fixed cost absorption;
- ii) initiating a cost rationalisation review to align operating expenses with the OMC business model; and
- iii) engaging the Shareholder to review and recalibrate performance benchmarks to ensure alignment with the Company's revised operating structure and industry realities.

The Controlling Officer informed the Committee that trading volumes increased materially, and cost containment measures were progressively implemented. Management was actively engaging the Shareholder on the rebaselining of operating margin targets to reflect the OMC model. Improvement in operating margins was expected as volume growth cost realignment, and target recalibration were fully embedded.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to continue strengthening strategies to improve operating profitability under the OMC model. The Committee further urges the Controlling Officer to ensure continuous monitoring and evaluation of the OMC business model to enable timely identification and mitigation of structural or transitional issues that may adversely affect financial performance. The Committee will await a progress report on the matter.

• Failure to Attain Gross Profit Margin Ratio

The Controlling Officer submitted that the primary cause of the underachievement was the fundamental change in the Company's business model from crude oil refining to bulk trading of finished petroleum products following the Government policy decision in 2021. The Committee was informed that under refinery operations, gross margins were derived from value addition through processing crude oil into finished products, which supported comparatively high margins. Following the transition to an OMC model, INDENI operated as a bulk trader in a market characterised by high volumes and structurally low margins, particularly within regulated pricing environments and long-term supply contracts.

In 2023, trading activity was severely limited, with fuel supply to the mining sector commencing only between October and December, 2023. As a result, revenue for the year amounted to K169.57 million, reflecting only three months of trading. Gross profit for the period was K3.33 million, translating into a gross margin of 2 per cent, as the limited trading window constrained the Company's ability to generate sufficient gross contribution relative to procurement costs.

In 2024, the Company commenced trading with its primary supplier, VITOL, in May 2024 and secured a full-year supply contract with FQM. This resulted in a significant increase in revenue to K1.76 billion. However, gross profit amounted to K33.84 million, maintaining a margin of approximately 2 per cent. The persistently low margin was driven by high upstream fuel procurement costs, influenced by international oil prices and foreign exchange movements, combined with regulated or contractually negotiated selling prices that offered limited flexibility to pass through cost increases.

Accordingly, while trading volumes improved substantially in 2024, the gross profit margin target of 83 per cent, which had been set based on refinery-era assumptions, was not attainable under the inherent economics of bulk fuel trading. The Committee was further informed that Management implemented targeted measures to improve gross contribution, including:

- i. reviewing fuel procurement strategies to optimise supplier terms and pricing structures;
- ii. engaging the energy regulator and key stakeholders to address pricing constraints and improve margin sustainability; and
- iii. diversifying supply arrangements to reduce dependency on a single procurement source.

Furthermore, the Company revised its supply arrangements, including engaging ADNOC as the current supplier, with the objective of improving procurement terms and stabilising margins. While gross margins remained constrained by market fundamentals, Management continued to pursue incremental margin improvements alongside volume growth and ongoing engagement with the Shareholder to realign gross margin benchmarks to reflect the realities of the OMC operating model.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to strengthen measures aimed at improving gross profit margins under the OMC model. The Committee further urges the Controlling Officer to provide periodic progress reports on revenue growth, procurement improvements, and margin enhancement until sustainable gross profitability is achieved. The Committee will await a progress report on the matter.

• Non-Attainment of Net Profit Margin

The Controlling Officer submitted that the failure to achieve the targeted net profit margins was primarily attributable to lower than planned throughput volumes, coupled with structural cost rigidities during the Company's transition from refinery operations to an OMC. For 2024, the Company budgeted to procure and trade approximately 400,000 metric tonnes (MT) of finished petroleum products. However, actual throughput achieved during the year had been only 65,268 MT, largely due to delays in securing supply contracts and constrained access to product volumes. The significantly reduced trading volumes had limited revenue generation and gross contribution, thereby constraining the Company's ability to absorb operating costs.

In addition, the Company continued to incur fixed and legacy costs associated with the former refinery model, including staffing, insurance, utilities, and infrastructure maintenance, which had persisted despite reduced activity levels. As a result, although revenue increased substantially in 2024 compared to 2023, net profitability remained negative at 3 per cent, as operating and financing costs continued to outweigh gross margins generated under the OMC model. The net profit margin targets of 23 per cent and 22 per cent had therefore not been attainable under the prevailing operating conditions, given the combination of constrained volumes, thin trading margins, and residual cost structures inherited from the refinery period.

The Committee was informed that Management implemented a set of revenue diversification and volume enhancement initiatives aimed at restoring profitability, including:

- expanding non-trading revenue streams, such as laboratory and technical services;
- diversifying the product portfolio to include petrol, LPG, Jet A-1, and retail fuel sales; and

- intensifying efforts to secure additional bulk fuel supply and off-take arrangements to improve throughput and scale.

In this regard, profitability remained under pressure. However, revenue diversification initiatives had been progressively implemented, and trading volumes had begun to improve. Management continued to engage the Shareholder on volume growth, cost realignment, and capital support options to stabilise operations and support a return to sustainable profitability over the medium term.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to intensify efforts aimed at restoring net profitability under the OMC model. The Committee further urges the Controlling Officer to provide periodic progress reports on output volumes, revenue diversification, cost containment, and profitability until the Company achieves a sustainable positive net profit margin. The Committee will await a progress report on the matter.

ii. Failure to Attain Set Financial Perspective Key Performance Indicators

The Controlling Officer submitted that the underperformance against IDC-set Key Performance Indicators (KPIs) was primarily driven by structural and transitional constraints arising from the Company’s shift from refinery operations to an OMC, compounded by delays in securing fuel supply contracts, constrained procurement volumes, and the persistence of fixed and legacy cost structures.

Specifically, revenue and EBITDA targets were not achieved due to delays in concluding fuel supply arrangements, which significantly limited the Company’s ability to procure and trade the budgeted volumes of finished petroleum products. In 2024, although the Company planned to procure approximately 400,000 metric tonnes (MT) of low Sulphur gas oil, actual procurement achieved was only 65,268 MT, materially constraining revenue generation and EBITDA performance. The administrative expenses-to-revenue ratio target was adversely affected by the continuation of fixed overhead costs, including insurance, utilities, and maintenance expenses associated with refinery infrastructure placed under care and maintenance. These costs remained largely constant despite reduced trading volumes, resulting in elevated cost-to-revenue ratios.

Similarly, the staff expenses-to-revenue ratio was negatively impacted by the maintenance of 141 employees on short-term contracts, which necessitated substantial gratuity and terminal benefit payments during the period under review. These staffing arrangements, inherited from the refinery operating model, were not immediately scalable to the reduced activity levels under the OMC framework. Accordingly, the IDC financial KPIs, many of which were benchmarked against refinery-era operating assumptions proved misaligned with the economic realities and scale of operations during the transition phase to the OMC model.

The Committee learnt that Management implemented targeted corrective measures to stabilise performance and align operations with the OMC framework, including:

- i) reviewing and restructuring the operating model to better match the cost base with trading volumes under the OMC environment;
- ii) deferring non-essential maintenance and care costs to preserve liquidity;
- iii) initiating a review of staffing levels and contractual arrangements to improve cost flexibility; and
- iv) intensifying efforts to secure sustainable fuel supply and off-take contracts to support volume growth and improved EBITDA performance.

The Committee was further informed that KPI performance was under active and continuous monitoring, with Management engaging the shareholder on the rebaselining of financial perspective KPIs to reflect the Company's revised operating model. Actions to improve procurement volumes, rationalise costs, and stabilise staffing structures were ongoing, with the objective of achieving realistic, sustainable performance outcomes under the OMC framework.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to take decisive measures to restore performance against the IDC-set financial perspective KPIs under the OMC operating model. The Committee further urges the Controlling Officer to provide periodic progress reports on procurement volumes, cost rationalisation, staffing optimisation, and KPI performance until sustainable and realistic financial targets are achieved. The Committee will await a progress report on the matter.

iii. Statement of Financial Position

• Failure to Achieve Targeted Return on Capital Employed

The Controlling Officer submitted that the negative Return on Capital Employed (ROCE) outcomes were primarily attributable to sustained operating losses incurred during the Company's transition from refinery operations to an OMC, compounded by a significantly eroded capital base arising from accumulated losses and asset impairments.

The Committee was informed that, in 2023, the Company recorded an operating loss of K44.45 million, largely due to constrained trading activity, as fuel supply to the mining sector only commenced in October, 2023. This resulted in a limited revenue base against which full-year operating costs were absorbed. In 2024, although revenue increased significantly following the securing of a full-year supply contract with First Quantum Minerals, the Company recorded a higher operating loss of K65.68 million. This was driven by thin trading margins inherent in the OMC model, coupled with the continued burden of legacy refinery-related costs and obligations.

The Committee was further informed that capital employed declined from K111.14 million in 2023 to K54.76 million in 2024, primarily due to accumulated losses and the impairment of refinery assets following the cessation of refining operations. This erosion of equity significantly reduced the capital base against which operating performance was measured, thereby amplifying the negative ROCE position. Consequently, ROCE deteriorated from negative 40 per cent in 2023 to negative 120 per cent in 2024.

In addition, the Company continued to service legacy obligations inherited from the refinery model, with approximately K81 million paid towards historical liabilities during the period under review. While these payments were necessary to regularise outstanding commitments, they constrained available working capital and limited the Company's ability to reinvest in core trading operations, further suppressing returns on capital employed.

Consequently, the ROCE targets of 103 per cent and 117 per cent, which were established under pre-transition capital and profitability assumptions, were not attainable under the prevailing operating conditions and capital structure during the transition to the OMC model.

As a mitigation measure, Management prioritised the settlement and restructuring of legacy obligations to stabilise the balance sheet and reduce structural inefficiencies. In parallel, Management undertook a review of the Company's capital structure to align it with the

requirements of the OMC business model. Engagements with the Shareholder, IDC, remained ongoing to explore recapitalisation options and broader balance sheet restructuring, aimed at restoring capital adequacy and improving the Company's capacity to generate sustainable returns. Furthermore, revenue expansion and volume growth initiatives were implemented to improve operating profitability and enhance returns on deployed capital.

As at 31st December, 2024 ROCE remained below target. However, structured engagements with the Shareholder on recapitalisation and capital restructuring are ongoing, with the objective of strengthening the capital base, improving operating leverage, and restoring sustainable returns under the OMC model.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the restructuring and clearance of legacy obligations, and improve working capital management to enhance liquidity and operational efficiency. Further, the Controlling Officer is urged to accelerate engagements with the shareholder, IDC on recapitalisation and capital restructuring. The Committee will await a progress report on the matter.

- **Failure to Achieve Set Return on Equity**

The Controlling Officer submitted that the negative Return on Equity (ROE) was driven by sustained net losses and a significant erosion of shareholders' equity arising from accumulated deficits during the Company's transition from refinery operations to an OMC. While revenue improved in 2024, profitability remained constrained by thin trading margins, legacy refinery-related costs, and insufficient trading volumes, resulting in continued losses. At the same time, equity declined from K68.21 million in 2023 to K11.82 million in 2024, which further amplified the negative ROE outcome.

The Committee was informed that a business recapitalisation proposal to the shareholder to restore capital adequacy and strengthen the balance sheet was submitted. In parallel, Management expanded trading activities and diversified revenue streams to include LPG, retail fuel sales, and Jet A-1, with the objective of improving earnings and returns to equity holders. The Committee was further informed that ROE remained negative as at 31st December, 2024. However, engagements with the shareholder on recapitalisation were ongoing, and improvements in ROE were dependent on the successful implementation of capital support measures and the stabilisation of operating profitability under the OMC model.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite recapitalisation, strengthen cost control, and enhance revenue generation to restore profitability and improve returns on equity and will await a progress report on the matter.

- **Poor Working Capital**

The Controlling Officer submitted that the negative working capital position arose primarily from legacy liabilities inherited from the refinery operations, combined with the absence of start-up working capital following the Company's transition to an OMC. The Committee was informed that current liabilities continued to accumulate from historical trade payables, statutory obligations, and legacy commitments, while current assets remained constrained due to thin trading margins, delayed scaling of trading volumes, and limited cash generation during the transition period. As a result, current liabilities consistently exceeded current

assets, leading to deterioration in working capital from negative K252.47 million in 2023 to negative K298.22 million in 2024.

The Committee was further informed that Management implemented short-term liquidity mitigation measures, which included negotiating extended payment terms with major suppliers, entering into a formal time-to-pay arrangement with the Zambia Revenue Authority (ZRA), and pursuing a bank overdraft facility to support day-to-day operational requirements.

The Committee was also informed that working capital constraints persisted, reflecting the structural nature of legacy obligations. However, supplier payment terms were renegotiated, statutory payment arrangements were being implemented, and an overdraft facility was pursued to stabilise liquidity while longer-term solutions, including recapitalisation and balance sheet restructuring, were under consideration with the Shareholder.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to strengthen working capital management by accelerating measures to improve cash flow generation. Further, the Controlling Officer should prioritise the settlement and restructuring of legacy obligations to reduce pressure on current liabilities and improve the liquidity position. Additionally, the Controlling Officer should expedite engagements with the shareholder on recapitalisation in order to restore a sustainable working capital position. The Committee will await a progress report on the matter.

- **Failure to Achieve Set Current Ratio Target**

The Controlling Officer submitted that the low current ratio of 0.36:1 was primarily driven by significant legacy current liabilities inherited from the refinery operations, which remained elevated during the transition to an OMC, while current assets were constrained by limited cash generation and thin trading margins. As a result, current liabilities of K463.92 million continued to significantly exceed current assets of K165.70 million, suppressing liquidity ratios despite improvements in trading volumes during the period.

The Committee was informed that Management implemented immediate liquidity management measures, which included introducing weekly cash flow forecasting and monitoring, prioritising settlement of current statutory obligations to limit further accumulation of arrears, and restricting non-essential expenditures to preserve available cash resources.

The Committee was further informed that liquidity remained tight, reflecting the structural nature of legacy obligations. However, cashflow controls were in place, statutory payments were prioritised, and liquidity improvement measures were ongoing as Management continued to engage the Shareholder on broader balance sheet and recapitalisation solutions to sustainably improve the current ratio.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to strengthen liquidity management through improved cash flow generation, strict cost control, and prioritisation of statutory and critical payments. The Controlling Officer is further urged to accelerate measures aimed at reducing legacy liabilities. In addition, the Controlling Officer should expedite engagements with the shareholder on recapitalisation and broader balance sheet restructuring in order to sustainably improve the current ratio and overall liquidity position. The Committee will await a progress report on the matter.

c. Failure to Settle Outstanding Obligations – K84,598,697

The Controlling Officer submitted that the accumulation of outstanding statutory and supplier obligations was primarily driven by prolonged cashflow constraints during the Company's transition from refinery operations to an OMC, coupled with the continued burden of legacy liabilities inherited from the refinery model. Following the cessation of refining activities, the Company experienced reduced and irregular revenue inflows, particularly in 2023, when trading activity was limited to the last quarter of the year.

Although revenue improved in 2024 following the securing of the First Quantum Minerals supply contract, thin trading margins under the OMC model constrained cash generation. As a result, the Company was unable to fully meet historical statutory obligations, trade payables, and pension related commitments, some of which had accumulated since 2022.

As a mitigation measure, Management engaged statutory bodies, including ZRA, NAPSA, and NHIMA, as well as key suppliers and other creditors, to negotiate structured repayment arrangements. A phased settlement plan was developed, prioritising compliance with current statutory obligations to prevent further accumulation of arrears.

In addition, Management was engaging the shareholder, the IDC, on recapitalisation and restructuring of legacy obligations to strengthen the Company's financial position and enable orderly settlement of outstanding balances. The Controlling Officer informed the Committee that, as at 31 October 2025, statutory and supplier arrears remained outstanding. However, structured repayment arrangements were being implemented, and engagements with statutory bodies, suppliers, and the shareholder were ongoing to regularise the obligations in a phased and financially sustainable manner.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the settlement of outstanding statutory and supplier obligations by fully implementing structured repayment plans and ensuring strict adherence to agreed payment schedules. The Controlling Officer is further urged to prioritise current statutory compliance to prevent further accumulation of arrears. In addition, the Controlling Officer should accelerate engagements with statutory bodies, suppliers, and the shareholder on recapitalisation and restructuring of legacy obligations to ensure sustainable clearance of outstanding liabilities. The Committee will await a progress report on the matter.

3.3 INFRATEL CORPORATION LIMITED

Audit Findings

A review of the accounting and other records maintained at the Infratel Corporation Limited for the period under review revealed the following irregularities to which the Controlling Officer responded as highlighted below.

a. Annual Performance

i. Statement of Financial Position

- **Failure to Meet Key Performance Targets - Performance Management Contracts 2023 and 2024**
- **Debtor Management – K362,888,061**

The Controlling Officer acknowledged the audit observation regarding the Corporation's failure to fully achieve selected performance management contract targets for 2023 and 2024. While the performance contracts had been developed based on assumptions underpinning

the approved Strategic Plan and annual budgets, the Committee was informed that Management recognised that these assumptions had not been sufficiently stress tested against execution risks and external dependencies. Furthermore, performance targets had not been formally recalibrated when material deviations became evident during the year.

The Controlling Officer outlined the following root causes for the failure to meet key performance targets:

1. Total Revenue

The Controlling Officer submitted that INFRATEL's revenue targets were premised on projected commitments from both existing and prospective clients. A key assumption was the commencement of operations by Zambia's fourth mobile network operator, ZedMobile, in January 2023 and January 2024. However, ZedMobile only commenced onboarding in August 2024, with billing beginning in October 2024.

This delay materially affected projected tower tenancy and associated service revenues, resulting in a revenue shortfall of approximately 3 per cent in both years. Management further acknowledged that budget assumptions were overly dependent on a single large new entrant without sufficient contingency provisions.

2. Receivables and Payables Management

The Committee was informed that trade payables had increased from sixty-nine days in 2023 to 126 days in 2024, mainly due to:

- outstanding obligations under a three-year diesel generator supply framework agreement with Cummins;
- delayed reconciliation and settlement of electricity bills with ZESCO; and
- unsettled balances with Liquid Technologies and Oasis Oil at year end.

The Controlling Officer further informed the Committee that Zamtel debtor days improved marginally from 281 days in 2023 to 263 days in 2024, following partial payments. However, the sixty-day target was not achieved due to continued non-adherence to agreed payment plans on legacy debt. Management recognised that high exposure to a related party constrained the effectiveness of standard credit enforcement mechanisms.

3. Current Ratio

The Controlling Officer submitted that the Corporation did not meet its current ratio target in 2023, achieving 0.14 against a target of 0.17. However, liquidity improved significantly in 2024, with the current ratio rising to 0.61 against a target of 0.32. This improvement reflected enhanced working capital management, debt restructuring initiatives, and improved cash generation.

4. Asset Turnover

The Committee learnt that although asset turnover remained below target in both 2023 and 2024, this was largely attributable to the long-gestation nature of infrastructure investments, where assets were capitalised ahead of full commercialisation. Management, therefore, acknowledged the need to accelerate tenancy uptake and service monetisation to improve asset utilisation.

To address the identified weaknesses, Management implemented the measures presented hereunder.

- i) **Revenue growth** - Engagements with mobile network operators were intensified, resulting in MTN committing to 115 micro sites scheduled to go live in 2025. In addition, revenue diversification initiatives were implemented, including the expansion of data centre and cloud services, the establishment of a Security Operations Centre, and the development of digital solutions such as performance and contract management systems.
- ii) **Receivables management** - Management strengthened enforcement of agreed payment plans with Zamtel, including service limitation mechanisms, while intensifying engagements with IDC and Government stakeholders to pursue structured settlement of legacy debt. The impact of enhanced collection controls on current receivables was reflected below:

Year	31 - 60 Days	61 - 90 Days
2024	K30,054,494	K30,387,503
2025 - Aug	K27,617,009	K24,786,116
Change	-K2.4 million	-K5.6 million

- iii) **Payables management** - Management engaged ZESCO to expedite bill reconciliations and establish an agreed payment plan. In addition, enhanced internal monitoring controls over trade payables had been introduced to prevent further accumulation.
- iv) **Performance contract governance** - Improvements were initiated to the budgeting and performance management framework, including sensitivity analysis and mid-year performance reviews, to enable earlier identification of assumption slippage.

In view of the foregoing, the Committee was informed that, as at December 2025, overall financial performance strengthened materially, with revenue reaching K527.33 million against a target of K501.76 million, representing a positive variance of 5 per cent. The current ratio improved to 1.87, while asset turnover increased to 16.2 per cent, reflecting improved revenue generation from existing infrastructure.

However, receivables management remained a key risk area. Zamtel debtor days increased in 2025 due to the persistence of legacy balances, despite improvements in current billing compliance, as illustrated in the table below:

Period	Total Over-90-Day Debt	Zamtel's Contribution	% of Total
Dec 2024	K 260,544,678	K 240,534,411	92%
July 2025	K 326,916,741	K 307,486,473	94%
August 2025	K 331,220,706	K 310,750,976	94%
December 2025	K 389,063,952	K 354,703,684	91%

To address this, the Controlling Officer submitted that a formalised payment plan was agreed with Zamtel, Government interventions funded non-commercial rural sites directly, preventing further debt accumulation, and these measures were expected to result in a progressive reduction of aged receivables during 2026.

The results of these interventions, which Management implemented to stabilise and grow the business, were shown in the table below.

Objective	2025			2024			2023		
	Targets	Actual	Variance	Targets	Actual	Variance	Targets	Actual	Variance
a) KEY FINANCIAL METRICS									
i. Total	501.76	527.33	5%	447.44	425.43	22.01	431	384.81	46.19

Revenue (K'000,000)									
ii. Current Ratio	1.06	1.87	0.81	0.32	0.78	0.29	0.17	0.14	0.03
b) MANAGEMENT EFFICIENCY RATIOS									
i. Asset Turnover (%)	17.4	16.2	(1.2)	16	14	(2)	16	14	(2)
c. RECEIVABLES AND PAYABLES MANAGEMENT									
i. Zamtel Trade Receivables (days)	60	425	(365)	60	263	203	264	281	17
ii. Trade Payables (days)	60	286	(226)	60	126	66	74	69	5

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that Management continues to implement initiatives to expand revenue streams and leveraging new partnerships with mobile network operators to reduce dependency on single large clients. The Committee further urges the Controlling Officer to maintain strict enforcement of payment plans, continue engaging key stakeholders, and establish a monitoring framework to track legacy debts and prevent future accumulation. Furthermore, the Committee urges the Controlling Officer to ensure that Management institutionalises mid-year performance reviews. The Committee will await a progress report on the matter.

- **Failure to meet planned activities**

The Controlling Officer acknowledged the shortfall in the implementation of planned strategic activities during 2024. While activities were prioritised annually, emerging operational, financial, and external constraints affected the timely execution of certain initiatives, resulting in delays, suspension, or resequencing of some activities.

The Committee was informed that the 78 per cent implementation rate was primarily attributable to the following factors:

- i) external dependencies and lengthy procurement processes delayed the delivery of critical inputs;
- ii) client-related delays, particularly the delayed commencement of operations by ZedMobile affected dependent initiatives;
- iii) ZESCO's slow response times for grid connections impacted power-related projects;
- iv) severe load shedding materially affected targets related to power availability at tower sites; and
- v) a strategic shift from procuring off-the-shelf systems to locally developing software solutions extended implementation timelines, but offered longer-term strategic value.

The Committee was further informed that Management recognised that some activities had been overly dependent on external actors, and that risk-based prioritisation and contingency planning required strengthening.

To address the identified implementation gaps, the Committee learnt that Management had undertaken the following actions:

- i) strengthened monitoring and evaluation mechanisms, including monthly tracking of strategic activities, to ensure early identification and escalation of delays;
- ii) embedded strategic activity delivery into Heads of Department (HoDs) KPIs, reinforcing accountability at management level;
- iii) resequenced and reprioritised activities based on their strategic impact and resource availability, focusing on high-impact initiatives; and
- iv) enhanced coordination between strategy, procurement, and technical teams to reduce procurement related bottlenecks.

The Controlling Officer submitted that Management had since applied differentiated weightings to strategic activities, recognising that not all activities had equal impact on institutional performance. As a result of improved prioritisation, monitoring, and accountability, the 2025 annual strategic plan implementation assessment exceeded 90 per cent, reflecting a significant improvement in execution discipline and delivery outcomes.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to continue applying differentiated weightings to strategic activities to ensure that high-impact initiatives are prioritised and adequately resourced. The Committee further urges the Controlling Officer to maintain strengthened monitoring and evaluation mechanisms, including monthly tracking of activities and will await a progress report on the matter.

b. Weaknesses in the Management of Tower Infrastructure - Failure to Maintain Continuous Tower Site Operations

The Controlling Officer submitted that the affected period coincided with unprecedented drought-induced load shedding, which had materially disrupted power availability nationwide. During this period, the sector had been guided by the Zambia Information and Communications Technology Authority (ZICTA) to adopt interim arrangements for additional fuel contributions between tower companies and mobile network operators, as the scale and duration of outages had exceeded normal contingency design parameters.

In line with these directives, service credits or penalties were made conditional upon mobile operators contributing towards additional fuel costs. Accordingly, the matter remained under active engagement between INFRATEL and MTN throughout 2025, pending resolution in accordance with the agreed sector framework.

The Committee was informed that the primary root cause was the nationwide, prolonged load shedding which commenced on 11th March, 2024 resulting in power outages that were significantly longer and more frequent than historical norms.

INFRATEL’s backup power architecture, including battery autonomy and diesel provisioning, was originally engineered to sustain outages of up to six hours per day. Under the extended and continuous load shedding conditions experienced in 2024 and 2025, these systems became insufficient to maintain uninterrupted operations, leading to reduced uptime at affected sites. Management further recognised that the magnitude of the power crisis exceeded the original design assumptions of the backup infrastructure. To mitigate the impact and strengthen operational resilience, Management implemented the following actions:

i) Short-term stabilisation

Diesel allocations for generator-backed sites had been increased, in collaboration with Mobile Network Operators (MNOs), in line with additional fuel contributions mandated under ZICTA directives, resulting in improved uptime stability during prolonged outages.

ii) Medium term infrastructure reinforcement

INFRATEL identified both internal and external Capital expenditures (CapEx) funding streams to strengthen backup power autonomy through upgrading battery banks and expanding solar-hybrid power systems across the tower network. Through these initiatives, Management targeted enhancing backup power capability for at least 90 per cent of tower infrastructure by the end of 2026.

iii) Contractual Position

Based on the agreed sector arrangements, and as MTN had not contributed towards additional fuel costs in 2024, no service credits or penalties were contractually applicable to INFRATEL. The Committee learnt that the penalty claim raised by MTN had been fully resolved, with INFRATEL found not liable.

Implementation of long-term mitigation measures commenced as follows:

- 105 sites were scheduled for completion by the end of the first quarter of 2026;
- 433 sites were on course for completion by the third quarter of 2026; and
- the final phase of upgrades was planned for fourth quarter of 2026.

These interventions were expected to materially enhance network resilience, mitigate exposure to future power disruptions, and support sustained compliance with contractual uptime obligations.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to accelerate the implementation of planned infrastructure upgrades to strengthen backup power capacity across all sites. The Committee further urges the Controlling Officer to ensure full execution of the phased roll-out plan within the stipulated timelines to enhance network resilience and minimise service disruptions. The Committee resolves to await a progress report on the matter.

c. Contract Management

i) Contract for the supply and delivery of lithium-ion and lead acid batteries

• Failure to Charge Liquidated Damages

The Controlling Officer submitted that the matter related to a procurement process initiated in 2024, with final delivery completed in December, 2025. At the time of the audit, the full consignment had not yet been delivered, and Management had not imposed liquidated damages as the exact delay period could not be conclusively determined pending confirmation of the final delivery date.

The Committee was informed that the accurate determination of penalty days was necessary to ensure the correct and defensible application of liquidated damages in accordance with contractual provisions. The Committee was further informed that, due to the incomplete delivery at the time of audit, Management was unable to calculate and apply liquidated damages, as the final delivery date required to determine the total number of delay days remained outstanding.

Management, however, acknowledged that documentation evidencing interim notification of the intent to apply liquidated damages should have been formally availed during the audit process. The Committee was further informed that, following completion of the final delivery in December 2025, Management issued official correspondence confirming the application

of liquidated damages in accordance with Clause 27 and Clause 25.1 of the General Conditions of Contract (GCC) under the framework agreement.

Furthermore, Management strengthened internal contract administration controls to ensure earlier formal notification of intent to apply liquidated damages in future contracts and improved documentation and audit trails for delayed contract deliveries. The Controlling Officer submitted that, pursuant to clause 27 and clause 25.1 of the General Conditions of Contract (GCC), liquidated damages were applied for a delay period of twenty-one days, amounting to USD 28,255.16. The vendor acknowledged and accepted the liquidated damages, and the amount was withheld upon settlement of the final invoice.

Committee's Observations and Recommendations

The Committee notes the action taken by Management in applying liquidated damages and strengthening contract management controls and recommends that the matter be closed, subject to audit verification of the application and recovery of liquidated damages, including all supporting documentation.

ii. Contract for the supply, delivery and installation of 15 clear view fences at 15 tower sites – failure to calculate and charge liquidated damages

The Controlling Officer submitted that Management acknowledged the audit finding on the delayed calculation and application of liquidated damages under the contract for the supply, delivery, and installation of clear view fencing at fifteen tower sites in Luapula Province.

Notwithstanding that the contract ultimately achieved its intended outputs, Management acknowledged that liquidated damages should have been calculated, formally notified, and applied immediately upon expiry of the contractual completion period, irrespective of eventual delivery. The delay in invoking the liquidated damages clause constituted a control weakness in contract administration, which had since been addressed by Management.

The Committee was informed that the delay in executing the contract was primarily attributable to prolonged shipping challenges faced by the contractor in transporting fencing materials from China. Although these delays were largely beyond the contractor's immediate control, and the contractor kept INFRATEL informed of the shipment status, Management acknowledged that contractual remedies should nonetheless have been enforced strictly and timeously in accordance with the contract provisions.

As a corrective measure, the Controlling Officer submitted that upon completion of the works, Management had formally calculated and applied liquidated damages in line with Clause 49 and GCC 49.1 of the contract. In addition, Management had:

- a. strengthened internal contract monitoring controls to ensure that contract completion dates were actively tracked;
- b. introduced mandatory early notification of the intent to apply liquidated damages upon breach of delivery timelines; and
- c. enhanced collaboration between Procurement, Legal, and Technical units to ensure timely enforcement of contractual remedies.

Pursuant to clause 49 and clause 49.1 of the General Conditions of Contract (GCC), liquidated damages were applied for a delay period of thirty-one days, resulting in a charge of K54,073.95. The contractor acknowledged and accepted the liquidated damages, and the amount was to be withheld and deducted upon settlement of the final invoice. In addition, INFRATEL was retaining 5 per cent of the total contract sum, amounting to K128,747, as

retention money, which was payable in February 2026, subject to the fulfillment of contractual conditions.

d. Failure to Adhere to Insurance Obligations – Loss of Funds

The Controlling Officer submitted that, at the time of implementation, INFRATEL was not in a financial position to deploy CCTV infrastructure across all insured sites, and this constraint persisted during the review period. Management recognised that this limitation adversely affected the Corporation’s ability to fully comply with policy conditions and, consequently, reduced the recoverability of theft-related insurance claims.

Notwithstanding these constraints, Management implemented alternative security controls based on a risk-prioritised approach, focusing limited resources on high-risk and higher-revenue sites. The Committee was informed that the root cause of the non-recovery of part of the insurance claim was INFRATEL’s inability to meet the mandatory CCTV installation requirement stipulated under clause 1 of the General Conditions of the insurance policy, due to financial constraints at the time of implementation. Management acknowledged that the mismatch between policy conditions and the Corporation’s operational and financial capacity had exposed INFRATEL to residual insurance risk. The Committee was further informed that, despite the absence of universal CCTV coverage, Management implemented alternative security measures as follows:

- a. Physical security deployment, either 24 hour or night only, based on site-specific risk assessments; and
- b. Electronic security systems, including CCTV with rapid response, at the majority of Lusaka and Copperbelt sites, where risk exposure and revenue profiles justified the investment.

Furthermore, security deployment decisions were, therefore, guided by site revenue generation, risk exposure, and available budget allocations. To address the structural misalignment between insurance policy conditions and operational realities, Management implemented the following corrective actions:

As part of the 2025 insurance policy renewal, INFRATEL and ZSIC formally amended the policy terms by removing the mandatory requirement for CCTV installation at all sites; and introducing a 25 per cent excess contribution for claims arising from sites without prescribed security coverage. The Committee was informed that this adjustment aligned the insurance policy with INFRATEL’s risk profile and financial capacity, while preserving the insurability of tower assets.

The Controlling Officer submitted that the revised insurance arrangement eliminated disputes regarding claim eligibility between INFRATEL and ZSIC and provided a clear, contractually agreed risk-sharing framework going forward. Management continued to explore cost-effective, phased options for expanding CCTV coverage, aligned to budget availability, improved revenue performance, and evolving risk exposure, with the objective of progressively reducing insurance excess exposure over time.

Committee’s Observations and Recommendations

The Committee recommends that this matter be closed, subject to verification by the Office of the Auditor General.

3.4 KAWAMBWA TEA INDUSTRIES LIMITED

Audit Findings

A review of accounting and other records maintained at Kawambwa Tea Industries Limited (KTIL) Head Office, for the period 31st December, 2023 and 2024 revealed the following irregularities to which the Controlling Officer responded as highlighted below.

a. Audit of Annual Performance Information

i. Failure to Meet Revenue Targets

The Controlling Officer submitted that failure to attain the revenue target was attributed to challenges in achieving the tonnage and price targets set in the budget.

- i) The budgeted price was set at a level that assumed that sales and marketing activities would justify the increased pricing. However, no sales and marketing function established during the review period, and therefore new markets that could give higher pricing were not secured.
- ii) Lack of funds resulted in delays in procuring essential farming inputs (fertiliser and agrochemicals), which directly affected the health and yield of the tea bushes. This reduced the tonnage available for harvest and contributed to the lower-than-budgeted revenue.
- iii) The lower revenue was further compounded by an unjustified reduction in price of the Nutricom Contract, which resulted in lower price realisation.

As a corrective measure, a comprehensive business case was developed, leading to shareholder approval of significant equity injection to address production capacity constraints. In 2024, Management secured K 4.3 million in farming input support, which improved field conditions and green leaf production for the 2025 season. In addition, a seasoned marketing and communications manager was recruited to lead the development and execution of a strategic sales plan.

The Committee was informed that the Company was awaiting the disbursement of the approved K143.7 million Sustainability and Resilience Fund (SRF). This facility was central to the turnaround plan, as it was intended to address under-capitalisation, fund a 394-hectare field expansion, and provide a multi-year budget for farming inputs. Revenue performance was projected to improve significantly from the 2026 financial year.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to strengthen the sales and marketing function; enforce strict pricing controls; and ensure timely procurement of critical farming inputs to improve production and revenue performance. The Committee further urges the Controlling Officer to ensure close monitoring and effective utilisation of the Sustainability and Resilience Fund (SRF) to ensure sustained improvement in meeting revenue targets. The Committee will await a progress report on the matter.

ii. Financial Analysis – Statement of Profit and Loss

• Declining Gross Profit Margin

The Controlling Officer submitted that the achieved gross profit margins for 2022 (29 per cent), 2023; (31 per cent); and 2024 (28 per cent) were below the IDC's targets of 76 per cent and 62 per cent. This was a key indicator that required focused intervention. The Committee was informed that the low margin was a direct consequence of the challenges that hindered revenue growth, combined with largely fixed production costs. The root causes were consistent with those for low revenue:

- i) The budgeted price level could not be achieved due to an inability to access higher value packaged tea markets. This arose from the delay in establishing a sales and marketing team. The actual selling prices during the periods under review were 11 per cent below target, while variable costs were higher than budget, resulting in margins being lower than budget.
- ii) Sub-optimal yields due to input constraints increased the unit cost of green leaf.

As a corrective measure, Management approved the Sustainability and Resilience Fund (SRF) as the primary intervention, which enabled field expansion to achieve economies of scale, while the K4.3 million input support improved per-hectare yields and positively impacted production costs, and Management initiated the diversification of the sales portfolio to increase the proportion of higher-margin products.

While awaiting the shareholder disbursement of the SRF, Management optimised current operations. A substantial volume of processed tea in inventory presented an immediate opportunity. Converting this stock to cash through the new sales function improved working capital and financial performance in the short term. A significant improvement in gross profit margin was expected by 2026, as strategic initiatives took effect.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to address the declining gross profit margins by strengthening the sales and marketing function, improving price realisation, and enhancing production efficiency through timely input use and cost control. The Committee further urges the Controlling Officer to ensure effective implementation of the SRF and will await a progress report on the matter.

- **Failure to Meet Set Staff Costs as a Percentage of Revenue Ratio Target**

The Controlling Officer submitted that the unfavourable ratio resulted from the Company failing to meet the revenue targets in the respective years due to lower than planned price realisation. Staff costs could not be reduced in proportion to the lower revenue as most of the staff costs were fixed in nature. However, staff costs were managed prudently during the period, with only a modest escalation of less than 5 per cent in the respective years.

The Committee was informed that the primary corrective action was to implement measures that ensured that the target revenue base was achieved in every budget year. A comprehensive review of the business was completed, which resulted in the formulation of a business restructuring plan. This led to the identification of the need for capital injection to be sourced from SRF. The restructure was intended to transform the business into a more resilient and robust operating entity.

The Committee learnt that Management was embarking on efforts to accelerate sales of existing tea stock. The significant inventory presented an immediate opportunity to boost revenue. The structural solution remained the successful implementation of the field expansion plan to sustainably increase production and revenue capacity by 2026.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to implement measures that will ensure consistent achievement of revenue targets in order to improve the staff costs to revenue ratio. The Committee further urges the Controlling Officer to expedite the implementation of the approved restructuring plan and ensure the timely mobilisation and effective utilisation of the Sustainability and Resilience Fund (SRF). In addition, the also urges the Controlling Officer to prioritise the implementation of the field expansion programme to sustainably increase production capacity and revenue generation by 2026. The Committee will await a progress report on the matter.

- **Adverse Revenue per Hectare**

The Controlling Officer submitted that the underperformance was a composite result of several factors:

- i) The budget assumed a much higher price than was realistically achievable in the market, considering the non-existent marketing capability of the Company. The actual selling prices in the periods under review were, therefore, below target, leading to reported revenue being less than budget; and
- ii) Low yield: Inadequate farming inputs resulted in lower green leaf yield per hectare from existing fields.

As a corrective measure, the SRF was designed to address field expansion and input supply gaps, while the 2024 input support was expected to improve yields for the 2025 harvest, and Management ensured that future harvests were effectively monetised. The Committee was informed that the Company was awaiting SRF disbursement for the long-term solution of field expansion. In the interim, the focus was on improving yields from existing fields through better input application and converting current inventory to cash.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that future revenue projections are based on realistic, evidence-based market prices supported by documented market intelligence, so as to avoid overstatement of expected revenue per hectare in budgeting cycles. The Committee further urges the Controlling Officer to expedite implementation of SRF interventions to address field expansion and input supply gaps and will await a progress report on the matter.

- **Adverse Green Leaf Yield per Hectare**

The Committee submitted that the lower-than-targeted yield was attributed to a combination of agronomic and infrastructure challenges:

- i) erratic rainfall patterns: increasingly unpredictable rainfall stressed tea plants, particularly during dry spells;
- ii) inadequate irrigation infrastructure: the existing irrigation network was insufficient to fully mitigate the effects of prolonged dry periods across the entire planted area; and
- iii) insufficient farming inputs: Cash flow constraints led to sub-optimal application of fertilisers, impacting the vegetative growth of the tea bushes.

As a corrective measure, SRF was designed to support the rehabilitation and expansion of the farm's irrigation network. In addition, the K4.3 million input support provided in 2024 was utilised to address critical nutritional deficiencies, with Management closely monitoring its impact on 2025 yields.

Currently, the Company was awaiting SRF disbursement to commence the comprehensive overhaul of the irrigation system. This, together with the sustained and timely provision of farming inputs, was expected to restore green leaf yields to targeted levels by 2026.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the full operationalisation of SRF interventions, particularly those relating to irrigation rehabilitation and timely input supply, in order to enhance green leaf yields and improve made tea production per hectare. The Committee further urges the Controlling Officer to strengthen agronomic practices and closely monitor productivity improvements to ensure that the targeted output levels are achieved by 2026. The Committee will await a progress report on the matter.

- **Failure to Attain Made Tea Per Hectare**

The Controlling Officer submitted that Management noted the observation that Made Tea per hectare (196MT in 2023 and 259MT in 2024), was below IDC targets of 212MT and 268MT, respectively. This indicated that field-level inefficiencies were translating into lower final factory output. The Committee was informed that Made Tea yield was a direct function of the quantity and quality of green leaf input. Therefore, the primary cause was the insufficient green leaf yield, which itself resulted from input and irrigation challenges.

Corrective actions were aligned with improving green leaf production. Management was committed to the consistent application of Good Agricultural Practices (GAPs) across the estate, including optimising pruning cycles; weed control; and field maintenance to maximise output from existing leaf. The situation was expected to improve in tandem with green leaf yield. The SRF enabled better irrigation and input supply, and the resulting increase in green leaf volume was expected to directly lead to higher Made Tea production per hectare by 2026.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the implementation of measures under SRF, particularly those aimed at improving irrigation infrastructure. The Committee further recommends that Management strengthens the consistent application of GAPs across the estate to enhance field productivity and improve Made Tea output per hectare. The Committee will await a progress report on the matter.

iii. Financial Analysis - Statement of Financial Position

- **Negative Working Capital**

The Controlling Officer submitted that the Company's working capital position deteriorated to a negative K47 million in 2024, indicating a serious liquidity challenge. During the review period, the Company took out shareholder loans to support its operations, resulting in a negative working capital position. The Committee was informed that this was a direct consequence of historically low revenue generation. To fund ongoing operations, the Company relied on increased short-term obligations. Without a corresponding increase in readily convertible current assets (cash and receivables), this severely eroded the working capital position.

The immediate corrective action was to aggressively improve cash inflows. The newly established Sales and Marketing function, led by the recently recruited manager, was focused on converting the significant inventory of Made Tea into cash, which was expected to directly improve current assets and working capital. The situation remained challenging but was expected to improve in 2026, as revenue generation activities gain momentum. The long-term solution was the successful implementation of SRF, which provided the capital base to reduce reliance on short-term debt and fund sustainable growth.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to strengthen cash inflows by effectively operationalising the Sales and Marketing function to convert Made Tea inventory into cash and improve working capital. The Controlling Officer is further urged to reduce reliance on short-term borrowing through enhanced revenue generation and efficiency improvements, and to expedite implementation of the SRF. The Committee will await a progress report on the matter.

- **Poor Current Ratio**

The Committee was informed that the poor ratio directly reflected the negative working capital position and confirmed the Company's liquidity constraints. This had a similar root cause as the one causing the working capital to be negative: insufficient cash generation from operations due to historically low revenue, which lead to an accumulation of current liabilities (payables and short-term loans) that far exceeded current assets. The major driver of the current liabilities was shareholder loans which the Company contracted to support its operations.

Management's corrective action focused on improving current assets. The strategy was two-fold:

- i) boost revenue by driving sales of existing tea inventory through the newly staffed marketing function; and
- ii) manage payables by negotiate more favourable payment terms with key suppliers to better align cash outflows with anticipated sales inflows.

The current ratio was expected to improve as revenue enhancement strategies yielded results in 2026, with a healthier cash balance and a reduction in overdue payables being the key targets.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to improve the current ratio by enhancing revenue generation through effective sales of existing tea inventory and strengthening the marketing function, and to negotiate improved payment terms with suppliers to better align cash outflows with inflows. The Committee will await a progress report on the matter.

iv. Analysis of Cashflow

- **Cashflows from Operating Activities**

The Controlling Officer submitted that the negative operating cash flow in 2024 was primarily driven by low sales, a build-up of inventory (cash outflows for inputs were not matched by inflows from sales), and a reduction in payables (settling prior debts). Essentially, cash outflows for operations exceeded cash generated from tea sales.

The Committee was informed that the primary corrective action was to reverse this trend by aggressively converting inventory into sales. The newly recruited Marketing and Communications Manager was tasked with accelerating the sales cycle. Additionally, Management closely monitoring operational expenditure to ensure it was aligned with available cash. The Company expected a return to positive operating cash flows in 2026, as sales volumes increased under the new marketing strategy and working capital management improved.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to monitor the implementation of the corrective measures aimed at improving operating cash flows, particularly the acceleration of inventory turnover and enhancement of sales volumes, and will await a progress report on the matter.

- **Cash Flows from Investing Activities**

The Controlling Officer submitted that the reduction in capital expenditure (CAPEX) was a direct consequence of the Company's liquidity challenges. With cash needed to fund day-to-day operations and service debt, the funds available for discretionary investment in new assets had been constrained. The approved K143.7 million shareholder equity injection was the primary corrective action. It was specifically designed to provide the necessary capital to reinvest in the business; expand tea fields; upgrade irrigation; and enhance processing capabilities. Detailed investment plans were ready for implementation upon disbursement.

While current investment was subdued, the Company was poised for a significant CAPEX program upon receipt of the shareholder re-capitalisation facility (SRF), expected to commence in 2026. This investment was critical for long-term growth and sustainability.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to monitor the implementation of the planned capital expenditure programme and the disbursement of the K143.7 million shareholder equity injection (SRF), and will await a progress report on the matter.

b. Lack of the Risk Management Policy

The Controlling Officer submitted that KTIL operated without a formal, Board-approved Risk Management Policy, which was a requirement of the *Public Finance Management Act, No 1 of 2018*. This gap occurred because the Company was in a developmental stage, having undergone several structural changes since its establishment in 1975, including privatisation in 1996; repossession by Government in 2015; and its current operation as Kawambwa Tea Industries Limited since 2021. During a significant part of the period under review, the Internal Audit and Risk Department, was not staffed, and the process of formalising and domesticating a risk management framework from the shareholder (IDC) had not been completed.

The Committee learnt that Management had since prioritised the recruitment of key governance personnel. An Internal Audit and Risk Manager was recruited. His immediate key performance objectives included developing and presenting a comprehensive Risk Management Policy, tailored to KTIL's operational context, for Board approval. In this regard, the development of the Risk Management Policy was underway, with the draft expected to be completed and submitted for Board consideration by the end of the second quarter of 2026.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to monitor and ensure the development of the Risk Management Policy and will await a progress report on the matter.

c. Information and Communication Technology – Lack of Backup Policy

The Controlling Officer submitted that the Company did not have a formal ICT Backup Policy, which posed a risk to the availability and integrity of business-critical information. This situation arose due to the Company's developmental stage, during which formal ICT policies was prioritised, pending the full structuring of the ICT department.

Management had since taken steps to address this control deficiency. The Head of ICT liaised with the IDC central ICT department to leverage its expertise and frameworks. The IDC backup policy was used as a template to draft a customised policy suited to KTIL's technical environment and business requirements. The Committee was informed that the drafting of the ICT Backup Policy was in progress. The target for its finalisation, Management approval, and implementation was scheduled for the end of the second quarter of 2026.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to monitor and ensure the development of the ICT Backup Policy and will await a progress report on the matter.

d. Financial Irregularities

i. Gaps in the Receipts Sequence

The Controlling Officer submitted that the root cause regarding 300 missing receipt numbers and 149 unaccounted for receipts was an inadequate record-keeping and document management system within the revenue collection function. There was a failure in the process to ensure that all receipt books were properly controlled, issued, and that all copies were systematically filed for audit purposes.

The Committee was informed that Management took immediate steps to strengthen controls. A process of controlled revenue recognition was implemented which reconciled stock movements to revenue and ensured that any gaps in revenue recognition were closed. The full automation of the invoicing process through Sage Pastel also ensured that there was a system-controlled process to manage invoice number sequencing and the storage of electronic copies of all invoices.

The control environment around revenue recording significantly improved. All revenue was now primarily tracked through the integrated Pastel system, minimising the risk associated with manual receipt books. Management considered this matter resolved from a process perspective.

Committee's Observations and Recommendations

The Committee resolves to close the matter, subject to verification by the Office of the Auditor General.

ii. Irregular Payment of Housing Allowance

The Controlling Officer submitted that housing allowances totaling K996,988 were paid to seventy-two officers occupying Company housing, which appeared to have contravened the standard terms and conditions of service. This situation arose from a Management decision in 2021, to address the critical issue of dilapidated housing stock. To encourage staff to occupy these rundown houses and prevent further vandalism and total dilapidation, an interim incentive scheme was implemented through which staff were required to occupy these houses. However, the process of formally seeking the Board's ratification for this exception to the standard policy was not completed.

Recognising this procedural gap, Management formally documented the rationale for the decision and escalated the matter to the Board of Directors. Management sought guidance and a formal resolution on how to treat these past payments and whether a formal policy for incentivising the occupation of sub-standard housing should be established. The Committee learnt that the matter was under consideration, and that a formal response and direction from the Board was expected by the end of the first quarter of 2026.

Committee's Observations and Recommendations

The Committee will await the Board's decision on the irregular housing allowance payments and the proposed policy framework for incentivising the occupation of sub-standard housing.

iii. Failure to Remit Statutory Contributions - K1,998,198

The Controlling Officer submitted that failure to remit statutory contributions on time was a direct result of the severe liquidity challenges and cash flow constraints the Company faced. When faced with critical operational needs such as fuel for harvesting and the purchase of essential inputs, and statutory obligations, immediate operational needs were prioritised to preserve the business as a going concern. This was a difficult but necessary decision under the circumstances.

The Committee was informed that Management remained fully committed to clearing the arrears. NAPSA outstanding contributions were from February, 2025. The primary source of funds was improved revenue generation, with the recruitment of the Marketing and Communications Manager forming a key part of this strategy. As sales were concluded and cash was collected, a portion was ring-fenced to address the statutory arrears. Management was also open to engaging the respective statutory bodies to negotiate a manageable payment plan.

The situation remained dependent on improved liquidity. The revenue outlook was positive for 2026, and Management was optimistic that it would begin to systematically reduce the outstanding obligations within the year.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to continue monitoring the clearance of statutory arrears and will await a progress report on the settlement of outstanding contributions, including any agreed payment plans with the relevant statutory bodies and will await a progress report on the matter.

iv. Bulk Tea Sales

- **Contract with Nutricum Foods Limited**

The Controlling Officer submitted that 186.69 tonnes of tea was supplied outside the contract terms. This decision was taken without following the established protocol for Board approval. The rationale for this action, likely driven by a need to secure immediate cash flow during a period of severe liquidity stress, was not formally documented, and the required Board approval was not sought.

The specific contract in question had since been fulfilled. However, to prevent a recurrence, Management strengthened its contract management and approval processes. Any new offtake agreements, particularly those involving deviations from Board-approved pricing, were subjected to a rigorous internal review and required explicit Board ratification before execution. The Committee was informed that a new contract with the buyer was negotiated and signed in 2025 following full due process, which included competitive considerations and Board approval. This demonstrated that the lessons from the previous contract had been institutionalised.

Committee's Observations and Recommendations

The Committee resolves to close the matter, subject to verification by the Office of the Auditor General.

- **Loss of Revenue Due to Price Reduction: K2.1 million**

The Controlling Officer acknowledged the Auditor General's finding that a price reduction on the contract with Nutricom Foods Ltd from K25,000/MT to K18,000/MT, resulted in a potential revenue loss of K2.1 million on the additional 301.464 tons supplied. This decision was taken without following the established protocol for Board approval. The rationale for the price reduction was driven by an ill perceived need to secure immediate cash flow during a period of severe liquidity stress. This decision which required Board approval, was not formally documented, but was unilaterally implemented by senior Management at the time.

The specific contract in question was subsequently fulfilled. However, to prevent a recurrence, Management strengthened its contract management and approval processes. Any new offtake agreements, particularly those involving deviations from Board-approved pricing, were subjected to a rigorous internal review and required explicit Board ratification before execution.

A new contract with the buyer was negotiated and signed in 2025 following full due process, which included competitive considerations and Board approval. This demonstrated that the lessons from the previous contract had been institutionalised.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that all pricing decisions and contract variations adhere strictly to established approval procedures, including obtaining prior Board approval where required. The Controlling Officer is further urged to strengthen internal controls over contract management by enforcing proper documentation. The Committee will await a progress report on the matter.

e. Failure to Fill in Vacant Positions – Thirty-two

The Controlling Officer submitted that the primary constraint in filling these positions was inadequate financial resources. The Company's organisational structure had been designed for a fully operational and expanded entity. However, due to the revenue and liquidity challenges, Management had to make difficult decisions to prioritise operational expenditure over expanding the headcount.

Despite the financial constraints, Management adopted a risk-based approach and prioritised the recruitment of positions deemed most critical for governance and immediate operational needs. Key strategic leadership roles, including the Finance Manager; Estate Manager; Sales and Marketing Manager; Human Resource Manager; Factory Manager; and Audit and Risk Manager, were successfully filled. This ensured that the core functions of the business were led by experienced professionals.

All senior management positions were now occupied. The remaining vacant positions were under continuous review and would be filled progressively as the Company's financial position improved through increased revenue and the equity injection from the shareholder.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to prioritise and progressively fill all vacant positions, in line with the Company's financial capacity, while ensuring continuous review and effective resource mobilisation. The Committee will await a progress report on the matter.

f. Construction of a Reservoir

i. Wasteful Expenditure - Construction of Reservoir – K862,387

The Controlling Officer expressed regret over the expenditure of K862,387 on the reservoir project. The Committee was informed that the primary root cause was a lack of adequate project planning and the absence of a formal project management framework at the inception of the project. The project was initiated without a fully developed feasibility study, a clear project plan with defined milestones, or a secured source of funding for its full completion.

As a corrective measure, Management committed to recovering value from this investment. Management proactively engaged technical consultants, including the Ministry of Agriculture's Provincial Office, to carry out a comprehensive technical assessment of the current state of the reservoir. An initial assessment report had already been received. Management used these expert findings and recommendations to formulate a clear plan of action. A budget provision for the necessary rehabilitation or completion works was included in the 2026 budget.

The Committee was informed that the matter was ongoing. The recommendations from the technical assessment were under review. The next step was to develop a costed implementation plan and present it to the Board for approval, with the goal of bringing the reservoir to an operational status.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the review of the technical assessment and develop a costed implementation plan for the rehabilitation or completion of the reservoir and will await a progress report on the matter.

ii. Wasteful Expenditure - Procurement of Sprinklers - K93,159

The Controlling Officer submitted that the procurement of 220 domestic sprinklers, which were unsuitable for the farm's irrigation system pressure, resulted in wasteful expenditure of K93,159. This was an error caused by a lack of technical verification during the procurement process. The technical specifications of the sprinklers were not adequately vetted against the requirements and pressure ratings of the existing irrigation infrastructure which pointed to a gap in the procurement control environment.

Following the Board's guidance on this matter, Management initiated the process to dispose of these unsuitable assets. An Asset Disposal Committee was formally constituted. Furthermore, a comprehensive Asset Disposal Policy was developed to provide a clear; transparent; and controlled framework for all future asset retirements; ensuring such mistakes were not repeated. The Committee learnt that the Asset Disposal Committee was operational, and the draft Asset Disposal Policy was under development. Once the policy was finalised and approved, the committee would proceed with the disposal of the sprinklers in accordance with the stipulated procedures.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the finalisation and approval of the Asset Disposal Policy and ensure the timely disposal of the unsuitable sprinklers in accordance with the approved procedures. The Committee further urges the Controlling Officer to strengthen procurement controls by instituting mandatory technical verification of specifications prior to purchase to prevent recurrence of such expenditure. The Committee will await a progress report on the matter.

iii. Unaccounted for Assorted Spares for Automatic Teabag Machines

The Controlling Officer submitted that assorted spares valued at K840,987, supplied with the teabag packing machines, were unaccounted for in the stores records, representing a serious lapse in stores management. The Committee was informed that the root cause was a gap in the stores receipt and recording process at the time of delivery. The spares were not properly identified and segregated, and their value was inadvertently aggregated with the cost of the main machinery in the financial records which obscured their existence as separate stock items. This was compounded by a lack of an integrated inventory management system at that time.

A thorough reconciliation and physical verification exercise was conducted to identify and account for all the spare parts. The spares were physically secured and fully accounted for in the financial system. Furthermore, procedures for receiving and recording high-value items were reinforced to prevent a recurrence.

Committee's Observations and Recommendations

The Committee resolves to close the matter, subject to verification by the Office of the Auditor General.

g. Irregularities in the Management of Assets

i. Questionable Land Ownership

• Expired Title Deed

The Controlling Officer submitted that the expired title deed and the significant discrepancies resulted from historical administrative challenges and a lack of proactive asset management over many years, predating the current management team. The complexities of the land's history, including the original lease expiry and subsequent government repossessions, were not actively managed, which led to the current state of uncertainty.

Management made this a top priority by formally initiating engagements with the Ministry of Lands and Natural Resources to resolve all outstanding issues. The objective was to clarify the ownership and current legal status of the land; initiate the process for a fresh land survey to definitively establish the correct boundaries; address the issue of encroachment based on the confirmed boundaries; and process the application for a new, valid Certificate of Title. The Committee was informed that engagements with the Ministry of Lands were ongoing. Management compiled all historical documentation to present a complete case. A significant resolution was targeted, including a clear path to a new title deed, by the end of the second quarter of 2026.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite engagements with the Ministry of Lands and Natural Resources and ensure the timely conclusion of the land regularisation process, including securing a valid Certificate of Title. The Committee will await a progress report on the matter.

• Discrepancies in Owned Hectarage

The Controlling Officer submitted that the root cause of encroachment on the estate was a historical administrative challenge and a lack of proactive asset management over many years, predating the current management team. The complexities of the land's history, including the original lease expiry and subsequent government repossessions, were not actively managed, leading to the current state of uncertainty.

In this regard, Management had made this a top priority by formally initiating engagements with the Ministry of Lands to resolve all outstanding issues. The objective was to clarify the ownership and current legal status of the land; initiate the process for a fresh land survey to definitively establish the correct boundaries; address the issue of encroachment based on the confirmed boundaries; and process the application for a new, valid Certificate of Title.

The Committee learnt that engagements with the Ministry of Lands and Natural Resources were ongoing. Management had compiled all historical documentation to present a complete case. A significant resolution was targeted, including a clear path to a new title deed, by the end of the second quarter of 2026.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite engagements with the Ministry of Lands and Natural Resources to resolve discrepancies in owned hectarage and encroachment issues. The Committee further urges the Controlling Officer to finalise documentation; complete a fresh land survey; and secure a valid Certificate of Title within the set timeframe. The Committee will await a progress report on the matter.

ii. Failure to Maintain Asset Register

The Controlling Officer submitted that the root cause of the failure to record assets valued at K146.9 million in the fixed asset register, was a system malfunction related to the Asset Register module within the Pastel accounting software. The module did not function correctly, and due to capacity constraints within the finance team at the time, this technical issue was not resolved promptly. Consequently, new asset acquisitions were not being systematically captured.

To address this, Management implemented a dual approach to rectify the issue. An immediate, manual workaround was implemented using Microsoft Excel, and a comprehensive asset register was populated with all historical and current asset data. A technical expert was engaged to troubleshoot and resolve the underlying issue with the Pastel Asset Register module to ensure a sustainable, system-based solution.

The Committee was informed that the Excel-based reconciliation was in progress and was nearing completion. Once the Pastel module was fixed, the data was to be migrated to ensure that a robust and automated asset register was in place. This matter was targeted for closure by the end of the first quarter of 2026.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the restoration of the Pastel Asset Register module, complete the migration of all reconciled asset data from the Excel-based register into the system, and ensure that a fully functional and automated asset register is operational. The Controlling Officer is also urged to strengthen system controls to prevent recurrence of similar failures. The Committee will await a progress report on the matter.

iii. Failure to Insure Assets

The Controlling Officer submitted that failure to insure assets valued at over K259 million, contrary to the Public Finance Management (General) Regulations, 2020, resulted from insufficient funds and severe liquidity challenges faced by the Company. While Management was aware of the requirement, premium payments were deferred in favour of funding critical immediate operational needs such as payroll and fuel to keep the Company running.

Management fully recognised the importance of asset insurance. As a concrete step towards compliance, a quotation for comprehensive insurance cover was obtained from ZSIC. A specific budget provision for the insurance premium was prioritised and included in the 2026 budget. The Committee was informed that the insurance cover was expected to be paid for and activated in the second quarter of 2026, thereby mitigating this significant risk to the Company's assets.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite payment of insurance premiums and ensure the activation of comprehensive insurance cover for all assets valued at over K259 million, in line with the 2026 budget provision. The Controlling Officer is further urged to ensure full compliance with the Public Finance Management (General) Regulations, 2020, and to submit a progress report on the matter.

iv. Lack of Maintenance of Property

The Controlling Officer submitted that the dilapidated state of Company housing resulted from years of inadequate infrastructure maintenance, driven by persistent cash flow challenges. With limited funds, maintenance was deferred year after year as operational survival took precedence. The absence of a planned preventative maintenance programme exacerbated the decay. Consequently, Management acknowledged that this situation was unsustainable. A robust, prioritised Housing Maintenance Plan was developed. The plan outlined the specific repairs

required; their estimated costs; and a phased implementation schedule. The rollout of the plan was targeted to commence as soon as funds became available.

The Committee was informed that the rollout of the Housing Maintenance Plan was dependent on improved liquidity. It was scheduled to commence in the second quarter of 2026, funded by the anticipated improvement in revenue from sales and the Shareholder Re-capitalisation Facility (SRF). Initial phases will focus on the most critical repairs.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to prioritise implementation of the Housing Maintenance Plan once funds are available and to ensure maintenance works are carried out in a phased manner. The Controlling Officer is further urged to introduce a preventative maintenance programme. The Committee will await a progress report on the matter.

v. Irregular Occupation of Company Quarters

The Controlling Officer submitted that the two houses occupied by former employees whose employment was terminated in 2017 resulted from a dispute over unpaid terminal benefits dating back to the time of their termination. The former employees refused to vacate the premises until the matter was resolved. This was a complex and sensitive legacy issue. Given its potential financial and legal implications, Management formally escalated the matter to the shareholder, IDC, and sought guidance and intervention on how to resolve the dispute over the terminal benefits while simultaneously enforcing the Company's rights to its property.

The Committee was informed that the matter was under review by the IDC. Management awaited their direction on the legal and financial approach to resolving this standoff. A resolution was expected to be implemented by the third quarter of 2026.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite engagement with the IDC and obtain direction to resolve the dispute. The Committee further urged the Controlling Officer to ensure that the irregular occupation of Company houses was resolved in a manner that protected Company property rights while addressing any legitimate claims. The Committee will await a progress report on the matter.

vi. Non-Functional Weighbridge

The Controlling Officer submitted that the weighbridge was already non-functional when KTIL commenced independent operations in 2021. Its repair and replacement required significant capital expenditure, which was unaffordable given the Company's severe under-capitalisation and liquidity constraints since inception. Recognising this as a critical control point, Management took proactive steps and sought expert technical advice from the Zambia Metrology Agency (ZMA) on the specifications for a compliant and reliable weighbridge. A budget provision for its procurement and installation was included in the 2026 financial plan. In the interim, the Company used calibrated digital scales to measure tea for sales to bulk buyers, ensuring transactional accuracy.

The Committee was informed that the procurement process for a new weighbridge was planned to commence in early 2026, based off the expected SRF, with a target for it to be fully installed and operational by the end of the second quarter of 2026. This would restore the integrity of production and stock movement records.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to expedite the procurement and installation of a new weighbridge in line with the 2026 plan and expected SRF funding. The Committee further urges the Controlling Officer to ensure timely implementation based on ZMA specifications and will await a progress report on the matter.

3.5 LUSAKA SOUTH MULTI FACILITY ECONOMIC ZONE

Audit Findings

A review of the accounting and other records maintained by the Lusaka South Multi Facility Economic Zone (LS-MFEZ) for the period under review revealed the following irregularities to which the Controlling Officer responded as highlighted below.

a. Financial Analysis

i. Statement of Comprehensive Income

• Total Revenue

The Controlling Officer submitted that the revenue shortfalls recorded during the period under review were largely attributable to the delayed commencement of electricity distribution within the Economic Zone, which was a significant projected revenue stream under the IDC Performance Contract. While the Company attained substantial operational readiness, implementation was deferred following investor representations and subsequent policy guidance, pending further stakeholder alignment.

In addition, billboard advertising revenues were negatively affected by intermittent power supply arising from load-shedding, while Management continued to engage relevant stakeholders to establish a power distribution framework aligned to investor requirements to support sustainable operationalisation.

The Committee was informed that revenue underperformance resulted from a combination of implementation delays, pricing constraints, and external operational factors, including the following:

- (i) the delayed commencement of electricity distribution to investors within the Economic Zone;
- (ii) the application of uneconomic bulky water tariffs during the 2022 and 2023 financial years;
- (iii) the deferral of the commuter bus project by the Board to prioritise strengthening the Company’s operational capacity; and
- (iv) erratic power supply due to load-shedding, which adversely affected billboard advertising revenues.

To address the identified weaknesses and improve the realism of financial planning, Management implemented the following measures:

- (i) revised the budgeting methodology to exclude non-operational revenue streams, particularly electricity distribution, until full operational readiness was achieved;
- (ii) strengthened budget governance controls to align revenue projections with actual implementation capacity;
- (iii) increased annual lease fee escalation from 2 per cent to 5 per cent for both new and existing investors;
- (iv) implemented cost-reflective bulk water tariffs for high-consumption investors; and

- (v) commenced infrastructure-backed revenue diversification, including warehousing development and water infrastructure expansion.

In view of the foregoing, Management implemented the following key regulatory and contractual measures to facilitate the commencement of electricity distribution and to strengthen revenue sustainability:

- (i) a Bulk Power Purchase Agreement with ZESCO was signed in 2024, enabling readiness for electricity procurement;
- (ii) a Distribution and Supply Licence was obtained from the Energy Regulation Board (ERB), satisfying statutory requirements for electricity distribution; and
- (iii) electricity revenues were deferred in the financial projections and were reflected only in the fourth quarter of 2026, aligned with the completion of the Operations and Maintenance (O&M) transition framework and stakeholder alignment.

- **Performance Update and Outlook**

Notwithstanding the constraints experienced, LS-MFEZ recorded its highest revenue performance to date in 2024, generating K146.8 million, compared to K74.4 million in 2023, representing approximately 97 per cent year-on-year growth. The Company projected revenues of K172 million by the end of the 2026 financial year, representing a 15 per cent increase over the K149 million recorded in 2025. These projections were based on realistic and operationally achievable revenue streams, with electricity distribution revenues conservatively reflected only in the fourth quarter of 2026 following full operational readiness.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to strengthen revenue mobilisation and forecasting processes by ensuring that future revenue projections are based on realistic operational capacity and confirmed implementation timelines. The Committee further urges the Controlling Officer to expedite the full operationalisation of electricity distribution following the attainment of regulatory approvals and completion of the O&M transition framework. The Committee will await a progress report on the matter.

ii. Statement of Financial Position - Asset Turnover

The Controlling Officer submitted that LS-MFEZ's asset base was predominantly comprised of long-life infrastructure assets such as roads, bulk water systems, sewer networks, and power infrastructure, which were developed primarily to enable investment attraction rather than immediate revenue generation. As a result, asset utilisation lagged initial capital deployment.

Notwithstanding this structure, asset turnover showed gradual improvement, increasing from 0.01 in 2022 to 0.03 in 2024, and was projected to improve further as core revenue streams progressively matured and infrastructure assets transitioned into their revenue-generating phase.

The Committee was informed that the low asset turnover ratio during the period under review was attributable to the following factors:

- i) delayed commencement of electricity distribution, which limited revenue generation from a major infrastructure asset;
- ii) application of uneconomic bulky water tariffs during the 2022 and 2023 financial years;

- iii) the Board's decision to cancel the commuter bus project due to limited operational capacity at the time; and
- iv) erratic power supply arising from load shedding, which adversely affected billboard advertising revenues.

To improve asset utilisation and revenue generation, Management implemented the following measures:

- i) obtained the Energy Regulation Board (ERB) Distribution and Supply Licence, which enabled the commencement of power distribution, expected in the fourth quarter of 2026;
- ii) implemented cost-reflective water tariffs for high-consumption investors;
- iii) increased annual lease fee escalation from 2 per cent to 5 per cent for all new and existing investors.
- iv) developed warehousing infrastructure to broaden the Company's revenue base.
- v) commenced construction of the Libala Water Works, with a capacity of 10,000 cubic metres per day, to meet investor water demand and increase water sales; and
- vi) automated the Western Gate to improve efficiency and collections from road user fees.

The Committee was further informed that, as at the end of the 2025 financial year, the asset turnover ratio had improved to 0.034. Management expected further improvement in asset turnover during 2026, as electricity distribution commenced and the recently implemented revenue-enhancing measures began to yield results.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to enhance asset utilisation by ensuring the timely operationalisation of revenue-generating infrastructure; particularly electricity distribution; following the attainment of all regulatory approvals and completion of the O&M transition framework. The Committee further urges the Controlling Officer to continue implementing cost-reflective tariffs to optimise returns from existing infrastructure assets. The Committee also urges the Controlling Officer to strengthen operational efficiency and collection systems to maximise revenue from existing assets. The Committee will await a progress report on the matter.

b. Operational Matters

i. Failure to Develop Land According to the Lease Agreement – One hundred and Forty investors

The Controlling Officer submitted that the delays in developing land according to the lease agreement were primarily driven by weak monitoring mechanisms for undeveloped land and external regulatory constraints, including the absence of a fully constituted Zambia Environmental Management Agency (ZEMA) Board for most of 2025, which significantly affected approval processes beyond Management's control.

The Committee was informed that the non-development of land within stipulated timelines arose from several factors, including inadequate monitoring mechanisms for investors holding undeveloped land, delays in sector and environmental approvals particularly due to the absence of a ZEMA Board during 2025, and the strategic deferral of certain projects, including the commuter bus initiative, to allow the Company to strengthen its operational capacity.

To address the identified weaknesses, Management implemented the following corrective measures:

- i) conducted a comprehensive land audit from 1st October to 15th December, 2024 assessing development status, lease compliance, land utilisation, and policy alignment across all investors.
- ii) strengthened enforcement of lease conditions, including issuance of non-development and termination notices to non-compliant investors;
- iii) issued termination notices to thirty-five investors and reminders to twenty-four investors still within the twenty-four-month development period;
- iv) terminated twenty-six lease agreements between January and December, 2025 following non-compliance;
- v) reallocated land to committed investors, with twelve of the fifteen investors pending reallocation assigned suitable parcels;
- vi) as a result of enforcement actions, fourteen investors commenced land clearing and fencing, while eight investors initiated active construction, including erection of steel structures; and
- vii) increased the number of operational investors to thirty-nine as at the end of February, 2026.

Following the appointment of a new ZEMA Board in December, 2025 Management intensified engagement with the Agency to expedite clearance of outstanding Environmental Project Briefs (EPBs).

The Committee learnt that the Business Development and Marketing Department instituted a structured monthly and quarterly investor monitoring framework to track development progress; compliance with approved timelines; construction status; and outstanding regulatory requirements. This enhanced monitoring approach enabled early identification of non-compliance, supported timely management intervention, and promoted improved land utilisation and accelerated development within the Economic Zone.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to strengthen enforcement of lease agreements by ensuring strict adherence to development timelines and consistent application of penalties, including termination of non-compliant leases. The Committee further urges the Controlling Officer to expedite engagement with relevant regulatory bodies to minimise delays in approvals, particularly environmental clearances. The Committee also urges the Controlling Officer to prioritise the reallocation of repossessed land to committed investors with demonstrable capacity to undertake timely development and will await a progress report on the matter.

ii. Receipts not Recorded in the Cashbook and not on the Bank Statement – K733,590

The Controlling Officer submitted that the matter was identified internally in June, 2024 and was reported to the Internal Audit Unit. Preliminary investigations established weaknesses in cash handling and reconciliation processes, particularly in relation to cash receipts from investors. Management subsequently commissioned an independent forensic investigation, which confirmed the control deficiencies and validated the Auditor-General's findings.

The Committee was informed that the occurrence of unaccounted-for receipts was attributable to several control weaknesses, including inadequate segregation of duties within the Finance Department; exposure to cash-handling risks arising from the acceptance of cash

payments from investors; and insufficient and delayed reconciliations, which resulted in the failure to promptly detect unbanked receipts.

To strengthen financial controls and prevent recurrence, Management implemented the following measures:

- i) approved and operationalised a comprehensive Finance Manual, providing clear guidance on revenue management and controls;
- ii) eliminated acceptance of cash payments, transitioning to a direct-deposit-only revenue collection model;
- iii) restricted investor payments to bank transfers only, enhancing traceability and accountability;
- iv) instituted timely and regular reconciliations of cashbooks, bank statements, and customer accounts;
- v) centralised system access controls, with password administration managed under the Office of the Director of Finance;
- vi) strengthened segregation of duties across approval, processing, and reconciliation functions; and
- vii) enhanced Internal Audit oversight, with monthly and quarterly reviews to monitor control effectiveness.

In addition, recovery actions were initiated, and amounts totalling K433,000 were recovered to date, through gratuity and other recoverable sources.

Additionally, the Forensic Audit Report was tabled before the Audit Committee, which recommended recovery and disciplinary actions, and these recommendations were subsequently approved by the Board. Demand letters were issued to the former employees involved, while civil recovery proceedings were pursued, where necessary, through external legal practitioners. The matter was also reported to the Zambia Institute of Chartered Accountants (ZICA) for appropriate professional action. Management continued to pursue full recovery of outstanding amounts and confirmed that strengthened controls were in place to prevent recurrence.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure full recovery of the outstanding amounts and to expedite the conclusion of all disciplinary and legal proceedings against the officers involved. The Committee further urges the Controlling Officer to strengthen internal controls, particularly in cash handling; segregation of duties; and timely reconciliations, to prevent recurrence of similar irregularities. The Committee will await a progress report on the matter.

iii. Management of Residential Properties - Failure to Provide Services on Paid Plots

The Controlling Officer submitted that the delays were primarily attributable to inadequate project funding and financing gaps, arising from the high capital cost of residential infrastructure provision, which was not fully recoverable through the K50,000 service charge.

Management further noted that residential land pricing was strategically structured to promote early uptake and maximise long-term Net Present Value (NPV) of the Zone. While this approach constrained short-term liquidity from land sales, it supported long-term land value appreciation and future recurring revenues through utilities and infrastructure levies.

Infrastructure Cost

The estimated capital cost for full residential infrastructure development is as follows:

S/n	Component Estimated Cost (USD)	(USD)
1	Road & Drainage Infrastructure	36,000,000.00
2	Water & Wastewater Systems	40,000,000.00
3	Power Infrastructure	10,000,000.00
4	Solid Waste Management	5,000,000.00
5	Digital & ICT Infrastructure	3,000,000.00
6	Institutional Support &	4,000,000.00
	Total Estimated Cost	98,000,000.00

The Committee was informed that the root cause of the failure to provide services on paid plots was inadequate project funding, which constrained the timely rollout of residential infrastructure services.

To address the infrastructure gaps and accelerate service delivery, Management prioritised residential infrastructure development in the 2026 approved budget, with dedicated allocations for water; sewer; electricity; and road works; strengthened revenue mobilisation and collection systems to improve internal funding capacity and supplement Treasury support; and engaged cooperating partners and development finance institutions, including the African Development Bank (AfDB), to explore grant and concessional financing options.

The Committee was further informed that the procurement process had commenced for the engagement of contractors for water; electricity; sewer; and road infrastructure within the residential areas. In addition, Management strengthened engagement with the Ministry of Finance and National Planning to facilitate timely release of approved funding, while ensuring prudent utilisation and effective management of resources to support infrastructure delivery.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the provision of essential infrastructure services in residential areas by ensuring timely implementation of approved infrastructure works for water; sewer; electricity; and road networks. The Committee further urges the Controlling Officer to diversify financing mechanisms to close infrastructure funding gaps and will await a progress report on the matter.

iv. Outstanding Income from Sale of Residential Plots

The Controlling Officer submitted that LS-MFEZ engaged ACU-SERVE under a three-year contract to market plots, manage sales, and undertake debt collection. The contract expired on 13th October, 2025, after which LS-MFEZ assumed full responsibility for plot sales and debt recovery activities. The Committee was informed that the accumulation of outstanding balances arose primarily from non-compliance with contractual payment terms by some residential plot purchasers. Specifically, some clients failed to adhere to the twenty-four-month instalment schedule stipulated in the contracts of sale.

To strengthen debt recovery and enforce compliance with sale agreements, Management issued default notices to clients with overdue balances, requiring settlement within thirty days; repossessed plots from non-compliant clients with a 30 per cent penalty accruing to LS-MFEZ in line with contractual provisions; and re-offered repossessed plots to the market to ensure timely uptake and revenue realisation.

The Controlling Officer further submitted that as a result of strengthened enforcement and direct management of debt recovery, significant progress had been achieved in reducing outstanding balances. Outstanding balances reduced by 97 per cent, from K1.9 million as at 30th November, 2025 to K64,899.73 as at 10th March, 2026 and Management continued to actively monitor residential plot receivables to ensure that balances remained at manageable levels.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to sustain and strengthen debt recovery measures to ensure full collection of outstanding amounts from residential plot sales and to prevent recurrence of arrears and will await a progress report on the matter.

v. Non-settlement of Water Bills by Institutions – K7,205,494

The Controlling Officer submitted that the outstanding balances largely arose from cases where investors had been authorised to drill boreholes without the prior execution of formal borehole recovery agreements. As a result, some investors withheld payment of water invoices in anticipation of offsetting borehole-related expenditures against future consumption.

The Committee was informed that the accumulation of outstanding water bills was primarily due to procedural gaps in borehole authorisation and recovery arrangements. In particular, borehole drilling was authorised prior to the execution of recovery agreements, resulting in disputes over billing and offsets.

To address the matter and prevent recurrence, Management had strengthened approval controls by requiring formal Board-approved authorisation before investors drilled boreholes; developed and implemented a Borehole Agreement framework to document costs and define recovery and offset mechanisms; established a debt recovery and settlement framework that was reviewed and approved by the Auditor General to guide structured engagements with affected investors; and engaged independent valuers where necessary to verify the reasonableness of borehole cost claims.

The Controlling Officer further submitted that Management had made significant progress in formalising recovery mechanisms and resolving outstanding balances. Borehole Agreements were at an advanced stage of finalisation, with negotiations ongoing to conclude agreed set-offs and recover outstanding balances, and Management expected that full implementation of the framework would significantly reduce aged receivables and strengthen compliance with the Debt Management Policy, going forward.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the finalisation and implementation of Borehole Agreements to ensure that all outstanding water bills are properly regularised and recovered without further delay and will await a progress report on the matter.

vi. Lack of Contract - Kailjee Construction

The Controlling Officer regretted the omission and submitted that Kailjee Construction Limited, was undertaking works related to the construction of a retention pond for the Zone at a designated site, which necessitated interim operational arrangements. The absence of a formal agreement arose from non-adherence to established contractual and governance procedures. Specifically, there was failure to comply with standard procurement and contracting policies, including the requirement to obtain Board approval prior to engagement.

To regularise the arrangement and ensure value for money, Management commenced the procurement of an independent consultant to determine the value of the stone resource at the retention pond site; mandated the consultant to assess the cost of mining and crushing activities undertaken by Kailjee Construction Limited; and resolved that the consultant's valuation would form the basis for negotiating an appropriate and Board-approved commission structure.

The Committee was informed that the process of engaging the consultant was ongoing and was expected to be concluded before the end of 2026. Upon completion of the valuation exercise, Management was expected to negotiate and formalise a commission agreement, subject to full Board approval, to ensure compliance with governance and procurement requirements.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that all service provider engagements are fully regularised through Board-approved contracts prior to commencement of works. The Committee further urges the Controlling Officer to expedite the valuation exercise and, upon completion, negotiate and formalise a commission agreement subject to Board approval in line with procurement procedures. The Committee will await a progress report on the matter.

vii. Lack of Contract - KEDA Ceramics

The Controlling Officer submitted that KEDA Ceramics was a major investor within the Zone with high traffic volumes and that a concessionary arrangement was granted in 2020 to support operational efficiency. Management had since reviewed this arrangement and recognised the need for formalisation and enhanced controls.

The Committee was informed that the absence of a formal agreement arose primarily from control limitations in monitoring vehicle access and tariff application. Specifically, the delayed automation of the Western Gate constrained accurate verification of vehicle numbers and hindered the proper determination of applicable fees.

To address the matter and strengthen governance over road user fee arrangements, Management implemented the following measures:

- i) prioritised automation of the Western Gate to eliminate manual assessments and improve accuracy in vehicle tracking, billing, and revenue assurance;
- ii) designed the automated system to incorporate approved concessionary tariffs for frequent users in a controlled and transparent manner; and
- iii) scheduled the automation project to commence before the end of the first quarter of 2026 and be completed by the second quarter of 2026, subject to procurement timelines.

The Committee was further informed that, Management was engaging KEDA Ceramics to conclude a revised Road User Access Agreement and tariff structure, with finalisation expected by the end of the first quarter of 2026. In parallel, procurement processes for Western Gate automation were underway and progressed to the evaluation stage, with implementation expected to proceed in line with the approved project schedule.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the Road User Access Agreement with KEDA Ceramics is promptly finalised and formalised, with clearly defined tariffs and conditions. The Committee further urges the Controlling Officer to expedite the automation of the Western Gate and ensure that the system is implemented within the approved timelines and will await a progress report on the matter.

c. Procurement Matters

i. Failure to Issue Addendum and Charge Liquidated Damages - Construction of Water Networks

The Controlling Officer regretted the failure to issue a contract addendum and to impose liquidated in a timely manner. The request for a contract extension was submitted less than one month before contract expiry, which raised concerns regarding contract administration. The Committee was informed that liquidated damages were subsequently applied on a separate contract awarded to the same Contractor for similar non-performance.

The failure to effectively manage the contract arose from weaknesses in procurement and contract administration processes, including inadequate due diligence on the Contractor's capacity to undertake similar works in a comparable environment; the absence of liquidated damages provisions in the initial contract documentation; and inadequate contract and project management oversight during implementation.

To strengthen procurement and contract management controls, Management implemented the following measures:

- i) contract execution oversight was transferred to the Legal Department to ensure all agreements included adequate protective and enforcement clauses;
- ii) Procurement Standard Operating Procedures were implemented with detailed step-by-step guidance on contract management;
- iii) ongoing staff training on the Public Procurement Act and Public Procurement Regulations was conducted; and
- iv) capacity-building in project and contract management was undertaken to enhance oversight, monitoring, and enforcement of contractual obligations.

The Committee learnt that the corrective measures outlined above were implemented, and Management reinforced strict compliance with contractual terms and conditions. Management expected that the strengthened governance; legal oversight; and capacity-building initiatives would result in improved contract management and enforcement across all future procurement engagements.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure sustained compliance with procurement and contract management procedures to prevent recurrence of similar lapses in future projects and will await a progress report on the matter.

ii. Over Pricing of the Solar Power Back Up System

The Controlling Officer submitted that over-pricing arose from weaknesses in procurement governance and price validation processes. Specifically, there was non-adherence to standard procurement procedures and policies, including the failure to adequately benchmark prices against approved indices.

To strengthen procurement controls and prevent recurrence, Management implemented the following measures:

- i) implemented the approved Procurement Policies and Procedures, including mandatory price benchmarking prior to contract award;
- ii) conducted targeted training and workshops for Heads of Department on the *Public Procurement Act, No. 8 of 2020*, the *Public Finance Management Act, No. 1 of 2018* and other applicable Government regulations; and
- iii) strengthened capacity within the Procurement Unit to improve compliance, value-for-money assessments, and oversight.

The Procurement Manual was fully implemented and was now guiding all procurement activities. Management expected that the strengthened procurement framework and enhanced staff capacity would prevent recurrence of similar pricing anomalies and ensure improved compliance with public procurement requirements going forward.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure strict adherence to the procurement policies and procedures, particularly the mandatory requirement for price benchmarking against approved indices prior to contract award and resolves to await a progress report on the matter.

iii. Supply and Installation of Smart Bulk Water Meters – Failure to Transmit Water Meters Readings

The Controlling Officer submitted that the installation formed part of a pilot project intended to inform the broader rollout of smart metering across the Zone, and lessons arising from the pilot were being applied to improve system effectiveness prior to full-scale deployment. The Committee was informed that the failure of the smart meters to transmit readings arose from inadequate pre-installation assessment of network infrastructure. Specifically, the absence of a comprehensive data network quality assessment prior to deployment resulted in weak signal coverage in certain areas of the Zone, thereby impairing meter functionality.

To address the identified deficiencies and enhance system performance, Management implemented the following measures:

- i) planned installation of network boosters and signal repeaters to improve data transmission across the Zone;
- ii) assessed and integrated fibre-optic connectivity to support stable and reliable smart meter communication;
- iii) initiated additional smart operational support systems, including remote operation of pumps and valves, and automated shut-off controls to manage non-payment and leakages; and
- iv) engaged ZAMTEL to provide interim fibre-based connectivity to improve communication between the smart meters and the central server.

The Committee learnt that, as at the end of February, 2026 approximately 50 per cent of the installed smart meters were successfully transmitting data, while the remaining meters were constrained by network coverage limitations. Management expected full functionality of all smart meters upon completion of the network enhancement measures that were being implemented.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the implementation of network enhancement measures and will await a progress report on the matter.

iv. Contract for the Supply and Delivery of Two 75-Seater Buses

- **Questionable Advance Guarantee**

The Controlling Officer regretted the oversight in accepting an advance payment guarantee that was not valid and enforceable. The Committee was informed that the matter arose from non-adherence to the prescribed conditions governing advance payments, including inadequate verification of the validity of the advance payment guarantee.

To strengthen procurement controls and prevent recurrence, Management implemented the following measures:

- i) procurement procedures clearly defining the roles and responsibilities of Contract Managers and Project Managers; and
- ii) conducted ongoing training of relevant staff on the *Public Procurement Act, No. 8 2020* and Public Procurement Regulations.

The Committee was further informed that the matter was before the courts of law, where LS-MFEZ was pursuing recovery of approximately K3.2 million in respect of the advance payment made for the undelivered electric buses.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure strict compliance with procurement regulations governing advance payments, particularly the verification and validation of advance payment guarantees prior to acceptance. The Committee further urges the Controlling Officer to pursue the recovery of outstanding funds through the courts of law and will await a progress report on the matter.

- **Failure to Carry out Due Diligence**

The Controlling Officer expressed regret over the failure to conduct comprehensive due diligence on the supplier prior to contract award. The Committee was informed that the failure to adequately assess the supplier arose from weaknesses in procurement and contract management oversight. Specifically, due diligence requirements were not sufficiently applied during the evaluation and award process, resulting in gaps in supplier validation.

To strengthen procurement governance and prevent recurrence, Management implemented the following measures:

- i) prioritised training in contract and project management for all Heads of Department to improve oversight and accountability;
- ii) conducted awareness workshops on the *Public Procurement Act, No. 8 2020* and Procurement Regulations for Procurement Officers and Departmental Heads; and
- iii) strengthened internal evaluation processes to ensure mandatory assessment of financial capacity, past performance, and delivery capability.

The Committee was further informed that the matter was before the courts of law, and Management was cooperating fully with the judicial process.

Committee's Observations and Recommendations

The Committee resolves to await a progress report on the outcome of the court proceedings.

- **Failure to Call Performance Bond**

The Controlling Officer expressed regret on the failure to call the performance bond following supplier non-performance. The failure to enforce the performance security arose from weaknesses in contract management and enforcement controls. Specifically, inadequate monitoring and insufficient follow-up on performance security requirements prevented timely enforcement and compliance.

To strengthen contract enforcement and safeguard the Company's interests, Management implemented the following measures:

- i) planned and conducted ongoing training in contract and project management for all Heads of Department to enhance oversight and enforcement capacity; and
- ii) strengthened internal controls to ensure timely submission, monitoring, and enforcement of performance securities for all contracts.

In addition, the matter was before the courts of law, pending commencement of judicial proceedings.

Committee's Observations and Recommendations

The Committee resolves to await a progress report on the outcome of the court proceedings.

- **Non-Enforcement of Liquidated Damages**

The Controlling Officer submitted that the non-enforcement of liquidated damages resulted from weaknesses in contract administration and enforcement. Specifically, inadequate oversight of contract management, particularly in monitoring delivery timelines and applying contractual remedies, led to missed opportunities to enforce liquidated damages provisions.

To strengthen contract enforcement and compliance with procurement regulations, Management implemented the following measures:

- i) prioritised training in contract and project management for all Heads of Department to improve monitoring and enforcement of contractual obligations; and
- ii) conducted awareness training on the *Public Procurement Act, No. 8 2020*, *Public Finance Management Act, No. 1 of 2018* and other applicable Government regulations to strengthen compliance with public sector contracting requirements.

The matter was before the courts of law, pending commencement of judicial proceedings.

Committee's Observations and Recommendations

The Committee resolves to await a progress report on the outcome of the court proceedings.

- **Wasteful Expenditure – Inspection Visits – K699,517**

The Controlling Officer submitted that wasteful expenditure arose from weaknesses in procurement guidance and contract oversight. Specifically, the absence of a comprehensive Procurement Manual and Standard Operating Procedures, particularly those governing inspections and verification processes, led to inadequate controls and ineffective monitoring.

To address the control gaps and prevent recurrence, Management implemented the following measures:

- i) instituted legal proceedings against the supplier following failure to deliver the buses and refund the advance payment.
- ii) developed and implemented a Procurement Manual, providing clear guidance on inspection requirements, approval thresholds, and the roles of Contract and Project Managers.
- iii) strengthened contract management controls to ensure strict adherence to contractual provisions and procurement regulations.

The Committee was informed that the matter was before the courts of law. The supplier had refunded K1.0 million, leaving an outstanding balance of K3.2 million. The Procurement Manual had been implemented, and Management was enforcing enhanced contract management practices to avoid recurrence of similar expenditure.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to continue pursuing the recovery of the outstanding K3.2 million through the courts of law and will await a progress report on the matter.

v. Failure to Provide Information- Construction of Entrance Gate

The Controlling Officer submitted that the project file was availed to the auditors. However, the Engineering Institute of Zambia (EIZ) and National Council for Construction (NCC) reports had not been received at the time of audit verification.

The failure to provide complete information arose from delays in obtaining reports from regulatory and professional bodies following their inspections. Specifically, reports were not issued contemporaneously, resulting in late submission to the auditors and incomplete disclosure during the audit process. To strengthen compliance with audit requirements and record management, Management implemented the Procurement Manual, which obligated Contract and Project Managers to maintain complete and up-to-date project documentation and strengthened document control and filing procedures to ensure timely availability of all project-related records for audit and oversight purposes.

The Committee was informed that Management had received the outstanding reports from EIZ and NCC, which were available for verification. The final accounts remained outstanding due to a contractual dispute regarding claims for works deemed outside the original scope. Both the Contractor and Consultant indicated that the final accounts would be concluded upon resolution of the dispute.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that all documentation is made readily available to auditors in a timely manner to support transparency and accountability. The Committee further urges the Controlling Officer to ensure its timely resolution of the dispute to facilitate closure of all project-related obligations and will await a progress report on the matter.

d. Staff Matters

i. Failure to Fill Key Positions

The Controlling Officer submitted that recruitment processes for the Managing Director and Director of Finance were ongoing during the period under review, while the position of Business Development Manager had been filled. The Committee was informed that the

delays in filling key positions arose from a protracted recruitment process, including extended approval and selection timelines.

To address the staffing gaps and strengthen organisational capacity, Management developed and approved a recruitment plan to guide timely filling of critical vacancies; and prioritised recruitment for key executive and technical positions to stabilise leadership and operational oversight. In addition, previously vacant key positions had been filled, and Management had stabilised staffing levels in line with the approved organisational structure.

Committee's Observations and Recommendations

The Committee resolves to close the matter, subject to verification by the Office of the Auditor General.

ii. Failure to Recover Loan Amounts – K102,667

The Controlling Officer submitted that the recovery of the outstanding amounts was being actively pursued through legal channels. The failure to recover outstanding loan balances arose from control and policy gaps in the loan recovery process, including inadequate segregation of duties in the administration and recovery of staff loans and the absence of clear guidelines governing partial recovery of loans from accrued employee benefits upon separation.

To address the identified weaknesses and strengthen loan recovery controls, Management implemented the following measures:

- i) issued formal demand letters to the former employees with outstanding loan balances;
- ii) instituted legal recovery proceedings to enforce repayment of the outstanding amounts; and
- iii) reviewed internal procedures to strengthen segregation of duties and clarify recovery mechanisms from terminal benefits.

The Committee was informed that the recovery of the outstanding loan balances was ongoing through legal processes, and Management expected the amounts to be fully recovered upon conclusion of the proceedings.

Committee's Observations and Recommendations

The Committee resolves to await a progress report on the outcome of the court proceedings.

3.6 MULUNGUSHI INTERNATIONAL CONFERENCE CENTRE LIMITED

Audit Findings

A review of accounting and other records maintained at Mulungushi International Conference Centre Limited (MICCL) for the financial years ended 31st December 2023 and 2024, revealed the following irregularities to which the Controlling Officer responded as highlighted below.

a. Financial Statements Analysis

i. Statement of Comprehensive Income

• Return on Assets

The Controlling Officer noted that the reported Return on Assets (ROA) of 0.03 in 2024 and 0.02 in 2023 fell below the benchmark and the targets referenced in the Performance

Management Contract (PMC). The Committee was informed that the target of 0.08 reflected in the PMC related to Asset Turnover (Sales/Total Assets) and not Return on Assets (Profit After Tax/Total Assets). This was consistent with the indicator definition and calculation that was agreed between IDC and the MICCL Board.

Notwithstanding this clarification, Management acknowledged that ROA remained relatively low due to the significant asset base inherited from prior capital investments, which was still being progressively optimised. The Committee was informed that Management intensified efforts to improve asset utilisation and profitability through enhanced revenue generation, cost efficiency measures, and increased capacity utilisation of conference facilities.

YEAR	2024		2023	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Sales Turnover (K)	118,737,408.92	127,983,940.00	58,184,916.95	102,551,197.00
Total Assets (K)	1,424,469,036.86	1,459,441,743.00	1,446,920,555.65	1,411,943,245.00
Asset Turnover (Sales/ Total Assets)	0.08	0.09	0.04	0.07

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure that efforts to improve asset utilisation and profitability yield measurable and sustainable improvements in Return on Assets. The Committee further urges the Controlling Officer to strengthen performance monitoring frameworks and ensure alignment between Performance Management Contract targets and actual performance indicators to enhance accountability and accurate reporting. The Committee will await a progress report on the matter.

- **Administrative Expenses as a Percentage of Revenue**

The Controlling Officer submitted that in accordance with the PMC agreed with IDC, the administrative cost ratio excluded staff costs and depreciation. The calculation applied by the Auditor General, however, included staff costs, which were not part of the PMC definition for this performance indicator. Based on the PMC approved methodology, MICCL achieved an administrative cost ratio of approximately 6 per cent in 2024 against a target of 7 per cent, reflecting improved cost discipline and strong revenue performance during the year.

Year	Revenue	Admin Costs (less Dep) K	Depreciation	Staff Cost	Admi cost less staff cost & dep	Actual	Target
2024	127,983,940	23,635,808	19,189,020	16,280,813	7,354,995	6%	7%
2023	102,551,197	24,135,523	19,792,752	12,880,337	11,255,186	11%	6%

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure alignment between the Performance Management Contract definitions and the Auditor General’s assessment methodologies to prevent the recurrence of similar discrepancies, upon which the matter can be closed, subject to verification by the Office of the Auditor General.

ii. Statement of Financial Position

- Working Capital
- Current Ratio

The Controlling Officer submitted that MICCL recorded negative working capital in 2023, which improved to a positive position in 2024, with a current ratio of 1.04, marginally above the minimum benchmark of 1:1. In view of this, the Controlling Officer acknowledged that liquidity constraints during the period under review were largely influenced by legacy statutory obligations, historical operating losses, and delayed settlement of receivables from Government ministries and agencies, which constituted a significant portion of MICC's revenue base.

The Committee was informed that the liquidity challenges experienced during the period under review were attributable to the following factors:

- i) legacy statutory obligations, including principal balances and penalties relating to NAPSA and ZRA, which increased current liabilities;
- ii) historical operating losses, which constrained internally generated cash flows and weakened liquidity buffers;
- iii) suboptimal asset utilisation during loss-making periods, which limited returns from a substantial asset base; and
- iv) delayed settlement of receivables from Government ministries and agencies, which resulting in timing mismatches between revenue recognition and cash inflows.

To address the identified liquidity challenges, Management implemented the following corrective actions:

- i) negotiated and secured a waiver of statutory penalties amounting to K41 million from NAPSA, which significantly reduced current liabilities;
- i) entered into a Time-to-Pay Agreement (TPA) for the outstanding NAPSA balance of K13 million, with full settlement scheduled by August, 2026;
- ii) strengthened cash flow and liquidity management practices, including tighter monitoring of receivables and prioritisation of statutory obligations; and
- iii) enhanced asset utilisation and investment placement strategies to optimise returns and support liquidity generation.

As a result of the corrective measures implemented, MICC's liquidity position continued to improve beyond the 2024 financial year-end. As at 31st December 2025, the Centre recorded positive working capital of K95.7 million and a current ratio of 1.9, which approached the conventional benchmark of 2:1.

These improvements reflected enhanced liquidity management; improved receivables collections; and reduced statutory exposure. The strengthened financial position enabled MICCL to declare dividends to its shareholder, IDC, signalling a return to financial stability. Management remained committed to sustaining this positive trajectory through continued cost discipline; improved asset utilisation; initiative-taking receivables management; and strengthened cashflow controls in 2025 and beyond.

Committee's Observations and Recommendations

The Committee resolves to close the matter subject, to verification by the Office of the Auditor General.

• Increase in Trade Receivables Days

The Controlling Officer submitted that the elevated receivables position was largely attributable to MICC's high dependence on Government ministries and agencies, which

accounted for approximately 75 per cent of total revenue, and were characterised by extended and unpredictable payment cycles. The Committee was informed that, while revenue was recognised in accordance with applicable accounting standards, cash inflows from Government clients were delayed due to budgetary and procedural constraints beyond Management's direct control. Notwithstanding these challenges, Management intensified debt recovery efforts during and subsequent to the audit period.

As a result of these interventions, MICC collected approximately K55 million in the fourth quarter of 2025 from Government ministries and related institutions, which significantly reduced aged receivables. The Controlling Officer was confident that these measures would result in sustained improvement in receivable days, going forward.

The Committee was further informed that the increase in trade receivables days during the period under review was attributable to the following factors:

- i) limited staffing capacity within the Finance Department, which constrained effective credit control and timely follow-up of outstanding balances;
- i) delayed approval to recruit finance personnel, which weakened receivables management during the period; and
- ii) high exposure to Government, ministries and agencies, whose payment processes were inherently prolonged and dependent on availability of public funds.

To address the identified receivables management weaknesses, Management implemented the following corrective actions:

- i) intensified debt recovery and credit control measures, with increased focus on ageing analysis and follow-ups;
- i) instituted regular monitoring and reporting mechanisms to track receivables performance and escalate overdue balances;
- ii) filled vacant finance positions following approval from the Emoluments Commission, thereby, strengthening the Finance Department's operational capacity; and
- iii) continued structured engagements with Government ministries and agencies to expedite settlement of outstanding balances and improve cashflow predictability.

Furthermore, credit control processes were strengthened and were fully operational, supported by improved staffing levels within the Finance Department. These measures enhanced Management's ability to monitor receivables, enforce follow-ups, and manage ageing balances more effectively.

Subsequent to the audit period, MICC recorded significant collections from Government clients, including K55 million in the fourth quarter of 2025, which resulted in a measurable reduction in aged receivables. Management expected a progressive reduction in trade receivables days as intensified recovery efforts continued to take effect. Management remained committed to strengthening receivables management, improving cash flow sustainability and ensuring closer alignment with the agreed performance targets in future periods.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to sustain the strengthened credit control measures; continue monitoring receivables ageing; and maintain ongoing engagement with Government ministries and agencies to ensure the timely settlement of outstanding

obligations and to prevent a recurrence of prolonged receivables cycles. The Committee will await a progress report on the matter.

b. Failure to Collect Rental Income – K1,439,336

The Controlling Officer submitted that the delays in rental collections were largely attributable to operational capacity constraints within the Finance Department, which limited the effectiveness of follow-up actions and enforcement of tenancy terms. Notwithstanding this challenge, Management implemented corrective measures during and subsequent to the period under review to strengthen rental income management and recover outstanding balances.

The Committee was informed that the accumulation of rental arrears during the period under review was primarily attributable to the following factors:

- i) inadequate staffing levels within the Finance Department, which constrained timely monitoring, follow-up, and enforcement of rental obligations; and
- ii) delayed approval to recruit additional finance personnel, which weakened rental income oversight and arrears management during the period.

To address the identified weaknesses and prevent recurrence, Management implemented the following corrective actions:

- i) introduced enhanced rental arrears management procedures, including the issuance of timely reminders and systematic follow-ups on overdue balances;
- ii) proactively engaged tenants to enforce compliance with tenancy agreements and agreed payment schedules;
- iii) reviewed and strengthened rental collection procedures to improve control over advance payments and arrears management;
- iv) initiated eviction and legal recovery processes against persistently defaulting tenants, in line with applicable laws and tenancy agreements; and
- v) recruited additional finance staff following approval from the Emoluments Commission, thereby strengthening capacity within the Finance Department to effectively oversee rental income collection.

In addition, formal demand notices were issued to all tenants requiring settlement of outstanding balances by 31st December, 2025 with clear sanctions for non-compliance, including non-renewal of tenancy agreements and initiation of legal recovery actions. Additionally, rental collections were regularised, and all tenants were currently compliant with their tenancy agreements. The Finance Department staffing levels were adequately strengthened, resulting in improved monitoring, follow-up, and enforcement of rental obligations. Management enhanced enforcement of tenancy agreements and implemented control mechanisms to safeguard rental income and strengthen revenue assurance. Continuous monitoring arrangements were in place, and Management remained committed to preventing the recurrence of rental arrears and ensuring sustained compliance with tenancy terms going forward.

Committee’s Observations and Recommendations

The Committee resolves to close the matter, subject to verification by the Office of the Auditor General.

c. Outstanding Statutory Obligations – K30,597,173

The Controlling Officer submitted that the Centre remained compliant with the submission of all statutory returns and consistently adhered to approved Time-to-Pay Agreements (TPAs) with ZRA and NAPSA. The PAYE balance of K4.78 million included K3.81 million, arising from ZRA audit assessments, for which formal feedback and final determinations were still pending, as at the reporting date. Similarly, the VAT balance of K25.46 million included K3.98 million relating to audit assessments, while the larger portion related to withheld VAT by Government ministries and agencies that had not yet been remitted to ZRA nor supported by withholding certificates.

The Committee was informed that the VAT withholding system was abolished effective 1st August 2025, following which MICC commenced remitting the full monthly VAT payable directly to ZRA. All relevant supporting documentation was made available to the Auditor General during the audit process.

The Committee was further informed that the outstanding statutory obligations were primarily attributable to the following factors:

- i) pending ZRA audit assessments, which resulted in disputed PAYE and VAT balances remaining unresolved during the period;
- ii) delayed remittance of withheld VAT by Government ministries and agencies, over which Management had limited direct control;
- iii) absence of withholding VAT certificates from Government institutions, which constrained reconciliation and clearance of VAT balances; and
- iv) timing differences between month-end reporting dates and statutory payment deadlines, which resulted in temporary outstanding balances at reporting dates.

To address the identified issues and ensure sustained statutory compliance, Management implemented the following corrective actions:

- i) maintained full compliance with statutory return filings and adhered to all approved Time-to-Pay Agreements with ZRA and NAPSA;
- ii) formally engaged ZRA regarding PAYE and VAT audit assessments, including submission of a written request for feedback dated 12th March, 2024 and continued to pursue resolution of the outstanding assessments;
- iii) adjusted VAT processes following the abolition of the VAT withholding system effective 1st August, 2025 and commenced direct remittance of full monthly VAT obligations to ZRA;
- iv) Settled all statutory balances outstanding as at 31st December, 2024 relating to NHIMA, Tourism Levy, Skills Development Levy, and PAYE in the subsequent period, before their respective due dates; and
- v) maintained comprehensive supporting documentation to facilitate verification and reconciliation of statutory balances.

In view of the foregoing, all current statutory obligations were up to date, with no overdue remittances, and MICCL was implementing a structured payment arrangement averaging approximately K300,000 per month in respect of agreed legacy balances. The outstanding PAYE and VAT balances largely related to pending ZRA audit assessment matters and VAT previously withheld by Government ministries and agencies, which were outside Management's direct control. Since the removal of the VAT withholding mechanism, VAT compliance had normalised, with full monthly payments now being remitted directly to

ZRA. Management remained fully compliant with statutory requirements and continues to engage ZRA proactively to resolve all outstanding audit related matters and ensure sustained compliance going forward.

Committee's Observations and Recommendations

The Committee resolves to close the matter, subject to verification by the Office of the Auditor General.

d. Procurement of Seven Motor Vehicles

i. Procuring without a Contract

The Controlling Officer submitted that the procurement process was initiated through a duly approved Purchase Requisition, and the Management Procurement Committee approved the use of limited bidding and the solicitation documents. Four bidders were invited to tender, of which three submitted bids. An Evaluation Committee was constituted in accordance with Section 97(1) of the Public Procurement Regulations (Statutory Instrument No. 30 of 2022) and produced an evaluation report recommending award to CFAO Motors Zambia Limited.

Following approval by the Management Procurement Committee on 24th February, 2023 a Notice of Best Evaluated Bidder was issued with a ten working day standstill period. Upon expiry of the standstill period, MICCL issued a Local Purchase Order (LPO) that incorporated the agreed specifications; price; delivery terms; payment terms; and warranty provisions.

The Committee was further informed that the issuance of an LPO was incorrectly considered sufficient to formalise the transaction and that this constituted a misinterpretation of the procurement legal framework, particularly with respect to the requirement for formal contracts and Attorney General clearance for procurements above the statutory threshold. Notwithstanding the procedural noncompliance, Management noted that the vehicles were delivered in full, warranty coverage was secured, and the transaction was completed without financial loss; dispute; or prejudice to MICC. All vehicles were available for verification.

The procurement non-compliance was attributable to the absence of a substantive qualified Procurement Manager during the period, which limited professional oversight, capacity gaps within the procurement function arising from delayed recruitment approvals from the Emoluments Commission, and the misinterpretation of procurement legal requirements, particularly the reliance on a Local Purchase Order in place of a formal contract cleared by the Attorney General.

To address the identified weaknesses and strengthen procurement governance, Management implemented the following corrective actions:

- i) recruited a qualified substantive Procurement Manager to provide professional oversight and guidance on all procurement matters;
- ii) strengthened procurement procedures to ensure that all procurements above the prescribed thresholds were supported by formal written contracts, irrespective of whether the procurement is once off or recurring;
- iii) instituted mandatory submission of all qualifying contracts to the Attorney General for legal clearance prior to execution; and

- iv) implemented periodic orientation and training for procurement staff on the provisions of the *Public Procurement Act No. 8 of 2020*, the Public Procurement Regulations of 2022, and the *Public Procurement (Amendment) Act No. 17 of 2023*.

In this regard, the Committee was informed that all subsequent procurements, exceeding K1,000,000, were supported by formal contracts and duly cleared by the Attorney General, as evidenced by five contracts cleared.

In addition, procurement governance at MICCL had been significantly strengthened, with professional oversight now fully in place. All procurements above the statutory thresholds were fully supported by formal written contracts and subjected to Attorney General legal clearance in compliance with applicable legislation. Management was confident that the corrective measures implemented mitigated the risk of recurrence, enhanced compliance with public procurement requirements, and strengthened accountability in the procurement of assets and other resources. MICCL was fully adhering to prescribed procurement guidance and statutory requirements.

Committee's Observations and Recommendations

The Committee resolves to close the matter, subject to verification by the Office of the Auditor General.

ii. Procuring without Clearance of the Attorney General

The Controlling Officer submitted that the procurement proceeded on the basis of an incorrect interpretation of the legal requirements, whereby the issuance of a Local Purchase Order (LPO) was considered sufficient to formalise the transaction without submission of a formal contract for Attorney General review and clearance. This misinterpretation resulted in the procurement proceeding without the mandatory legal clearance, which Management recognised as an oversight.

In this regard, Management appreciated the guidance provided through the audit process and reaffirmed its commitment to strengthening procurement governance, enhancing transparency, and ensuring full compliance with the *Public Procurement Act No. 8 of 2020* and all applicable regulations. Management further noted that the absence of a substantive qualified procurement manager during the period, due to delays in recruitment approvals, contributed to the lapse in compliance.

In addition, the Committee was informed that failure to obtain Attorney General clearance prior to execution of the procurement, was attributable to the following factors:

- i) misinterpretation of the *Public Procurement Act No. 8 of 2020* regarding the requirement for legal clearance;
- ii) reliance on a Local Purchase Order (LPO) instead of a formal contract approved and cleared by the Attorney General;
- iii) absence of a substantive qualified procurement manager to provide professional oversight during the period; and
- iv) delayed recruitment approvals, which weakened procurement governance and compliance controls.

To address the identified non-compliance and prevent recurrence, Management implemented the following corrective actions:

- i) strengthened procurement procedures to ensure that all contracts falling within the statutory thresholds are submitted to the Attorney General for legal clearance prior to execution;
- ii) conducted orientation and capacity building for staff involved in procurement and contract management on the legal clearance requirements under the *Public Procurement Act No. 8 of 2020*; and
- iii) appointed a qualified substantive Procurement Manager to provide professional guidance, oversight, and assurance over procurement and contract management processes.

Additionally, all procurements requiring legal clearance were now submitted to the Attorney General prior to execution, in full compliance with statutory requirements. Professional procurement oversight was fully in place, with a substantive Procurement Manager ensuring adherence to legal and regulatory provisions. The procurement governance at MICC had been strengthened, transparency enhanced, and the risk of recurrence of non-compliance significantly reduced. Management reaffirmed its commitment to full compliance with the *Public Procurement Act No. 8 of 2020* and all other applicable regulations, going forward.

Committee's Observations and Recommendations

The Committee resolves to close the matter, subject to verification by the Office of the Auditor General.

3.7 MULUNGUSHI VILLAGE COMPLEX LIMITED

Audit Findings

A review of accounting and other records maintained at Mulungushi Village Complex Limited for the financial years ended 31st December 2023 and 2024, revealed the following irregularities to which the Controlling Officer responded as highlighted below.

a. Audit of Annual Performance

i. Budget and Income – K49,246461

The Controlling Officer submitted that Management acknowledged the revenue underperformance during the period under review and recognised weaknesses in revenue forecasting assumptions, asset readiness planning, and demand assessment that affected the achievement of budgeted income targets.

The Committee was informed that revenue shortfalls recorded between 2022 and 2024 were primarily attributable to systemic weaknesses in revenue planning and asset readiness, compounded by market-related constraints. Key contributing factors were as follows:

a) Over-optimistic budgeting assumptions

Revenue budgets repeatedly assumed full villa availability, high occupancy levels, and completion of capital projects within planned timelines, without sufficient verification of asset readiness or market absorption capacity.

b) Limited availability of revenue generating assets

In 2022, extensive rehabilitation works rendered 99.64 per cent of the 35 Phase II villas non-operational for the entire year, while several Phase I and long lease units remained vacant for prolonged periods. This significantly constrained revenue generation, resulting in a variance exceeding K21 million.

c) *Weak market uptake and pricing misalignment*

In 2023, although thirty-five villas were handed over in the first quarter, occupancy averaged 65 per cent against a projected 79 per cent, largely due to post COVID-19 economic conditions affecting foreign corporate clients. The budgeted rental rate of K40,000 per month proved unrealistic under prevailing market conditions, further suppressing demand.

d) *Inclusion of non-operational facilities in revenue plans*

In 2024, revenue budgets continued to include villas that were not market-ready due to poor condition or lack of furnishings. Additionally, the Futsal court, had been budgeted as a key revenue contributor, remained incomplete throughout the year and generated no income. Collectively, these factors reflected structural deficiencies in revenue forecasting; asset readiness verification; and demand assessment; which led to a consistent overstatement of revenue potential and underperformance against approved budgets.

To address the underlying causes of revenue underperformance, Management implemented a comprehensive set of corrective measures focused on asset readiness; demand generation; forecasting discipline; and accountability:

i) *Improvement of asset availability*

By 31st December 2025, Management rehabilitated and returned seventeen previously non-operational villas to service using internally generated funds. These units were subsequently leased at a minimum monthly rental of K25,000, thereby expanding the revenue-generating base. Rehabilitation of seven hotel rooms, which was 90 per cent complete at the time, was expected to generate additional income from the second quarter of 2026.

ii) *Strengthening market visibility and demand generation*

Management invested K1.5 million in corporate rebranding, including the development of a brand manual and the redesign of the corporate website. A dedicated Marketing and Public Relations Unit, headed by a qualified professional who was recruited in 2025, was established to drive digital marketing, client engagement, and occupancy growth.

iii) *Reform of budgeting and revenue forecasting processes*

The budgeting framework was revised to ensure that future revenue projections were based on verified unit readiness; realistic market-based pricing; and the phased inclusion of assets aligned to rehabilitation timelines. This strengthened the credibility and reliability of revenue budgets.

iv) *Diversification of ancillary revenue streams*

Management added one stay unit to the portfolio and budgeted for the rehabilitation of sports facilities and the construction of a gym to enhance utilisation of existing infrastructure.

v) *Institutionalisation of revenue accountability*

A Resource Mobilisation Committee was established to monitor revenue performance against budget, identify emerging variances early, and recommending corrective actions within Management's control.

The Committee was informed that the corrective actions implemented resulted in measurable improvements in revenue performance and operational outcomes. The revenue variance improved from 41 per cent during the audit period to 16 per cent in 2025, reflecting stronger alignment between budgets and actual performance. The Committee was further informed that revenue increased by 35 per cent, from K25.1 million in 2024 to K34.0 million in 2025, while occupancy levels improved from 81 per cent to 95 per cent over the same period. These

improvements were attributable to enhanced asset availability; strengthened marketing efforts; and improved forecasting discipline.

Management was satisfied that the measures implemented had materially reduced the risk of recurrence and had positioned the organisation for more predictable and sustainable revenue performance going forward.

2025 Budget performance

2025 Budget (K)	2025 Actual (K)	Variance (K)	Variance %
40,324,432.00	34,029,422.10	- 6,295,009.90	-16%

Revenue Year-on-year growth

2025 Actual (K)	2025 Actual (K)	Variance (K)	Variance %
25,177,394.12	34,029,422.10	8,852,027.98	35%

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to continue strengthening budget formulation processes by ensuring that revenue projections are based on verified asset readiness, realistic market conditions, and phased project implementation timelines. The Committee further urges the Controlling Officer to sustain the reforms introduced and to regularly monitor performance through the Resource Mobilisation Committee in order to promptly identify and address variances. The Committee will await a progress report on the matter.

ii. Administrative Expenses to Revenue Ratio - Financial Statement Analysis - Statement of Profit or Loss and Other Comprehensive Income

The Controlling Officer submitted that the high administrative expenses to revenue ratios arose from a combination of structural and external factors, as outlined below:

i) Depressed revenue base (denominator effect)

Revenue underperformance across all three years significantly inflated the ratio, as administrative costs were largely semi-fixed. Limited availability of revenue generating units due to prolonged rehabilitation; delayed market uptake; and incomplete facilities constrained revenue growth.

ii) Rigidity of administrative cost structure

A significant portion of administrative expenses, including utilities, compliance costs, and core operational overheads, could not be reduced proportionately in response to declining revenue levels.

iii) Macroeconomic and operational cost pressures

The high inflation, currency depreciation, and increased cost of doing business pressures contributed to rising administrative costs during the period.

iv) Impact of national load shedding

The extended power outages increased reliance on generators, resulting in higher fuel, maintenance, and operational support costs, which were classified under administrative expenses. The Committee was informed that collectively, these factors created a structural

imbalance in which administrative expenses formed an unusually high proportion of revenue during the period under review.

To address the underlying drivers of the elevated administrative expense ratios, Management implemented the following measures:

a) *Revenue led ratio correction strategy*

Recognising that administrative costs were largely semi-fixed, Management prioritised revenue growth as the primary lever for improving the ratio under the 2025–2040 Strategic Plan, targeting average annual revenue growth of 16 per cent through asset rehabilitation, improved marketing, and enhanced asset utilisation.

b) *Restoration and expansion of revenue generating assets*

Management accelerated rehabilitation of villas and rooms to increase occupancy capacity and strengthen recurring rental income, thereby improving the revenue base against which administrative costs were measured.

c) *Implementation of a formal Cost Containment Strategy*

A structured cost containment framework was introduced, focusing on:

- strict adherence to approved budgets;
- enforcement of an approved Annual Procurement Plan to enhance cost discipline; and
- identification and monitoring of major administrative cost drivers, including utilities, generator costs, ICT services, and compliance fees, with accountability embedded in performance management contracts.

d) *Strengthened revenue oversight and monitoring*

A Resource Mobilisation Committee was established to monitor revenue performance against the budget, identify emerging gaps early, and recommend timely corrective actions to support sustained revenue growth and ratio improvement.

The Committee was further informed that during the audit period, the administrative expense ratios were calculated using figures that included staff costs. However, under IDC’s approved definition, administrative expense ratios were computed using pure administrative expenses, with staff costs reported separately. When recalculated in line with this definition, the ratios showed a material improvement, although they remained above target.

Notwithstanding the definitional clarification, Management acknowledged that the historical ratios reflected genuine pressure from low revenue and cost rigidity. Revenue growth of 42 per cent, between 2023 and 2024, followed by further improvement in 2025, had already contributed to a downward trend in the ratio. In this regard, Management was satisfied that the combination of sustained revenue growth, strengthened cost discipline, and improved asset utilisation had materially reduced the risk of recurrence and positioned the Company on a clear path toward achieving IDC’s administrative efficiency benchmarks.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to continue prioritising revenue growth through improved asset utilisation, rehabilitation of revenue-generating facilities, and enhanced marketing to strengthen the revenue base. The Committee further urges the Controlling Officer to strengthen cost containment measures by enforcing budget discipline and closely monitoring key administrative cost drivers. The Controlling Officer is also urged to maintain the positive momentum in revenue growth and cost control to progressively improve the

administrative expenses to revenue ratio and align with approved benchmarks. The Committee will await a progress report on the matter.

e) Statement of Financial Position

• Poor Working Capital – K74,449,087

The Controlling Officer acknowledged the persistent negative working capital position during the period under review and recognised the liquidity risk arising from the accumulation of short-term obligations in excess of available current assets. The Controlling Officer submitted that the negative working capital position was mainly due to the following factors:

- i) accumulation of statutory tax liabilities, particularly rental tax, arising from prolonged cashflow constraints;
- ii) non-repayment of shareholder loans, including accrued interest, which significantly increased current liabilities; and
- iii) delays in settling supplier obligations, resulting from prioritisation of essential operational expenditures during periods of constrained cashflows.

To address the working capital deficit, the Committee was informed that Management implemented measures targeting both current assets and current liabilities:

a) Measures on Current Assets

- i) enforced adherence to the approved 30-day debtor collection policy;
- ii) established a Debt Management Committee to review debtor age analysis on a weekly basis; and
- iii) strengthened enforcement of the debt policy to improve revenue collection efficiency.

b) Measures on Current Liabilities

- i) implemented strict cost control measures to preserve liquidity;
- ii) streamlined procurement processes to enhance efficiency and reduce unnecessary expenditure;
- iii) limited procurement to essential and revenue generating items;
- iv) utilised the Government procurement system where applicable to benefit from pricing efficiencies; and
- v) engaged the Shareholder to convert the shareholder loan to equity in order to reduce short-term obligations.

The Committee was further informed that, as at 27th June, 2025 a shareholder loan amounting to K81 million was converted into equity, which resulted in a reduction of current liabilities from K77.5 million in 2024 to K45.2 million in 2025. Consequently, the working capital position improved from K74.4 million to K43.5 million.

Although working capital remained negative, Management noted that the position had materially improved and continued to be actively monitored as part of ongoing liquidity management.

Details	2025	2024	2023	2022
Current Assets (K)	1,696,492	3,067,053	1,856,054	2,966,052
Current Liabilities (K)	45,206,220	77,516,140	38,344,052	49,845,129
Current Ratio (Actual)	0.04	0.04	0.05	0.06
Current Ratio (Target)	0.16	0.04	0.7	0.7

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to enforce strict cashflow management through aggressive debt recovery, full compliance with credit terms, and prioritisation of timely settlement or restructuring of statutory obligations to improve liquidity. The Committee further urges the Controlling Officer to enforce firm expenditure control measures and accelerate the conversion of shareholder loans into equity in order to reduce current liabilities and restore a sustainable working capital position. The Committee will await a progress report on the matter.

• Current Ratio

The Controlling Officer submitted that the weak current ratio during the period under review resulted from the following:

- i) low levels of current assets, driven by constrained cashflows during periods of reduced revenue generation;
- ii) high current liabilities, arising from accumulated tax obligations, supplier payables, and shareholder loan balances; and
- iii) delayed settlement of short-term obligations, linked to prioritisation of essential operational expenditures.

To improve liquidity and strengthen the current ratio, the Committee was informed that Management implemented the following measures:

- i) achieved 42 per cent revenue growth between 2023 and 2024, with a sustained 16 per cent annual growth target set under the 2025–2040 Strategic Plan;
- ii) strengthened debt management through the Debt Management Committee;
- iii) deferred nonessential capital purchases requiring cash outflows;
- iv) developed structured payment plans for settling short-term liabilities;
- v) reviewed rental pricing across investment properties to align with market rates while maintaining occupancy; and
- vi) restructured the commercial loan with Zambia Industrial Commercial Bank and engaged the Shareholder on restructuring shareholder loan obligations.

The committee was further informed that the conversion of the shareholder loan of K81.5 million into equity, reduced current liabilities by K40.3 million. However, the current ratio remained at 0.04 due to continued pressure on cashflows arising from ongoing capital projects, including the rehabilitation of seventeen villas and hotel rooms.

Furthermore, Management expected a gradual improvement in liquidity from 2026, once the rehabilitation projects were completed and began generating revenue, thereby supporting the settlement of statutory obligations and trade payables.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to accelerate revenue generation from operational assets, enforce strict control of current expenditure, and prioritise the settlement and restructuring of current liabilities in order to progressively improve the current ratio to acceptable levels. The Committee will await a progress report on the matter.

b. Weaknesses in Contract Management –Refurbishment of Villas (Phase1)

(i) Award of Contract without Clearance from the Office of the Attorney General

The Controlling Officer acknowledged the non-compliance with statutory procurement requirements and accepted responsibility for weaknesses in contract management and legal compliance during the period under review. The Committee was informed that failure to submit draft contracts and contract variations to the Office of the Attorney General arose from historical weaknesses in internal contract management and compliance oversight, including:

- i) inadequate clarity and enforcement of procedures requiring mandatory legal review prior to contract award and variation;
- ii) weak internal controls governing procurement and contract approval processes; and
- iii) staff turnover and limited institutional continuity, which adversely affected adherence to statutory requirements.

The Committee was further informed that these weaknesses resulted in contracts and variations being executed without the requisite legal clearances. To address the identified weaknesses and prevent recurrence, Management implemented the following corrective measures:

i) strengthening of the procurement function

The Procurement Department was restructured and staffed with qualified and licensed personnel. A Head of Procurement with over eight years' experience in *Zambia Public Procurement Authority* (ZPPA) compliance and procurement monitoring was appointed.

ii) Institution of Mandatory Compliance and Legal Review Controls

Mandatory legal and compliance review checkpoints were introduced for all procurement processes, including contract awards and variations, to ensure alignment with the Public Procurement Act.

iii) Capacity Building and Training

Procurement Committee members and Senior Management were trained by ZPPA from 8th to 10th October, 2025 in procurement processes; contract management; and regulatory compliance.

iv) Accountability and Disciplinary Action

On 30th December, 2025 the Board of Directors resolved to mandate Management to institute disciplinary action, in line with the MVCL Disciplinary and Grievances Code, against officers found to have breached procurement procedures and who remained within MVCL's disciplinary jurisdiction. For officers no longer in service, legal guidance was sought from the Office of the Attorney General through correspondence dated 12th November, 2025 to determine the appropriate course of action.

The Procurement Department ensured that all procurement recommendations and contract awards were supported by relevant legislative provisions. Contracts above statutory thresholds were submitted to the Office of the Attorney General for clearance in compliance with Section 72(2)(e) of the *Public Procurement Act No. 8 of 2020*, as amended.

In addition, provision had been made in the 2026 budget for the recruitment of an in-house Legal Counsel to strengthen internal legal oversight and reinforce compliance assurance across the procurement lifecycle. Management confirmed that procurement and contract

management controls had been strengthened to ensure full compliance with the *Public Procurement Act No. 8 of 2020* and related regulations, and that accountability mechanisms had been instituted to address historical lapses and prevent recurrence.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure strict compliance with the Public Procurement Act by enforcing mandatory legal review and clearance of all contracts and contract variations prior to award, strengthening internal procurement controls, and sustaining capacity-building initiatives within the procurement function. The Committee also urges the Controlling Officer to follow up on legal guidance from the Office of the Attorney General regarding former officers and to ensure that appropriate remedial or legal action is taken to safeguard accountability and deter future non-compliance. In addition, the Committee urges the Controlling Officer to expedite the recruitment of an in-house Legal Counsel to reinforce legal oversight and prevent recurrence of non-compliance and will await a progress report on the matter.

(ii) Questionable Accumulation of Interest – US\$4,626.38 for Lot 1 and K263,373.32 for Lot 2

The Controlling Officer submitted that the accumulation of interest resulted from a combination of financial structuring weaknesses and timing constraints, specifically:

- i) currency mismatch in contract financing, where Phase 2 Lot 1 was denominated in United States Dollars while the available financing was in Zambian Kwacha, exposing the Company to exchange rate losses;
- ii) unbudgeted financing costs, including bank charges associated with loan acquisition, which reduced the effective funds available for timely settlement; and
- iii) delays in loan disbursement, particularly the additional facility from Zambia Industrial Commercial Bank (ZICB), which constrained liquidity at critical payment points.

The Committee was informed that the above factors collectively contributed to delays in settling certified obligations within the contractual timelines. To prevent recurrence of interest accumulation on contractual obligations, Management implemented the following measures:

- i) aligned contract currency with funding currency, with all new contracts denominated in local currency in accordance with regulatory requirements;
- ii) strengthened budget preparation processes to explicitly provide for bank charges, exchange exposure, and financing costs where projects were funded through debt;
- iii) enhanced contract review and approval procedures to ensure that financial exposure, funding adequacy, and cashflow timing were fully assessed prior to contract commitment; and
- iv) strengthened financial controls to ensure timely settlement of certified obligations and prudent utilisation of borrowed funds.

The Committee was further informed that, on 13th June, 2025 the Board of Directors directed Internal Audit to conduct a full reconciliation of the Phase 1 and Phase 2 rehabilitation contracts. The reconciliation confirmed that an outstanding balance of US\$17,436.71 remained payable under Phase 2 Lot 1.

Subsequently, on 12th November, 2025 Management, through the Board of Directors, sought legal guidance from the Office of the Attorney General on the appropriate course of action

regarding the outstanding balance. Subject to the legal opinion issued, Management would either:

- i) settle the verified outstanding amount through a negotiated payment plan; or
- ii) engage the contractor to negotiate alternative settlement options, including possible debt restructuring or write-off, where legally permissible.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to strengthen financial and contract management by ensuring proper funding alignment, comprehensive budgeting for financing costs, and thorough pre-contract evaluations. The Committee further urges Management to promptly resolve the outstanding balance based on legal guidance to avoid further interest and will await a progress report.

c. Failure to Remit Statutory Contributions – NAPSA and ZRA – K20,363,863

The Controlling Officer submitted that the accumulation of statutory arrears was primarily attributable to prolonged cashflow constraints, which limited the Company's ability to meet statutory payment obligations as they fell due during periods of suppressed revenue performance.

To address the statutory arrears and restore compliance, the Committee was informed that Management implemented the following measures:

- i) Engagement with ZRA through Time-to-Pay Agreements (TPAs) - MVCL entered into Time-to-Pay Agreements with ZRA to facilitate the structured settlement of both current and legacy tax obligations. Under the initial arrangement, the Company committed to monthly payments of K150,000, which were subsequently revised.
- ii) Engagement with NAPSA on penalty relief - MVCL accrued penalties amounting to approximately K2.9 million relating to historical NAPSA arrears. Following the issuance of a Statutory Instrument in 2024 allowing for penalty waiver applications, Management formally engaged NAPSA and applied for waiver of the accumulated penalties.
- iii) Strengthening of statutory compliance controls - Statutory deductions were prioritised in cashflow planning to ensure timely remittance of current obligations and prevent further accumulation of arrears.

In this regard, the Committee was informed that current NAPSA contributions were remitted monthly and on time, while reconciliation and engagement with NAPSA regarding the K2.9 million penalty waiver were ongoing. Further, as at 31st October, 2025 a revised Time-to-Pay Agreement of K200,000 per month had been agreed with ZRA, and payments were being made in accordance with the agreement.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to sustain compliance with statutory obligations by ensuring timely remittance of NAPSA contributions and strict adherence to the agreed Time-to-Pay arrangement with ZRA, while expediting the resolution of the outstanding NAPSA penalty waiver. The Committee further urges the Controlling Officer to strengthen cashflow management to prevent recurrence of statutory arrears and will await a progress report on the matter.

3.8 NATIONAL INSTITUTE FOR SCIENTIFIC AND INDUSTRIAL RESEARCH

Audit Findings

A review of accounting and other records maintained at National Institute for Scientific and Industrial Research and other selected stations for the period from 31st December, 2020 to 31st December, 2024 revealed the findings set out hereunder.

a. Budget and Actual Income

The Controlling Officer submitted that the figures highlighted by the Auditor General were incorrect. This was due to the failure by the National Institute for Scientific and Industrial Research (NISIR) to reconcile the budget and income figures for the periods under review. The scenario led to the Institution confirming an incorrect position to the Auditor General in its response to the Draft Audit Report Paragraph (DARP). The Committee was informed that Management cautioned the Acting Finance Manager who failed to exhibit professional competence and due care when executing the task.

The Committee was further informed that the failure to meet the revenue targets was mainly attributed to the failure by the Treasury to disburse grants in full, challenges arising from inadequate research staff, and poor infrastructure, which had led to a drastic reduction in revenue from research consultancy services and the non-hiring out of venues. The Committee was also informed that there was a reduction in demand for analytical services for food and water-related tests due to the COVID-19 pandemic.

The Committee was informed that the Ministry of Technology and Science lobbied the Treasury for a dedicated budget line for the modernisation of laboratories. The Treasury subsequently allocated funds in the budget from 2024 for the modernisation of NISIR laboratories. The Committee was further informed that the Government improved the funding of the appropriated budgets to the Institution from 2021 onwards, which resulted in a 100 per cent release of government grants during the period under review.

Furthermore, the Committee was informed that Management developed resource mobilisation strategies outside Government subvention to leverage resources, both in cash and in-kind, from cooperating partners. This included:

- 1 equipping facilities to generate confidence among clients seeking institutional services through support from cooperating partners such as the International Atomic Energy Agency (IAEA) and United Nations Development Programme (UNDP);
- 2 creating a graduate trainee programme to build a pool of trained research staff who could be upgraded into qualified researchers;
- 3 training research staff in grant proposal writing to ensure that research costs were supported through external funding, thereby reducing dependence on Government funding;
- 4 adjusting lease fees for different institutions occupying the Institution's properties; and
- 5 embarking on the accreditation of key laboratories in order to further increase client confidence in its facilities.

Committee's Observations and Recommendations

The Committee recommends that the Controlling Officer ensures that the initiatives undertaken to enhance resource mobilisation and improve institutional capacity are sustained and effectively implemented in order to strengthen the Institution's financial position. The Committee further urges the Controlling Officer to expedite the modernisation of laboratories and the accreditation of key facilities in order to enhance the credibility and

competitiveness of the Institution's services. The Controlling Officer is also urged to continue strengthening partnerships with cooperating partners and to actively pursue external research funding through grant proposals in order to reduce overreliance on Government funding. The Committee will await a progress report on the matter.

b. Lack of Title Deeds

The Controlling Officer submitted that ownership of the parcel of land on which the Kitwe Plant Science Research Centre (PSRC) was situated, did not belong to the Institute, as it had previously been a forest reserve. The Committee was informed that NISIR had since submitted a formal request to the Ministry of Lands seeking the commencement of the title processing procedure.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the Institution fully adheres to the provisions of the *Public Finance Management Act No. 1 of 2018* and does not wait for auditors to identify non-compliance. The Committee further urges the Controlling Officer to diligently follow up with the Ministry of Lands and Natural Resources to ensure the timely processing and issuance of the title deed, as this will secure legal ownership of the land and safeguard the Institution's assets. The Committee will await a progress report on the status of the title deed acquisition.

c. Research, Development and Innovation

i. Inadequate Staffing

The Controlling Officer submitted that NISIR did not have the capacity to finance the established staffing structure. The Committee was informed that following the Government's increase of about 25 per cent in the Institution's 2026 operational grant, Management had allocated 50 per cent of this increment towards the recruitment of scientists.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the restructuring at NISIR to ensure that a strong and competent management team is put in place, capable of effectively overseeing research, development, and innovation activities. The Committee further urges the Controlling Officer to collaborate with the Treasury for funding and will await a progress report on the matter.

ii. Research and Development Status

• Failure to Maintain the Laboratories in Full Usable Condition - NISIR Headquarters

The Controlling Officer submitted that the laboratories in question were in a poor state due to inadequate budget allocation for their maintenance. The Committee was informed that the Ministry of Technology and Science had convened a meeting with Research Institutes to provide a roadmap for a "one-government" approach to the management of laboratories in government agencies. This approach would enable the Institution to concentrate its resources on laboratories that had a direct impact on its mandate. The Committee was further informed that, following this meeting, Memoranda of Understanding (MoUs) were under development between NISIR and other Research Institutions, with the one with the University of Zambia already concluded.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the laboratories at NISIR Headquarters are maintained in full usable condition by prioritising budgetary allocations for their upkeep. The Committee further urges the Controlling Officer to expedite the implementation of the "one-government" approach and finalise all outstanding MoUs with partner research institutions and will await a progress report on the matter.

- **Failure to Avail Vaccination Schedules for Research Cattle - Chalimbana Farm**

The Controlling Officer acknowledged that record keeping at Chalimbana Farm was poor during the period under audit. However, vaccination records were available for verification. Regarding cattle mortality, the Committee was informed that the death of twenty-seven animals during the period under review, was not due to a disease outbreak; the causes ranged from bloat; dislocation; burnt hooves; skin diseases; anaplasmosis; heartwater; lumpy skin, to babesiosis. The Committee was further informed that Management allocated a budget for the recruitment of a qualified farm manager.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that accurate vaccination and health records for research cattle are consistently maintained. The Committee further urges the Controlling Officer to expedite the recruitment of a qualified farm manager and will await a progress report on the matter.

- **Failure to renovate cattle dip tank – Chalimbana Farm**

The Controlling Officer submitted that failure to renovate the dip tank was due to oversight on the part of Management. The Committee was informed that the Ministry of Technology and Science instructed the Board to take disciplinary action against Management for failing to maintain the dip tank. As a follow-up, Management commenced the process of renovating the dip tank.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the renovation of the cattle dip tank at Chalimbana Farm is completed promptly. The Committee further urges the Controlling Officer to ensure that inspection mechanisms are put in place to ensure that such negligence does not recur and will await a progress report on the matter.

- **Dilapidated Infrastructure - Chilanga Research Farm**

The Controlling Officer submitted that the failure to renovate the infrastructure at Chilanga Research Farm was attributed to oversight on the part of Management. The Committee was informed that the Ministry instructed the Board to take disciplinary action against the officers responsible for failure to maintain the dip tank and other research infrastructure. The Committee was further informed that Management had since commenced the process of renovating the water trough.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the renovation of the infrastructure at Chilanga Research Farm is completed without further delay. The Committee further urges the Controlling Officer to ensure that appropriate disciplinary action is meted out against the officers responsible and that effective maintenance and monitoring systems are put in place to prevent the recurrence of such lapses. The Committee will await a progress report on the matter.

d. Irregular Payment of Allowances - Board, Subcommittee Members and Employees – K871,119

The Controlling Officer submitted that the irregular payment of allowances to Board, Subcommittee Members and Employees arose because the Board Charter had not been signed by the Minister of Higher Education, who constituted the Board on 1st June 2020. As a result, Board members relied on the guidance of the Controlling Officer in drawing their allowances. The Committee heard that the current Board Charter had since been signed by the Minister of Technology and Science.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure that all payments of allowances are strictly aligned with ministerial approval. The Committee further urges the Controlling Officer to put in place measures that will ensure that all necessary approvals are obtained prior to the payment of allowances in order to prevent the recurrence of such irregularities. In addition, the Committee urges the Controlling Officer to institute disciplinary action against officers responsible for facilitating the irregular payment. The Committee will await a progress report on the matter.

e. Delayed Rehabilitation of Kitwe Pharmaceutical Laboratory

The Controlling Officer submitted that the delay in the rehabilitation of the NISIR Pharmaceutical Laboratory arose primarily from contract management challenges. The Contractor did not complete the works within the contractual and extended timelines, which led to the expiry of the contract on 12th September, 2023 after payments totaling K454,891.85 had been made. The Committee learnt that, following the identification of these challenges, the Ministry of Technology and Science opted not to renew the contract. The Ministry planned to resume the rehabilitation works in the second quarter of 2026.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the rehabilitation works for the NISIR Pharmaceutical Laboratory are resumed and completed within the planned timeframe. The Committee further urges the Controlling Officer to strengthen contract management and supervision mechanisms to ensure that contractors adhere to contractual obligations and timelines in future projects and will await a progress report on the matter.

f. Poorly Managed Lease Agreements

The Controlling Officer explained that the delay in renewing the leases was due to oversight on the part of Management. The Ministry instructed the Board to take disciplinary action against Management for failure to properly manage the leases. Further, Management engaged the occupants and commenced the process of renewing existing leases and drafting new lease agreements where none existed. Furthermore, demand letters were written to institutions with outstanding amounts, requesting them to clear all outstanding bills.

In addition, Management engaged utility companies to separate utility bill meters so that occupants, particularly Government institutions that were reluctant to pay, could pay their utility bills directly.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure that all lease agreements are promptly renewed to safeguard Government property and revenue. The Committee further urges the Controlling Officer to strengthen oversight and internal control mechanisms in the management of lease agreements to avoid similar lapses in the future. The Committee also urges Management to expedite the process of separating utility meters so that occupants could

directly meet their utility obligations. The Committee will await a progress report on the matter.

g. Irregularities in the Management of Assets

i. Procurement of Motor Vehicle, Plant and Equipment Without Authority from the Committee K2,274,295

The Controlling Officer expressed regret over the omission regarding the procurement of motor vehicles, plant and equipment without authority from the Committee under Cabinet Office. The Committee was informed that the Ministry instructed the Board to take disciplinary action against Management for failure to follow laid down procedures. The Controlling Officer further submitted that the Institution would ensure that authority was sought for all future procurements requiring approval from the Committee before the procurement process was undertaken.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure strict adherence to established procedures by obtaining authority in accordance with Cabinet Office Circular Minute No. 14 of 2017, before procuring motor vehicles, plant and equipment. The Committee further urges the Controlling Officer to ensure that appropriate disciplinary action is taken against officers responsible for the omission and that strengthened internal controls are put in place to prevent the recurrence of such irregularities. The Committee awaits a progress report on the matter.

ii. Failure to Insure Assets – K33,157,716

The Controlling Officer submitted that failure to insure assets was due to oversight on the part of Management. The Committee was informed that due to inadequate financial resources, the institution was unable to insure all its assets. The Committee was further informed that the Ministry of Technology and Science instructed the Board to take disciplinary action against Management for failure to properly manage assets. The Committee was also informed that Management increased the insurance budget line from K50,000.00 in 2025 to K250,000.00 in 2026, following an increase in budgetary allocation by the Treasury. Furthermore, the process of engaging the insurance company commenced.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that all assets are adequately insured and that the Institution maintains sufficient budgetary provision to cover asset insurance. The Committee further urges the Controlling Officer to strengthen internal controls over asset management and ensure that all insurance processes are completed promptly and will await a progress report on the matter.

3.9 PUBLIC SERVICE PENSION FUND

Audit Findings

A review of the accounting and other records maintained by the Public Service Pension Fund (PSPF) Headquarters, for the period under review revealed the following irregularities to which the Controlling Officer responded as highlighted below.

a. Annual Performance

i. Budget and Income

The Controlling Officer submitted that in 2023, the Fund recorded a positive variance of K1,010,836.00, attributed to other income from investments and related activities. The

Treasury fully funded the PSPF during the period, exceeding 100 per cent of the planned allocation. However, in 2024, the Fund registered a negative variance of K1,286,029.00, primarily resulting from reduced Government funding due to drought-related impacts.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to explore alternative revenue-generating strategies and to strengthen financial planning to mitigate the impact of reduced Government funding during periods of drought. The Committee further urges the Controlling Officer to continue maximising returns from investments and related activities to cushion the Fund against future funding shortfalls. The Committee will await a progress report on the matter.

ii. Financial Analysis

• Funding Level and Funding Gap

The Controlling Officer submitted that the funding level and funding gaps were low due to several factors, including:

(a) Declining Membership

The Committee was informed that in February 2000, when the National Pension Scheme Authority (NAPSA) was operationalised, no new entrants from the mainstream civil service were admitted to Public Service Pensions Fund, resulting in a decline in membership. This reduction adversely affected the financing of the scheme, with the support ratio falling from the ideal of 1:5 to 1:1.

(b) Scheme Design

The scheme was a defined benefit arrangement that used a formula to calculate pension benefits, with key variables including age, length of service, and final salary. Therefore, the use of the final salary in the computation resulted in higher pension benefits compared to the contributions made by members over their period of service. For instance, where a member was promoted to a higher position in the year of retirement, contributions were made based on a lower salary, while benefits were calculated using a higher final salary. This mismatch contributed to the financing gap within the scheme.

(c) Government Pay Policy

The consolidation of allowances into basic pay for Government employees in 2013 resulted in actuarial liabilities almost doubling from K21.5 billion to K41.7 billion in 2014. To address the funding level and actuarial deficit, the following measures had been put in place:

i. Management embarked on pension reforms and investments strategies, which included the following:

• Introduction of an Occupational Pension Scheme

The scheme was designed using a defined contribution model, where pension benefits were paid based on the contributions made by a member plus investment returns. The scheme was sustainable, as it had no unfunded liabilities, reduced delays in pension payments and less reliance on Government funding.

• Removal of the 20 per cent threshold in the current Public Service Pension Act

This measure was intended to optimise the performance of the investment portfolio.

ii. The Fund had, over the years, adopted an aggressive investment approach, with Investment assets growing from less than K2.98 billion in 2020 to over K8.45 billion in 2025.

- iii. The sponsor, the Government supported the Fund through annual resource allocations to facilitate the settlement of lump sum pension benefits. Over a period of six year., The Government disbursed K12,278,253,905.54 and cleared 17,296 pensioners and beneficiaries. Additionally, in 2026, an allocation of K4.7 billion had been allocated for the settlement of pension benefits.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the implementation of pension reforms, particularly the operationalisation of the Occupational Pension Scheme, in order to enhance sustainability and reduce reliance on Government funding. The Committee further urges the Fund to strengthen and diversify its investment portfolio following the removal of the 20 per cent threshold to ensure optimal returns. Additionally, the Committee encourages the Government to continue providing adequate and timely financial support to the Fund to facilitate the clearance of outstanding pension obligations, while ensuring that long-term measures are put in place to address the actuarial deficit and improve the overall funding position of the scheme. The Committee will await a progress report on the matter.

b. Administration of Pension Contributions and Benefits - Outstanding Contributions

The Controlling Officer submitted that, as at 31st December, 2025, the Treasury had settled the outstanding amount for December 2024, totaling K96,557,225.00.

Committee's Observations and Recommendations

The Committee notes the response and urges the Treasury to prioritise consistent and prompt release of funds to safeguard the sustainability of the Fund and ensure the timely settlement of pension obligations. The Committee recommends the matter for closure, subject to verification by the Office of the Auditor General.

c. Internal Control Weakness - Administration of Investments

i. Failure to Recover Loan - Shimaini Investment

The Controlling Officer submitted that Shimaini Investment Limited (SIL) was a limited liability company incorporated in October 2014. The company was established as a special purpose vehicle for the Mineworkers' Union of Zambia for the development and operation of a milling plant in Chambishi. The Committee was informed that the milling plant was initially financed by the Development Bank of Zambia for the acquisition of a milling plant with a capacity of 150 tonnes per day, a weighbridge, and a 1,000 metric tonne silo.

The Committee was further informed that in 2021, the Development Bank of Zambia (DBZ) approached PSPF, together with the Workers' Compensation Fund Control Board, to provide K34 million in debt financing for working capital, to be secured on an inter-creditor pari passu basis. The Controlling Officer submitted that PSPF conducted due diligence and determined that Shimaini Investment Limited was a viable project based on projected revenue growth, security, and governance structure.

The Controlling Officer informed the Committee that on 24th May, 2021 the Public Service Pensions Fund Board (PSPFB), in conjunction with the Development Bank of Zambia and the Workers' Compensation Fund Control Board, signed a loan agreement with Shimaini Investment Limited (SIL), with the Development Bank of Zambia acting as the arranger. The Committee was informed that, in accordance with the agreement, on 27th May, 2021 PSPF extended a loan facility of K5,000,000 to SIL at an interest rate of 9 per cent, repayable over a period of sixty months, with a maturity date of 21st May, 2026.

It was further submitted that the agreed interest was to be paid bi-annually at a rate based on the ninety-day Treasury Bill yield preceding the interest due date. The agreement further provided for a twelve-month grace period on the principal, capitalisation of interest for the first twelve months, and commencement of interest payments eighteen months from the date of disbursement.

Based on the loan agreement, the Controlling Officer submitted that SIL made the first payment of K442,314.68 on 20th February, 2023. Thereafter, the Company defaulted on four subsequent coupon payments, amounting to K1,533,479.37 as at 30th June, 2024. The Committee was informed that PSPF, together with the co-lenders, the Development Bank of Zambia and the Workers' Compensation Fund Control Board, engaged Shimaini Investment Limited following the borrower's default on the second coupon payment.

To address the default, the Controlling Officer submitted that PSPF relied on the principal documents governing the relationship between the parties, namely the Loan Facility Agreement and the Inter-Creditor Pari Passu Agreement. Under clauses 3 and 4 of the Inter-Creditor Pari Passu Agreement, all lenders were obliged to notify each other in the event of a default or enforcement action.

Accordingly, upon Shimaini Investment Limited's default, the lenders convened and agreed to jointly engage the borrower. Following several engagements, Shimaini offered an early redemption to all three lenders on 21st October, 2024 on the condition that all lenders accepted their respective offers. The last co-lender accepted the offer on 11th June, 2025. The proposal relating to PSPF amounted to K5,634,537.91 as the final settlement out of the total K7,261,835.57, which PSPF accepted on 6th November, 2024. Shimaini subsequently undertook, in a letter dated 3rd July, 2025 to settle all outstanding amounts by 15th August, 2025. However, the Company failed to honor this commitment.

Following further default, the Controlling Officer submitted that the lenders reconvened on 16th January, 2026 and resolved to proceed with recovery actions through the appointment of a receiver. The appointment was conditional upon formal confirmation from all three lenders. The current status indicated that two lenders provided confirmation, while confirmation from the final lender was still awaited. The Committee was informed that the Fund issued an instruction to DBZ to proceed with the appointment of the receiver, which was expected to be completed by the end of the second quarter of 2026. The Controlling Officer submitted that the receivership route had been selected as the most appropriate mechanism to safeguard the Fund's interests and to maximize recovery from the investment.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to continue monitoring, closely the recovery process from Shimaini Investment Limited and to ensure the prompt appointment of a receiver once all lender confirmations are obtained. The Committee further recommends that PSPF, in collaboration with co-lenders, implement all necessary legal enforcement measures to safeguard the Fund's interests and maximise recovery from the investment. Additionally, the Committee encourages the Fund to review its loan monitoring and risk management framework to prevent similar defaults in future lending arrangements. The Committee resolves to await a progress report on the matter.

ii. Outstanding Rentals

The Controlling Officer submitted that, as at December 2024, the total number of tenants in rent arrears was 198, with an aggregate outstanding balance of K26,628,340.46. By October 2025, rental arrears amounting to K11,732,802.46 were collected from 64 tenants, thereby

reducing the outstanding balance to K14,895,538, as highlighted by the auditors. During the period November to December 2025, a further K2,623,878.80 was collected against the December 2024 arrears. Consequently, as at December 2025, total collections against the December 2024 arrears amounted to K14,356,681.26.

The Committee was informed that the remaining uncollected balance, as at December, 2025 stood at K12,271,659.20, relating to eighty-one accounts which were being pursued through legal processes. The outstanding balance partly arose from challenges with the leasing agent, which resulted in the termination of the agency contract. The Committee was further informed that additional rental arrears had been caused by significant volatility in the Zambian Kwacha against the United States Dollar. The exchange rate depreciated from an average of approximately K25 per USD in 2023 to about K28 per USD in 2024. This adversely affected tenants under USD-denominated leases, increasing rental obligations in Kwacha terms and constraining tenants' ability to meet their contractual payments.

The Committee was informed that Management instituted and was implementing the following corrective measures:

- (i) revised Credit Policy and Real Estate Policy to strengthen tenant vetting and credit risk management;
- (ii) automation of lease and property management;
- (iii) engagement of an external professional property management firm at the Kenneth Kaunda Mall to enhance operational oversight and tenant management; and
- (iv) subscription to credit reference bureaus to improve tenant credit assessment and monitoring.

Further, Management was actively pursuing recovery of outstanding arrears through the initiation of legal recovery actions, including eviction proceedings where applicable, in accordance with lease agreements and prevailing laws. The Committee was informed that recovery actions were ongoing, and Management would continue to provide periodic updates on progress and outcomes to ensure accountability and compliance with audit recommendations.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to continue implementing corrective measures, including strengthened tenant vetting, automation of lease management, and engagement of professional property management services. The Committee further recommends that Management expedites the recovery of outstanding rentals through legal channels where necessary and provide periodic updates on progress to ensure accountability and compliance with audit recommendations. The Committee will await a progress report on the matter.

iii. Delayed Completion of the Hotel at Kenneth Kaunda Mall

The Controlling Officer submitted that the delay in completion of the hotel project was attributed to a combination of COVID-19 related disruptions and project financing challenges. The COVID-19 pandemic resulted in supply chain interruptions, reduced contractor productivity, and delays in the procurement and delivery of specialised materials and fittings, all of which affected the project timeline.

The Committee was informed that Management implemented corrective measures and resolved to complete the hotel using an alternative financing model (debt and equity), including the option of a convertible bond financing structure to facilitate timely and sustainable mobilisation of capital. The Fund initiated the process to engage a project

manager and an independent capital-raising broker to support project coordination, as well as efficient and transparent funding mobilisation. The Committee was further informed that the road map had been developed, with the commencement of construction scheduled for the first quarter of 2026 and an estimated completion period of eighteen months. The Committee learnt that the project prospectus had been formulated and a comprehensive data room had been established.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure strict adherence to the established project road map and timelines for the Kenneth Kaunda Mall Hotel. The Committee further recommends that Management closely monitors the implementation of the alternative financing model, including the use of a convertible bond structure to ensure timely and transparent completion of the project. The Committee will await a progress report on the matter.

3.10 RURAL ELECTRIFICATION AUTHORITY

Audit Findings

A review of the accounting and other records maintained by the Rural Electrification Authority (REA) for the period under review revealed the following irregularities to which the Controlling Officer responded as highlighted below.

a. Compliance with Laws, Regulations and other Procedures

i. Failure to maintain valid performance security before end of contract

The Controlling Officer submitted that at the time of implementation of these projects, there were weaknesses in project execution which Management had been working to address. These weaknesses included the following:

- absence of a digital tracking system for monitoring milestones and expiry of contract securities; and
- lack of formal appointment of Contract and Project Managers with clearly defined roles in accordance with public procurement regulations.

In addressing these gaps, the Controlling Officer informed the Committee that the Authority undertook the following structural reform measures to strengthen contract management under REA:

- Management developed a Project Management Policy which provided guidelines for effective project planning and implementation.
- Management appointed Project and Contract Managers with clearly defined roles and responsibilities for each project.
- Management established a security tracking mechanism to monitor milestones and the expiry of contract securities.
- Management decentralised project planning and supervision to regional offices across the country.

Further, the Committee was informed that the Authority was in the process of implementing a Business Information System to integrate all processes within the Authority for improved operations, including contract and project management.

The Ministry, through REA, also informed the Committee that all four projects under these contracts were completed and commissioned.

The Committee was informed that REA put the following measures in place:

- Management implemented a Business Information System that automated milestone tracking and generated alerts prior to the expiry of securities or contract deadlines.
- Management began using Contract Performance dashboards, which were reviewed and discussed monthly at Senior Management level and quarterly by the Board.
- Management cascaded Contract Performance as a KPI to every responsible employee, and any officer who failed to enforce contractual safeguards attracted supervisory action in line with Performance Management Policies.
- For all retendered works, contract execution was completed within eight to twelve weeks from the date of award under intensified supervision.
- For works yet to be retendered, upon award, the same eight to twelve weeks implementation timeline applied, supported by structured reporting and milestone-based payments.

Furthermore, the Committee was informed that these measures being implemented would further improve the performance and compliance of projects, particularly as they were embedded in performance appraisals to reprogramme the institutional culture towards a more proactive approach to project management.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that valid performance securities are maintained throughout the duration of all contracts and are renewed in a timely manner before expiry. The Committee further urges the Controlling Officer to strengthen contract management systems by ensuring strict monitoring of security validity, enforcement of contractual safeguards, and accountability for officers responsible for any lapses. The Committee will await a progress report on the matter.

ii. Failure to Recover Advance Payments

The Controlling Officer submitted that advance payment recoveries were made on payment certificates for works done. The delay in recovering advance payments on the cited contracts was due to minimal or slow performance by the contractors, such that no certification could justifiably be made for the works. As a result, the Authority was unable to recover the advance payments from the contractors by the time of the audit.

The Committee was informed that the Authority recovered a total of K7,808,053.70 from the cited five projects. In addition, the Authority put in place the following measures to recover the balance of K4,084,874;

1. the Authority submitted a payment bond claim amounting to K2,614,251.00 to the insurance company for payment on Simaubi Project;
2. pursuant to the General Conditions of Contract, the Authority was in discussions with the contractor to amicably recover a total of K832,044.00. In the event that the amount was not recovered amicably, the Authority indicated that it would commence arbitration proceedings by the end of the second quarter of 2026 on the Chief Kambombo Project; and
3. the Authority resolved the misunderstanding surrounding the electrification technology issue with Chief Moyo, and implementation continued. The Authority had indicated that it would recover K638,579.00 from the new contract.

To prevent recurrence, the Committee was informed that advance payments and guarantees were being monitored through a centralised digital register with automated expiry alerts. No

extension of time or contract variation was processed where an advance remained unrecovered without a valid and enforceable guarantee. Where contractor performance fell below acceptable thresholds, the Authority triggered early termination and guarantee call-up well before expiry in order to safeguard public funds. The Committee was further informed that the three projects were subsequently awarded to new contractors.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that advance payments are effectively secured and recovered in accordance with contractual provisions, and that no contract extensions are approved where advances remain outstanding without valid guarantees. The Committee further urges the Controlling Officer to strengthen the monitoring of advance payments and guarantees through the centralised digital system and will await a progress report on the matter.

iii. Delayed Project Completion

The Controlling Officer submitted that the twenty-three contracts referred to, were actually eighteen contracts. The Committee was informed that failure by contractors to complete the eighteen projects within the agreed schedules was largely attributed to delays in the delivery of critical materials, as contractors experienced difficulties in mobilising and importing specialised components, particularly where certain items had to be sourced from abroad, thereby disrupting planned work programmes and extending completion timelines.

The Committee was further informed that, following the challenges encountered on the biodigester component, Management conducted a post-implementation assessment and established that biogas technology was relatively new within the Authority's project portfolio and the local market, and that a number of contractors engaged did not possess adequate specialised technical competence in biogas construction and installation, which contributed to slow progress and poor execution.

Furthermore, the Committee learnt that three projects had since been completed while the contracts for the remaining fifteen projects were terminated. The projects were being implemented as follows:

- two were being implemented under force account, with works scheduled to be completed in the second quarter of 2026;
- six were retendered and were scheduled for award by March, 2026; and
- seven projects, which were terminated in December, 2025 were scheduled for retendering by the end of the first quarter of 2026.

The Controlling Officer informed the Committee that, in expediting the retendering process, the Authority ensured that procurement remained compliant with public procurement regulations and that due diligence was strengthened. The evaluation criteria included demonstrated technical competence and experience in similar projects, proven capacity to mobilise resources and materials within the required timelines, financial capability and performance history, and availability of skilled personnel, particularly for specialised technologies such as biodigesters.

Additionally, the Authority was balancing speed with prudence by accelerating delivery to underserved communities, while safeguarding public resources through robust contractor selection processes. All retendered works were to be executed within eight to twelve weeks from contract award under intensified supervision, and works yet to be retendered were, upon

award, to adhere to the same implementation timeframe. These measures ensured that urgency in electrification did not compromise procurement

Further, to reduce turnaround time and eliminate recurrent delays associated with contractor-led procurement of poles, the Authority removed the responsibility of sourcing treated poles from contractors for all projects where poles were a critical input.

Going forward, the REA would continue to procure treated poles directly from the Zambia Forestry and Forest Industries Corporation (ZAFFICO), as a centrally managed input and supply them to project sites as required. This intervention was intended to shorten lead times, improve quality assurance and standardisation of materials, reduce supply chain risks, and enable contractors to focus strictly on installation and timely completion of works, thereby strengthening delivery certainty across the electrification programme.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the Authority sustains the centralised procurement of treated poles through ZAFFICO and strengthens supply chain coordination to guarantee timely delivery of materials to project sites. The Committee further urges the Controlling Officer to ensure that contractors focus strictly on installation and adhere to prescribed timelines. The Committee will await a progress report on the implementation of this measure.

iv. Failure to Charge Liquidated Damages

The Controlling Officer submitted that failure to charge liquidated damages was due to minimal or slow performance by the contractors. Therefore, the Authority could not make payment as there had been no claim from the contractors. The Committee was informed that the Authority had charged and recovered a total of K6,292,042.96 as liquidated damages from the cited contracts. In addition, the Authority ensured that the maximum deductible liquidated damages were computed, validated, and recovered through the final account, so that the contractors were charged for the delays in completing the works.

Additionally, Management instituted a dedicated contract and project monitoring function and strengthened contract administration controls to ensure that timelines were tracked in real time, liquidated damages were triggered promptly once completion dates lapsed, and, where contracts proceeded to termination or completion, liquidated damages were systematically enforced through final accounts to eliminate recurrence.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the enhanced contract monitoring and administration mechanisms are fully implemented across all projects. The Committee further urges the Controlling Officer to maintain these controls to prevent recurrence of delays and safeguard public resources and will await a progress report on the matter.

iv. Failure to Prepare Final Account for Terminated Contracts

The Controlling Officer submitted that preparation of a final account required, as key inputs, the following:

1. a joint site inspection and measurement to confirm the actual works executed;
2. verification and valuation of materials delivered to the site;
3. reconciliation of the contract sum against approved variations, interim payment certificates issued and paid, retention monies, and any recoverable advances; and

4. computation of any applicable deductions, such as liquidated damages, to determine the net amount payable to, or recoverable from, the contractor.

In the terminated contracts cited, conclusion of the final accounts was delayed principally because the contractors were not available to participate in joint inspections and measurements to validate the extent of works and materials delivered, and further failed to sign off the agreed final account schedules. The absence of these critical verification and acknowledgement steps impeded timely reconciliation and closure of the contracts, including determination of the final net position necessary to facilitate settlement or recovery.

The Committee was informed that, notwithstanding the earlier challenges relating to joint verification and contractor sign-off, all final account reports for the five terminated projects were subsequently fully concluded and approved. These final accounts reconciled, in a complete and auditable manner, the contract sums, certified works executed, verified materials delivered, approved variations, interim payments made, retention positions, unrecovered advances, and any contractual deductions including liquidated damages, thereby establishing the net amounts payable to, or recoverable by the Authority.

As a non-recurrence measure, the Authority strengthened its pre-award controls by undertaking enhanced due diligence on all prospective contractors to verify their technical and financial capacity, availability of key personnel and equipment, proven past performance on similar assignments, and ability to meet delivery timelines. This was intended to reduce the risk of non-performance and prevent future contract terminations and delays in contract close-out.

Committee's Observations and Recommendations

The Committee recommends that the Controlling Officer ensures that the strengthened pre-award due diligence measures are consistently applied to all prospective contractors. The Committee further urges the Controlling Officer to maintain these controls to minimise the risk of contractor non-performance, avoid contract terminations, and ensure timely contract close-out. The Committee will await a progress report on the matter.

v. Contract for Supply, Delivery and Installation of 2023 Grid Extension Lines in Matanda Phase I

• Failure to Encash the Advance Payment Guarantee

The Controlling Officer submitted that during the time of the audit, the advance was valid, though it was erroneously not availed during the audit period. The Committee was informed that the contract for the Matanda Phase I Project was subsequently formally terminated in accordance with the contract conditions due to non-performance. Following termination, REA issued a formal demand for encashment of the advance payment guarantee in the amount of K2,826,602.00 as evidenced by the attached correspondence. In addition, reconciliation of works executed was undertaken at the termination stage to establish the net recoverable position.

The Committee was further informed that, following the immediate contractual remedies, Management had instituted the following measures to prevent recurrence:

- ***Early Warning and Performance Escalation Framework***

A structured performance monitoring framework had been introduced, requiring project managers to report mobilisation status, material delivery timelines, and progress against milestones on a regular basis. Where progress fell below agreed thresholds, escalation to Senior Management was triggered within defined timelines.

- ***Pre-Expiry Guarantee Monitoring System***

Advance payment guarantees were recorded in a centralised digital register with automated alerts issued ninety, sixty and thirty days prior to expiry. Where performance risks existed, the Authority initiated call-up procedures well before expiry.

- ***Mobilisation Verification Controls***

Advance payments were linked to verifiable mobilisation benchmarks, including confirmation of materials on site, approved work programmes, and proof of secured supply chains, particularly where imported materials were involved.

- ***Strengthened Termination Trigger Protocol***

Where contractor performance stagnated beyond defined tolerance levels, termination procedures and guarantee call-up were initiated promptly rather than allowing prolonged underperformance.

- ***Community Asset Protection Measures***

For projects susceptible to theft or vandalism, intensive community engagement mechanisms formed part of the contractor's approved implementation plan.

Furthermore, the Committee was informed that these reforms ensured that advance payments were better safeguarded, performance deterioration was detected early, and recovery mechanisms were triggered proactively rather than reactively.

Committee's Observations and Recommendations

The Committee recommends that the Controlling Officer should ensure that all supporting documentation is readily available during audit processes, and that internal controls are strengthened to prevent omissions and enhance compliance with audit requirements. The Committee further urges the Controlling Officer to ensure that Management sustains and fully operationalises the instituted control measures to ensure timely detection of contractor underperformance and safeguard public funds. The Committee will await a progress report on the effectiveness of these measures.

- ***Failure to Maintain the Grid Extension Lines – Matanda Project***

The Controlling Officer submitted that the fallen section of the line was due to vandalism, with a total of thirty-nine poles and 117 crossarms damaged at an estimated value of K429,668.07. The Authority reported the matter to the police, and the suspect was apprehended, remaining in custody at Mansa Correctional Facility after appearing in the Magistrates' Court for mention. The Committee was further informed that the contract for the Matanda Project tender evaluation had since been completed and submitted to the Attorney General for final approval, with the works estimated to be undertaken by the third quarter of 2026.

The Controlling Officer submitted that the measures highlighted below were instigated to correct the situation:

- i. Community engagement and protection framework - REA strengthened engagement with local leadership and community structures to enhance local ownership and early reporting of vandalism threats.
- ii. Contractual enforcement for asset protection - Contracts included explicit obligations for contractors to secure works-in-progress and materials, with enforceable consequences where negligence contributes to losses.
- iii. Early response escalation - emerging security were escalated immediately to senior Management to trigger prompt remedial works and engagement with law enforcement.

These measures aimed to protect partially completed assets, proactively manage vandalism risks, prevent a recurrence of fallen lines and exposed conductors and ensure the timely completion and delivery of electricity services to the affected communities.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to closely monitor the approval process with the Attorney General to ensure timely award of the Matanda Project contract. The Committee further urges the Controlling Officer to sustain and regularly review the instigated measures and will await a progress report on the matter.

vi. Weakness in the Management of Biodigesters Contracts

The Controlling Officer submitted that significant implementation challenges across three biodigester projects, with a total contract sum of K1,684,544, of which K535,540 had been paid, leaving an outstanding balance of K1,149,004. All three projects experienced serious issues, including poor workmanship, stalled or abandoned works, and contractor non-performance:

- **Sefula Secondary School (Mongu):** The project exhibited poor workmanship, including use of incorrect materials, substandard construction, and incomplete works. Despite partial progress, critical components were either poorly done or missing. The contract was **terminated**, with remedial works planned for 2026.
- **Mporokoso Boarding & Mabel Shaw Girls Secondary Schools (Mporokoso/Mbereshi):** The project was **stalled**, with only excavation works completed at one site and no progress at the other even long after the expected completion date. The contract was terminated and retendered.
- **St. Clement's Secondary School (Mansa):** The project was abandoned, with incomplete construction, poor workmanship, and failure to meet basic requirements such as fencing. The site was left exposed, leading to misuse. The contract was terminated and earmarked for retendering.

Overall, the projects demonstrate systemic weaknesses in contractor performance, supervision, and project execution, resulting in delays, substandard works, and contract terminations across all sites.

The Committee was informed that the performance of contractors engaged in the biogas projects was hampered by a shortage of specialised masonry skills required for constructing the digesters. The Committee was informed that REA terminated all three contracts. The Authority retendered the projects, with awards expected before the second quarter of 2026. Upon award, the Authority ensured that the works were completed within eight weeks under enhanced technical supervision, restoring service delivery to the affected public institutions without further delay.

The Controlling Officer submitted that to prevent recurrence and to address the specialised requirements of biogas technology, Management instituted several targeted interventions as outlined below:

- **Specialised contractor pre-qualification and due diligence:** Going forward, biodigester works were restricted to contractors who demonstrated experience in similar biogas installations, possessed competent technical personnel, and showed the capacity to mobilise specialised materials and fittings within the required timelines.
- **Enhanced technical supervision and commissioning protocols:** REA deployed dedicated technical oversight teams to conduct routine site inspections, certify quality at each stage, and ensure that biodigesters were tested, commissioned, and handed over as fully functional systems, including providing user training and basic maintenance guidance for beneficiaries.
- **Viability improvement of existing biodigesters:** The Authority focused on enhancing the viability and functionality of existing biodigesters through corrective works, performance monitoring, and targeted technical interventions, ensuring sustained operational value from the investments already made.
- **Skills development partnerships:** To strengthen sector-wide capacity and reduce long-term dependence on a limited pool of specialised contractors, REA signed a Memorandum of Understanding with the University of Zambia, Copperbelt University, and Novia University of Finland to develop technical skills, provide training support, and build applied expertise in biogas technology and related engineering fields.

These measures collectively ensured that the retendered biodigester projects were delivered within defined timelines and that future biogas projects were executed by competent contractors under strengthened technical oversight, thereby preventing a recurrence of the weaknesses previously identified.

In addition, with a new Board in place, REA remained firmly committed to resolving all outstanding audit matters in a timely and transparent manner, ensuring full recovery of public funds where due, and rigorously enforcing contractual obligations in line with the Public Finance Management framework. The Authority also instituted strengthened governance, procurement, and contract management controls to prevent recurrence of the identified weaknesses and to safeguard public resources.

The Committee was further informed that REA prioritised the accelerated yet prudent completion of all outstanding electrification projects in 2026, ensuring that underserved communities received reliable electricity services without further delay, while maintaining strict compliance with regulatory and accountability standards.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to sustain the implementation of the instituted interventions in order to prevent recurrence of the identified weaknesses and ensure timely delivery of biogas and electrification projects. The Committee will await a progress report on the matter.

3.11 TAZAMA PIPELINES LIMITED

Audit Findings

A review of the accounting and other records maintained by the Tazama Pipelines Limited for the period under review revealed the following irregularities to which the Controlling Officer responded as highlighted below.

a. Governance

(i) Failure to Adhere to Cabinet Circular of 2020

The Controlling Officer submitted that TAZAMA Pipelines Limited was a bilateral institution jointly owned by the two Governments, with the Government of the Republic of Zambia holding a 67 per cent shareholding and the United Republic of Tanzania holding 33 per cent. The Committee was informed that both Governments were represented on the TAZAMA Board at Permanent Secretary level from their respective parent Ministries responsible for energy, being senior Government officials.

Further, the holder of Class A shares, by virtue of having a controlling interest in the Company, was represented by the Permanent Secretary as a senior Government official, thereby ensuring that majority shareholder interests were directly reflected in Board deliberations and oversight.

However, Management had since brought the matter to the attention of the Ministry of Energy in, Zambia, as the responsible Ministry. The Ministry subsequently wrote to Cabinet Office seeking guidance on the matter. It was further submitted that implementation of the audit recommendation would have resulted in Zambia relinquishing its chairmanship of the Board to Tanzania, which was serving as co-chair, thereby altering the existing governance and leadership structure of the institution.

Committee's Observations and Recommendations

The Committee cautions the Controlling Officer against waiting for auditors to initiate investigations and taking corrective action and urges proactive measures to address issues promptly. The Committee urges the Controlling Officer to expedite engagement with the Ministry of Energy and Cabinet Office in order to obtain clear guidance on the matter and ensure that the governance structure of TAZAMA Pipelines Limited remains compliant with applicable regulations while safeguarding Zambia's controlling interest. The Committee will await a progress report on the matter.

(ii) Lack of Board Charter

The Controlling Officer submitted that TAZAMA initiated the process of developing a Board Charter in 2022. However, the process stalled due to the non-operational status of the Company arising from a lack of funds. The Committee was informed that Management had since developed draft versions of the Board Charter and the Code of Ethics for the Board, which were scheduled for presentation at the next Board meeting in March, 2026 for consideration and approval.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the finalisation and approval of the Board Charter and Code of Ethics, and to ensure that these are implemented without further delay in order to strengthen corporate governance within the Company. The Committee will await a progress report on the matter.

(iii) Failure to Separate Audit from Finance Committee

The Controlling Officer submitted that this had been a standing arrangement for many years. However, there was a shift towards adopting international best practices. The Committee was informed that Management had commenced the process of separating the Audit and Finance Committees in order to align with international best practice and the *Public Finance Management Act No. 1 of 2018*. The matter was scheduled for discussion at the next Board meeting in March, 2026.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the separation of the Audit and Finance Committees is finalised without delay, in line with international best practices and the *Public Finance Management Act No. 1 of 2018*. The Committee will await a progress report on the matter.

(iv) Failure to provide for Tenure of Office on Appointment letters

The Controlling Officer submitted that failure to provide for the tenure of officers in appointment letters arose from the fact that some appointments made by the appointing authorities were open-ended. The Committee was informed that certain Board members were appointed by virtue of their positions within the organisation and Government. However, for members appointed from outside Government, the tenure would be explicitly stated in their appointment letters.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to adhere to Article 84(b) of the TAZAMA Pipeline Limited Articles of Association by ensuring that all appointment letters clearly specify the tenure of office, particularly for members appointed from outside Government, to promote transparency and uphold good governance practices. The Committee will await a progress report on the matter.

b. Annual Performance

(i) Budget and Income

The Controlling Officer submitted that the negative variance of K19,130,192 was primarily attributable to the Company’s non-operational status in 2022, during which no revenue was generated from pumping fees. The Committee was informed that, notwithstanding this setback, Management consistently endeavoured to achieve budgeted targets. This commitment was demonstrated in the 2023 and 2024 financial years, during which the Company exceeded its budgeted performance targets.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure that Management implements measures to achieve budgeted targets and minimise negative variances, in order to strengthen financial performance and accountability. The Committee will await a progress report on the matter.

(ii) Increased Profitability – Statement of Comprehensive Income

• Increased Profitability

The Committee was informed that the Company performed well due to a motivated and dedicated workforce, supported by favourable market and operational conditions, and through strict adherence to the set key performance indicators, while costs had been kept under control following the resumption of operations in January 2023. The Committee was

further informed that Management had continued to regularly monitor key performance indicators and cost management measures.

Committee's Observations and Recommendations

The Committee notes the response and resolves to close the matter, subject to verification by the Office of the Auditor General.

c. Statement of Financial Position

i. Increase in Trade Receivable Days

The Controlling Officer submitted that trade receivables increased significantly from K1.3 million in 2022 to K90.5 million in 2023, at which time the Company's sole trade debtor was the Government of the Republic of Zambia (GRZ), arising from the procurement and sale of petroleum products. During the same period, the Company also transacted with one private sector supplier whose payment performance was satisfactory, with only one month's invoices outstanding at year-end.

However, in 2024, the Government introduced the Pipeline Open Access Legal Framework, which facilitated access to the pipeline by additional private Oil Marketing Companies (OMCs). The implementation of this framework resulted in an increase in the number of OMCs utilising the pipeline, some of which defaulted on their payment obligations, thereby contributing to the rise in outstanding receivables.

The Committee was informed that the situation was further exacerbated by the introduction of the Pipeline Differential Cost (PDC) in April, 2024. This measure, implemented through a Government of the Republic of Zambia (GRZ) directive, required pipeline users to pay the differential between the transportation cost embedded in the Energy Regulation Board (ERB) Pricing Framework and the TAZAMA Pipeline cost of USD 54 per metric tonne. During the period from April to October 2024, the applicable PDC amounts were communicated to fuel suppliers through demand notices and collected by the ERB. However, resistance by some pipeline users to settle the PDC obligations adversely affected the settlement of TAZAMA fees, as both charges were consolidated into a single invoice.

The Secretary to the Treasury subsequently issued a directive that, with effect from November 2024, TAZAMA was to assume responsibility for invoicing fuel suppliers directly for the Pipeline Differential Cost, collecting the proceeds, and remitting the funds to the Ministry of Finance and National Planning. The Committee was further informed that several engagements had been held with stakeholders in an effort to resolve the matter, albeit with limited progress. In this regard, Management indicated its intention to engage the Secretary to the Treasury with a view to having the legacy receivables assumed by the Government of the Republic of Zambia (GRZ) for subsequent recovery.

Management had also implemented a number of measures to mitigate the situation, including:

- (i) implementing clause 8.3.3 of the revised Open Access Guidelines, ensuring that only customers without outstanding payments to GRZ were allowed to participate in future use of the Pipeline:
 - issuing demand letters to defaulting customers;
 - establishing a dedicated officer within the Company structure for debt recovery; and
 - conducting periodic creditworthiness reviews of customers.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to strengthen debt recovery mechanisms by ensuring timely follow-up on overdue accounts and effectively utilising the dedicated debt recovery officer to reduce outstanding receivables. The Committee further urges the Controlling Officer to enforce the Open Access Guidelines by ensuring that only customers without outstanding payments to GRZ are allowed to access the Pipeline, in line with clause 8.3.3 of the revised guidelines. The Committee also urges the Controlling Officer to engage with the Government on legacy receivables to transfer outstanding amounts to the Government for future recovery. The Committee will await a progress report on the matter.

ii. Failure to Meet Set Current ratio

The Controlling Officer submitted that the increase in current liabilities, primarily arising from transportation differential fees payable to the Government of the Republic of Zambia (GRZ) and delays by fuel suppliers in settling these fees, resulted in a current ratio lower than the target threshold.

The Committee was informed that Management had implemented measures aimed at maintaining the current ratio above the industry benchmark of 2:1, including investing excess revenue over expenditure in short-term, interest-earning instruments to increase cash and bank balances, implementing stringent cost control measures to minimise unnecessary operational expenses, and strengthening accounts receivable collection processes to reduce outstanding GRZ payables on pipeline differential fees.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to strengthen cash management and investment practices by continuing to invest excess revenue in short-term, interest-earning instruments to maintain adequate cash and bank balances. The Committee further urges the Controlling Officer to enhance cost control measures by ensuring strict monitoring and reduction of unnecessary operational expenses and also cost control measures by ensuring strict monitoring and reduction of unnecessary operational expenses. The Committee will await a progress report on the matter.

iii. Increase in Debt to Equity Ratio

The Controlling Officer submitted that the high debt ratio was attributable to the outstanding Pipeline Conversion Loan liability (shortfall), amounting to K1.4 billion, which is expected to be redeemed through an anticipated upward adjustment of throughput fees, as provided for in the Pipeline Conversion Loan Agreement dated 2nd June, 2023 between the Government and TAZAMA. The principal loan amount received was K2.7 billion (USD 137.5 million) in June 2023, of which K1.3 billion had been repaid using proceeds from the sale of refined crude oil stocks.

The Committee was informed that Management had continued to engage the Energy Regulation Board (ERB) on the possible adjustment of the pumping tariff, which provided the basis for repayment of the pipeline conversion loan; and indicated that it had no intention of contracting new debt in the short to medium term.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to expedite engagement with the Energy Regulation Board to facilitate the timely adjustment of the pumping tariff, in order to support the repayment of the pipeline conversion loan. The Committee further urges the Controlling Officer to strengthen debt management strategies by prioritising the reduction of outstanding

loan balances and ensuring that the debt-to-equity ratio is maintained within acceptable levels. The Committee will await a progress report on the matter.

d. Compliance with Laws and Regulation/Procedure

a) Petroleum Reforms - Conversion of TAZAMA Pipeline from Crude Oil to Finished Products

i. Delayed expansion of the Pipeline in Line with the Business Plan

The Controlling Officer clarified that the planned expansion of the Pipeline could not be undertaken, as envisaged in the business plan due to funding constraints arising from the prolonged shutdown of the Pipeline, which was suspended in August 2020 and only resumed operations in January 2023.

Given the substantial capital requirement of approximately USD 450 million, Management resolved to continue exploring internal funding options to support the implementation of the project.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the development of a sustainable financing strategy for the expansion of the Pipeline, including exploring alternative funding options such as public-private partnerships and external financing. The Committee further urges the Controlling Officer to strengthen resource mobilisation efforts to support the expansion programme and will await a progress report on the matter.

ii. Failure to improve security measures along the Pipeline

• Inadequate Pipeline Security Leading to Repeated Product Loss and Environmental Damage

The Controlling Officer submitted that the major cause of the security challenges had been the lack of resources to lay the fibre optic cable from Dar-es-Salaam to Ndola. The Committee was informed that the following measures were put in place to strengthen pipeline security:

- i. a total of 204 State Police officers was deployed along the pipeline wayleave following the conversion of the pipeline to pump finished petroleum products in 2023.
- ii. a total of 241 village groups in Tanzania and 65 village groups in Zambia, comprising 482 villagers in Tanzania and 455 villagers in Zambia, were engaged to participate in securing the pipeline wayleave.
- iii. a patrol monitoring system was deployed along the wayleave to organise, log, and execute patrols, ensuring that security personnel conducted periodic patrols within predefined time intervals.

The Committee was further informed that no incidents of vandalism had been recorded from July 2024 to September 2025, following the implementation of enhanced security measures. Management indicated that it would continue to sustain these enhanced security arrangements by further implementing an intrusion detection system along critical sections of the pipeline and introducing drone surveillance to enhance continuous aerial monitoring of the wayleave.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to prioritise the mobilisation of resources for the installation of the fibre optic cable to enhance real-time monitoring of the pipeline. The Committee further directs Management to sustain and strengthen the current security

measures, including the planned intrusion detection system and drone surveillance, in order to prevent recurrence of vandalism and product loss, and will await a progress report on the matter.

- **Contract for Supply and Delivery of Welkin F4 Hybrid Drone Complete with Accessories and a Transponder**

- **Failure to Provide for Performance Security as Advised by the Attorney General**

The Controlling Officer submitted that the contract signed included a 5 per cent performance security, as advised by the Attorney General. However, it was noted that TAZAMA did not fully adhere to the contractual provisions relating to performance guarantees due to the non-appointment of a contract manager. In this regard, Management had since built internal capacity in contract management within the Company to prevent the recurrence of incidents of this nature.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure strict adherence to all contract provisions, including the provision of performance security. The Committee further recommends regular training and capacity-building in contract management to mitigate similar lapses in the future. The Committee will await a progress report on the matter.

- **Wasteful Expenditure on Procurement of a Drone – K2,224,326.74**

The Controlling Officer submitted that all possible avenues to operationalise the drone had been pursued but were hindered by circumstances beyond Management's control, including force majeure events such as the COVID-19 pandemic, which disrupted travel for inspection teams to China during periods of lockdown and prevented the Supplier's engineers from travelling to Tanzania to commission the equipment.

In this regard, the Board and Management undertook a mission to trace the supplier, with the assistance of the Chinese Embassy in Zambia, in an effort to resolve the matter. However, the mission did not yield the desired outcome. The Committee was further informed that the following policy changes had been instituted to guide the future procurement of drones and other technologically sensitive equipment, procurement of technology-based equipment was to be done, where possible, through joint ventures with companies in Zambia or Tanzania, in order to localise support and facilitate the resolution of any challenges. This approach was also considered important for capacity building within indigenous companies.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to fully implement the new policy on localised joint ventures for technology-based procurement and to ensure that all future acquisitions follow this framework. The Committee further recommends periodic reviews to assess the effectiveness of this approach in addressing operational challenges and enhancing local capacity. The Committee will await a progress report on the matter.

c) Weaknesses in the Management of Dead Stock and Government Loan - Conversion of Pipeline

i. Failure to make Loan Repayment as Per Contract Agreement – K1,413,962,898

The Controlling Officer submitted that the loan arose from reforms in the petroleum industry undertaken by the Government of the Republic of Zambia. As part of the reforms, the TAZAMA Pipeline was converted from transporting crude oil to transporting finished petroleum products. Since this was a Government decision, all necessary support and guarantees were provided for the procurement of diesel. The Government of the Republic of

Zambia lent TAZAMA Pipelines Limited an interest-free loan of K2,701,899,588.11 (USD137,584,572.24) through the Loan Agreement between the Government of the Republic of Zambia and TAZAMA Pipelines Limited dated 2nd June, 2023. The purpose of the loan was to settle amounts owed to the suppliers of the pipeline conversion cargo, considering that the pipeline was an investment with positive multiplier effects on the economy.

The Committee was informed that the loan was premised on the understanding that it would be at no cost to TAZAMA Pipelines Limited, as indicated in the Secretary to the Treasury's letter dated 2nd June, 2023 to his counterpart in Tanzania, which stated that "this loan would be repaid through an adjustment of the pumping tariff." However, the pumping tariff had not been adjusted to date. TAZAMA remained committed to repaying the loan according to the agreed repayment terms once the pumping tariff was adjusted.

The Committee was further informed that the following measures had been put in place:

- a) Management continued to engage the Energy Regulation Board (ERB) on the possible adjustment of the pumping tariff, which provided the basis of repaying the pipeline conversion loan; and
- b) Management engaged the Ministry of Finance and National Planning on the need for an addendum to the loan agreement to indicate that the repayment of the loan would commence upon the granting of the tariff adjustment by the Regulator, as the loan was originally intended to be at no cost to TAZAMA.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to continue expediting engagements with the Energy Regulation Board and the Ministry of Finance and National Planning to ensure that the pumping tariff is adjusted without further delay. The Committee further recommends that the proposed addendum to the loan agreement be formalised promptly to ensure repayment aligns with the original interest-free arrangement. The Committee will await a progress report on the matter.

ii. Management of the Dead Stock - Failure to Achieve Budgeted Volumes

The Controlling Officer submitted that the variance between the projected and actual volumes of finished white products processed from the crude oil dead stock was primarily due to variations in product yield arising from the quality and composition of the dead stock crude oil, as well as operational constraints experienced at the refinery during processing.

The Committee was informed that the initial projections was based on theoretical recovery assumptions which, upon actual processing, were not been fully achievable due to the deterioration of the dead stock over time and limitations in refining efficiency. The Committee was further informed that reconciliations of the stocks were conducted and that a report was made available for audit verification.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to enhance the accuracy of future projections by incorporating realistic assumptions based on the quality and condition of crude stock and prevailing refinery performance. The Committee further recommends that regular assessments of stock condition and refining capacity be undertaken prior to processing to minimise variances. The Committee will await a progress report on the matter.

c. Failure to Meet Energy Regulation Board Key Technical Performance Indicators

The Controlling Officer submitted that failure to meet the Energy Regulation Board key technical performance indicators was due to several factors. He stated that there was a loss of time in the first quarter due to the pipeline conversion. The Committee was informed that there were twenty-eight shutdown days in the first quarter due to a lack of pumpable feedstock at the Tankfarm and insufficient ullage at the Ndola Fuel Terminal. Additionally, the Controlling Officer indicated that in the second and third quarters, there were nineteen shutdown days due to a lack of storage space at the Ndola Fuel Terminal.

The Committee was informed that Management would continue to implement measures that would enhance the efficiency and effectiveness of pipeline operations in order to achieve the targets set by the regulator.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to put in place measures that will enhance the efficiency and effectiveness of pipeline operations in order to meet the targets set by the regulator. The Committee further urges the Controlling Officer to proactively address challenges relating to feedstock availability, storage capacity, and operational downtime in order to minimise disruptions and ensure sustained performance and resolves to await a progress report on the matter.

d. Procurement Matters

a. Failure to Use Market Price Index on Procurement in Low value Procurements

The Controlling Officer submitted that failure to use the Market Price Index (MPI) was due to TAZAMA's reliance on Price Reasonableness Analysis (PRA), owing to the unique nature of its operations, as guided by Circular No. 4 of 2021 dated 16th June 2021, which provided PRA as an alternative to MPI. The Committee was informed that the MPI was embedded in the e-Government Procurement (eGP) platform and that TAZAMA obtained waivers from using the eGP for the period under review.

As a mitigation measure, TAZAMA applied for the implementation of the eGP for lower-value items to ensure compliance. The Zambia Public Procurement Authority (ZPPA) was requested to provide training, which was conducted from 5th to 9th January, 2026. This process also served as a scoping exercise to accommodate TAZAMA's unique requirements by incorporating its specific items into the MPI.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure full utilisation of the Market Price Index (MPI) through the e-Government Procurement (eGP) platform, and limit reliance on Price Reasonableness Analysis (PRA) to only approved exceptional cases. The Committee further urges the Controlling Officer to strengthen compliance with procurement guidelines by fully implementing the eGP system for low-value procurements and will await a progress report on the matter.

e. Staff Related Matters

a. Questionable Condition of Service - Inclusion and Payment of Responsibility Allowance – US\$63,000

The Controlling Officer submitted that Management moved to correct the matter through the Emoluments Commission.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to continue working closely with the Emoluments Commission to ensure the timely correction of the matter and full compliance with approved conditions of service. The Committee urges the Controlling Officer to avail supporting documents for audit verification and will await a progress report on the matter.

f Operations at Tanzania Region

a. Failure to pave (concrete) the Kigamboni Tank Farm bund surface area

The Controlling Officer submitted that the Company embarked on rectifying the identified anomalies and was on course to fully conform to the agreement made with the Energy and Water Utilities Regulatory Authority (EWURA) in 2018. However, the works could not be completed within the earlier stipulated timeframe due to the financial constraints the Company experienced from 2020 to 2023 when it went into shutdown. The Committee was informed that, after the resumption of operations, the Company embarked on repair works, prioritising the rehabilitation of bund walls for Tank 5 and Tank 6, along with the installation of the associated concrete pavements. This approach enabled the Company to address the most critical infrastructure within the limits of the available funds.

Furthermore, the Company remained firmly committed to upholding the standards set forth by EWURA and relevant international guidelines. Safety, environmental protection, and regulatory compliance continued to be central pillars of TAZAMA's operational strategy. The Committee learnt that Management commenced the rehabilitation of bund walls and the installation of concrete pavements at Tanks 5 and 6, which were scheduled for completion in 2026. The Committee was further informed that, in the 2026 corporate budget, Management allocated funds to carry out similar works at Tank 2.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the completion of the rehabilitation works and installation of concrete pavements at Tanks 5 and 6, and to ensure that similar works at Tank 2 are implemented as planned in the 2026 corporate budget. The Committee further recommends that Management continues to prioritise safety, environmental protection, and regulatory compliance in all ongoing and future operations, and resolves to await a progress report on the matter.

b. Dilapidated Bund Walls at Kigamboni Tank Farm

The Controlling Officer submitted that the integrity of the spill containment facilities was intact and that the noted anomalies were superficial, as the containment system was well compacted and impermeable, similar to an earth dam for water. This meant that any spill that might have occurred before the concrete lining of the spill containment infrastructure was sufficiently retained without major loss of product due to impermeability.

The Committee was informed that the Company intended to rehabilitate bund walls for Tanks 1 and 2 in the 2026 financial year. These works were to be executed concurrently with the installation of the respective pavement surfaces, thereby ensuring full compliance with applicable regulatory requirements.

The Committee was further informed that the Company embarked on rectifying the identified anomalies and was on course to fully conform to the agreement made with EWURA in 2018. However, the works could not be completed within the earlier stipulated timeframe due to the financial constraints the Company experienced from 2020 to 2023, when it went into shutdown. Furthermore, after the resumption of operations, the Company

embarked on repair works, prioritising the rehabilitation of bund walls for Tanks 5 and 6, along with the installation of the associated concrete pavements. This approach enabled the Company to address the most critical infrastructure within the limits of the available funds. The Company remained firmly committed to upholding the standards set forth by EWURA and relevant international guidelines. Safety, environmental protection, and regulatory compliance continued to be central pillars of its operational strategy.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the completion of rehabilitation works and installation of concrete pavements for Tanks 5 and 6, and to ensure that the planned rehabilitation of bund walls and pavements for Tanks 1 and 2 is implemented in the 2026 financial year. The Committee further recommends that Management puts in place mechanisms to prevent delays in future works and continues to prioritise safety, environmental protection, and regulatory compliance and will await a progress report on the matter.

Other Audit Findings

a. Lack of Internally Generated Documentation of Received and Dispatched White Products

The Controlling Officer submitted that the lack of internally generated documentation of received and dispatched white products was caused by TAZAMA's reliance on industry practice. The Committee was informed that the Operations and Maintenance Manual was revised in 2017 and contained procedures that were current with the existing equipment. The manual was due for revision in 2022, but this could not be undertaken due to the COVID-19 pandemic and the lack of funds resulting from the prolonged shutdown of the pipeline.

The Committee was further informed that Management constituted a multi-disciplinary team from Operations and Engineering to review and update the outdated Operations and Maintenance Manual to align it with the current business model. The revision of the Operations and Maintenance Manual was completed and was awaiting distribution and personnel training.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure timely distribution of the revised Operations and Maintenance Manual and the completion of personnel training to guarantee proper documentation of received and dispatched white products. The Committee further urges Management to put in place mechanisms to regularly review and update the manual to prevent future gaps. The Committee will await a progress report on the matter.

b. Lack of Documentation - Instruction for Pumping Activity

The Controlling Officer submitted that the Operations and Maintenance Manual, which was separate from the Systems and Procedures Manual and the Safety Manual, was revised in 2017 and contained procedures that were current with the existing equipment. The manual was due for revision in 2022, but this could not be undertaken due to the COVID-19 pandemic and the lack of funds resulting from the prolonged shutdown of the pipeline. However, a review was conducted in July 2025, and the revised manual was expected to be concluded within the year 2025.

The Committee was informed that certain procedures, such as those for procurement, finance, and some human resource processes, had become standalone and were current with prevailing policies, laws, and regulations. These documents were available for verification.

The Committee was further informed that Management constituted a multi-disciplinary team from Operations and Engineering to review and update the outdated Operations and Maintenance Manual to align it with the current business model. The revision of the Operations and Maintenance Manual was completed and was awaiting distribution and personnel training.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure the timely distribution of the revised Operations and Maintenance Manual and the completion of personnel training to guarantee proper documentation and guidance for pumping activities. The Committee further recommends that Management establish a mechanism for regular reviews and updates of the Manual to maintain compliance with current operational, safety, and regulatory standards. The Committee will await a progress report on the matter.

c. Failure to Dispose of Unserviceable Assets

The Controlling Officer submitted that failure to dispose of obsolete items was due to the non-continuous compilation of obsolete assets. The Committee was informed that the process of disposing of unserviceable assets had commenced and was scheduled to be concluded by 30th June, 2026.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure timely completion of the disposal process for all obsolete and unserviceable assets. The Committee further recommends that Management should establish a system for regularly identifying and managing such assets to prevent future delays. The Committee will await a progress report on the matter.

d. Statutory Obligations

i) Failure to remit Skills Development Levy (SDL) – K24,317,064.03

ii) Unrecovered VAT Refunds from Zambia Revenue Authority (ZRA) and Tanzania Revenue Authority (TRA) -K47,177,584

The Controlling Officer submitted that failure to remit the SDL by the Company was due to the fact that the matter was still under discussion at various levels of authority. The SDL hinged on the pipeline convention provisions, which granted the Company exemption from certain taxes, duties, or imposts of any kind.

Further, obtaining VAT refunds from the Tanzania Revenue Authority (TRA) had been a challenge, with the Authority citing legal technicalities that also bordered on departures from the TAZAMA Oil Pipeline Convention, which regulated the operations of the Company. TRA committed to paying off this debt on the condition that certain technical matters they raised were addressed, such as recognising the turnover in Tanzania as opposed to the previous arrangement where turnover was recognised in Zambia.

To address this, the Committee was informed that the Company entered into a payment plan to liquidate the prior years' SDL obligations in monthly instalments of TZS 50 million while settling the current SDL; however, the SDL matter remained under discussion by the Inter-Governmental Committee.

In addition, Management pursued the VAT refunds from TRA, as evidenced by various documented follow up letters, which were available for verification; and Management was addressing the technical matters of concern under VAT, though some required resolution

through the established inter-Governmental committee looking at departures from the Pipeline Convention.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure full compliance with statutory obligations by expediting the settlement of prior years' Skills Development Levy (SDL) through the agreed payment plan while ensuring timely remittance of current SDL. The Committee further urges the Controlling Officer to continue pursuing the recovery of VAT refunds from Tanzania Revenue Authority and Zambia Revenue Authority, including resolving any outstanding technical matters in collaboration with the Inter-Governmental Committee. The Committee also urges the Controlling Officer to establish mechanisms to prevent future delays related to statutory obligations, ensuring consistent adherence to the Pipeline Convention and relevant tax regulations. The Committee will await a progress report on the matter.

3.12 TANZANIA ZAMBIA RAILWAY AUTHORITY

Audit Findings

A review of the accounting and other records maintained at the Tanzania Zambia Railway Authority (TAZARA) Headquarters in Dar es Salaam, Lusaka and Mpika for the period under review, revealed the following irregularities to which the Controlling Officer responded as highlighted below.

a. Audit of Financial Statements

i. Lack of Audited Financial Statements

The Controlling Officer submitted that the absence of audited financial statements arose from the termination of the contract with GBO Chartered Accountants, the external auditors, prior to the expiry of their term. The contract was terminated following the identification of errors in the 2021/2022 financial statements, which was certified by the same auditors. Consequently, the financial statements for the period under review were not audited.

The Committee was informed that the process of engaging a new independent audit firm took considerable time due to the procedural requirements associated with procuring external services. However, an external auditor, Grant Thornton, was engaged to undertake the audit of the outstanding financial statements, with completion targeted for the third quarter of 2026.

The Committee was further informed that Management remained committed to ensuring that audited financial statements were prepared annually in accordance with the provisions of the TAZARA Finance Manual and the *Tanzania-Zambia Railway Act No. 4 of 1995*.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the audit of the outstanding financial statements and ensure that the process is concluded within the stipulated timeframe. The Controlling Officer is further directed to strengthen oversight mechanisms in the engagement and supervision of external auditors to prevent recurrence of similar lapses. Additionally, the Committee emphasises the need to ensure that audited financial statements are prepared and submitted annually in compliance with the TAZARA Finance Manual and the *Tanzania-Zambia Railway Act No. 4 of 1995*, and that documentary evidence of completed audits is submitted to the Office of the Auditor General for verification. The Committee will await a progress report on the matter.

ii. Weaknesses in Stores Management

The Controlling Officer submitted that the treatment of discrepancies identified during stock taking was being handled in accordance with the Circular resolutions issued to stock takers. However, further investigations revealed challenges, including inaccuracies in the location index; removal of items from packages; mis-postings on tally cards; and the presence of obsolete stock, all of which contributed to the occurrence of both surpluses and deficits. The Committee was informed that Management took immediate corrective measures to address the matter. A dedicated task team was constituted to reconcile the stock location index with the actual physical stock and to rectify discrepancies identified in the books of accounts. The team also undertook a comprehensive verification exercise, which included the segregation of mixed items and validation of stock records prior to submission to the external auditor.

Furthermore, Management initiated the process for the disposal of obsolete stock following the presentation of the matter to the Board of Directors on 29th February, 2024. Subsequently, a request for the disposal of obsolete stock was submitted to the Secretary to the Treasury on 17th July, 2024 and was awaiting approval.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to urgently conclude the stock verification and reconciliation exercise and ensure that all discrepancies are corrected and properly accounted for. The Controlling Officer is further directed to strengthen internal controls in stores management and to expedite the approval process for the disposal of obsolete stock and ensure that disposal is undertaken promptly in accordance with established regulations. The Committee will await a progress report on the matter.

b. Failure to Achieve Strategic Plan Objectives

The Controlling Officer submitted that the targets established were based on a number of assumptions, including anticipated appropriate investments from the two shareholders; internally generated revenue; and contributions from private sector participants. These funds were intended to support improvements in railway infrastructure; rolling stock; capacity building; and other operational requirements.

The Committee was informed that TAZARA's prevailing operational challenges were primarily attributed to longstanding undercapitalisation, which constrained the organisation's capacity to invest in critical areas such as maintenance and the modernisation of rolling stock and permanent way infrastructure. Over time, limited financial resources led to the progressive deterioration of locomotives; wagons; and track infrastructure, thereby reducing operational efficiency, reliability, and competitiveness.

The Committee was further informed that the shareholders resolved to implement a Concession model under a Public-Private Partnership (PPP) arrangement, whereby a private concessionaire would undertake the rehabilitation of infrastructure and procurement of new equipment, and subsequently assume responsibility for freight operations. The Concession Agreement was signed on 28th September, 2025 and the Concessionaire commenced mobilisation of resources.

Furthermore, the Committee learnt that the Concessionaire would invest approximately USD 1.4 billion towards the rehabilitation of the permanent way and the procurement of new locomotives and wagons, thereby restoring the commercial viability of TAZARA's freight services.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure effective oversight of the concessionaire to guarantee timely implementation of the agreed works and investment commitments. The Committee further urges the Controlling Officer to ensure that the concession arrangement delivers the intended outcomes of improved operational efficiency, reliability, and financial sustainability of TAZARA's freight services. The Committee will await a progress report on the matter.

c. Operational Matters

i. Performance of Quarries

The Controlling Officer submitted that the equipment at the quarries was old and obsolete, rendering it largely unusable for production and contributing to the low output recorded. The Committee was informed that the concessionaire undertook to rehabilitate the plants and procure new equipment in order to enhance production capacity at both Mununga and Kongolo Quarries.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to closely monitor the concessionaire's rehabilitation and equipment procurement activities to ensure that production at Mununga and Kongolo Quarries increases as planned. The Committee will await a progress report on the matter.

ii. Loss of Revenue due to Accidents

The Controlling Officer submitted that the accidents were primarily caused by deteriorating track infrastructure, the obsolescence and poor condition of rolling stock, and human error resulting from operational lapses by train operators and station personnel. The locomotives, wagons, and coaches used by TAZARA were predominantly very old and largely obsolete, leading to frequent mechanical failures due to inadequate overhauls, lack of replacement parts, and insufficient routine maintenance.

The Committee was informed that following the signing of the concession agreement, the concessionaire committed to rehabilitating the infrastructure and procuring new equipment, including locomotives and wagons, measures expected to address and significantly reduce the main causes of accidents.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to closely monitor the Concessionaire's rehabilitation of infrastructure and procurement of equipment to ensure timely completion and effective improvement in operations and will await a progress report on the matter.

d. Weakness in Debt Management

i. Uncollected Access Fees – K22,844,653

The Controlling Officer submitted that TAZARA experienced serious accidents on the railway line, including the Chambeshi Bridge incident; landslides; and wash aways, which resulted in prolonged closures of the mainline and delayed delivery of goods to customers. During this period, Open Access Holders were similarly affected, as they were unable to deliver goods within the required timeframe. Additionally, Open Access Operators relying on hired locomotives faced challenges because the locomotive owners did not recognise the force majeure arising from the accidents and demanded full payment despite operations being suspended.

To improve business relations and TAZARA's Credit Management profile, the Committee was informed that TAZARA and Calabash held regular monthly meetings to review the performance of the Open Access Agreement and payment compliance. TAZARA also entered into a structured payment plan with Calabash, under which the old debt was being liquidated through monthly instalments of USD 100,000, while current invoices were settled within the prescribed payment terms. As a result, the outstanding debt had been reduced from USD 17,914,725 to USD 457,949.12 (equivalent to K236,833.75). Going forward, Management would implement a monthly reconciliation system based on tonnage carried to generate accurate invoices.

The Committee further learnt that Management actively followed up on outstanding debts owed by African Inland Container Depot Limited (AFCID). Reminder letters were issued, and AFCID's train operations were suspended pending settlement. AFCID subsequently cleared all arrears, and currently, no outstanding debt was owed by the company.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to continue enforcing structured payment agreements, maintain regular reconciliations, and ensure proactive follow-ups on outstanding debts to safeguard revenue and strengthen business relationships with Open Access Operators. The Committee will await a progress report on the matter.

e. Outstanding Freight Charges – K9,845,547

The Controlling Officer submitted that an internal reconciliation of accounts was conducted, which identified errors arising from mis-postings. The records were subsequently corrected, as reflected in the attached ledger account. To date, there were no outstanding freight charges, and all records were available for verification.

Committee's Observations and Recommendations

The Committee resolves to close the matter, subject to verification by the Office of the Auditor-General.

f. Failure to Collect Rentals – K71,026,317

The Controlling Officer submitted that, out of the total debt stock of K71,026,317, AFCID alone owed TAZARA K59,046,603.90. TAZARA and AFCID entered into a debt swap agreement under which an amount of K59,046,603.90 was offset against the supply of railway equipment, thereby reducing the debt stock to K11,979,713.10.

The Committee was informed that Management intensified efforts to collect the remainder of the debt through the following measures:

- i. making regular reminders to all its debtors;
- ii. entering into payment time-to-pay agreements and structured payment plans with debtors;
- iii. issuing demand notices to defaulting tenants; and
- iv. commencing litigation against some customers.

The Committee was further informed that these measures resulted in the full settlement of the debt under the TAZARA Training Centre, which was attributed to the Copperbelt University (CBU).

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to continue implementing recovery measures for the outstanding balance and will await a progress report on the matter.

g. Failure to pay Rental Income Tax – K643,063

The Controlling Officer submitted that following the signing of the Concession Agreement, which was expected to facilitate TAZARA's revitalisation and enhance operational efficiency, the Authority endeavoured to settle the outstanding Rental Income Tax obligations and ensure full compliance with applicable tax laws, including strict adherence to the Ministry of Finance Treasury Management Circular No. 6 of 2017, going forward.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure full compliance with applicable tax laws, including the Ministry of Finance Treasury Management Circular No. 6 of 2017 and will await a progress report on the matter.

h. Audit of Compliance with Legislation/Regulations/Procedures

i. Unretired Imprest – K5,267,152

The Controlling Officer submitted that Management took corrective measures to address the matter, and recovery of the outstanding imprest had since commenced. To date, a total of K3,233,581.10 was recovered, leaving an outstanding balance of K2,033,583.90 in unretired imprest. The Committee was informed that Management continued to issue reminders to officers to ensure prompt retirement of imprest.

Further, a strict no-new-imprest policy was enforced, whereby officers with outstanding imprest were not eligible for further advances until the previous amounts had been fully retired. Retirements were ready for the verification. Management also committed to ensuring strict adherence to the established policy and to taking all necessary measures to secure full recovery of the outstanding amounts by the end of June, 2026.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to sustain the enforcement of the no-new-imprest policy and ensure that the outstanding balance is fully recovered by June, 2026. The Committee will await a progress report on the matter.

ii. Lack of Disaster Recovery and Business Continuity Plan

The Controlling Officer submitted that Management would endeavour to develop a structured Disaster Recovery and Business Continuity Plan as part of the Authority's broader revitalisation programme. The Plan addressed operational disruptions such as railway accidents; infrastructure failures; Information Communication Technology system downtime; and ensured continuity of freight and passenger services, among other unforeseen events; while enhancing safety; efficiency; and service reliability along the Corridor.

The Committee was informed that Management entered into an agreement with the e-Government Division to implement key digital platforms, including the Enterprise Management System (EMS) and the e-Ticketing System. The implementation of these systems, among other initiatives, was expected to support the development and operationalisation of a comprehensive Disaster Recovery and Business Continuity Plan, thereby safeguarding operations and ensuring uninterrupted service delivery.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to prioritise the development and operationalisation of a comprehensive Disaster Recovery and Business Continuity Plan. The Committee further urges the Controlling Officer to ensure that the Plan is finalised within clear timelines and is fully aligned to key operational risks, including infrastructure failures; ICT system downtime; railway accidents; and other unforeseen events. Furthermore, the Committee urges the Controlling Officer to expedite the implementation of the EMS and the e-ticketing system in collaboration with the e-Government Division and will await a progress report on the matter.

iii. Failure to Remit Statutory Obligations – K8,265,774,521

The Controlling Officer submitted that TAZARA was operating at less than one-third of its break-even point and, as such, was unable to fully meet its operational requirements. This situation led to challenges in paying gross salaries, including statutory obligations, resulting in TAZARA only managing to pay net salaries, which were not always paid on time. However, the Committee was informed that over the three-year period from January 2022 to December 2024, the Government of the Republic of Zambia made payments amounting to K7,931,623 to NAPSA and K72,383,394.36 to the ZISC Pension Scheme in respect of statutory obligations.

Similarly, during the same period, the Government of the United Republic of Tanzania supported TAZARA by settling statutory obligations amounting to TZS 9,067,800,126.64 (equivalent to K66,194,940.93) towards the Public Service Social Security Fund and National Social Security Fund, and TZS 5,389,417,288.79 (equivalent to K39,342,746.21) towards National Insurance Corporation of Tanzania (NIC).

Furthermore, prior to the commencement of operations by the Concessionaire, the Concession Agreement required that all outstanding statutory obligations be settled in full. Once the Concessionaire commenced operations, the concession fee payable to TAZARA was expected to provide a sustainable revenue stream to enable the Authority to meet its statutory obligations as and when they fell due.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure that all outstanding statutory obligations are settled in accordance with the Concession Agreement and that effective measures are put in place to guarantee timely remittance of statutory obligations, going forward. The Committee will await a progress report on the matter.

iv. Outstanding ground rates – K20,061,253

The Controlling Officer submitted that Management was facing financial constraints, which were hindering its ability to complete the title deed acquisition process for the remaining properties. Notwithstanding the foregoing, the Committee was informed that TAZARA formally engaged the Office of the Surveyor General to undertake surveys of its properties with a view to facilitating the issuance of title deeds. To date, the Surveyor General had visited Mpika and completed the survey of the residential area, and TAZARA was awaiting the issuance of the corresponding title deeds. Furthermore, a request had been submitted for the surveying of the remaining commercial and operational areas to enable the regularisation of ownership documentation.

In view of the foregoing, the Controlling Officer assured the Committee that the outstanding ground rates would be settled in a timely manner through the Concession Fee once the Concessionaire had commenced operations.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure prompt settlement of all outstanding ground rates to avoid accumulation of statutory liabilities and potential penalties. The Committee further urges the Controlling Officer to engage relevant authorities to agree on a clear payment plan and ensure that the Concession Agreement is structured in a manner that guarantees timely remittance of the ground rates upon commencement of operations by the Concessionaire. The Committee will await a progress report on the matter.

v. Other Information

(i) Failure to pay terminal benefits – K2,147,421,938

The Controlling Officer submitted that TAZARA was operating at less than one-third of its break-even point and, as such, was unable to fully meet its operational requirements. This situation led to challenges in paying gross salaries, including statutory obligations, resulting in TAZARA only managing to pay net salaries, which were not always paid on time.

However, the Committee was informed that over the three-year period from January 2022 to December 2024, the Government of the Republic of Zambia made payments amounting to K7,931,623 to NAPSA and K72,383,394.36 to the ZISC Pension Scheme in respect of statutory obligations.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to engage the Treasury and relevant stakeholders to develop a sustainable financing mechanism for the settlement of outstanding terminal benefits and will await a progress report on the matter.

i. Unacquitted payments

The Controlling Officer submitted that the payment in question, amounting to USD 13,880, was remitted by Calabash into the TAZARA bank account specifically to facilitate refresher courses and re-testing for Calabash’s drivers in Dar es Salaam. The Committee was informed that the request for the refresher courses and re-testing of drivers had been initiated by Calabash at its own cost. Accordingly, Management duly authorised Mr Mulambia, the Human Resources Manager, to withdraw these funds from the TAZARA account and disburse them to the facilitators conducting the two exercises on behalf of Calabash.

Furthermore, the funds in question were Calabash funds intended for the training and testing of its drivers. TAZARA’s role was limited to acting as a conduit to facilitate the implementation of the exercises as requested by Calabash. Authority to undertake the refresher course and trade test had been granted. The funds were withdrawn and handed to the Training Coordinator, Mr Kalumyana, who disbursed the payments to the officers involved.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure that all acquittal documents relating to the payment of USD 13,880 are promptly submitted for audit verification and that the transaction is fully regularised in accordance with applicable financial regulations and procedures. The Committee further urges the Controlling Officer to strengthen internal controls over funds held on behalf of third parties to prevent any recurrence of similar issues and will await a progress report on the matter.

ii. Failure to deduct tax on Board allowances

The Controlling Officer assured the Committee that, going forward, TAZARA would ensure that Board allowances were appropriately taxed.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that all Board allowances are properly taxed in compliance with applicable tax laws, thereby preventing future non-compliance and will await a progress report on the matter.

3.13 UNIVERSITY OF ZAMBIA

Audit Findings

A review of the accounting and other records maintained by the University of Zambia (UNZA) for the period under review revealed the following irregularities to which the Controlling Officer responded as highlighted below.

a. Budget and Income

The Controlling Officer submitted that the variance in Government grants was attributed to the release of a special Treasury grant which was provided for in the University's approved operational budget, as it was specifically meant for the dismantling of historical arrears. The Committee was informed that the positive variance of K356.31 million in Government grants did not imply that the University was funded above its operational requirements or that it was adequately financed beyond its approved budget. The Committee was further informed that the analysis presented in the report related only to income (budget versus releases and collections) and did not consider the total expenditure obligations; accumulated historical arrears; statutory liabilities; operational cost pressures; and cash flow constraints during the period under review.

The Controlling Officer submitted that additional funds released by the Treasury were specifically earmarked for dismantling historical arrears and were therefore ring-fenced. These funds were not available for routine operational expenditure. Consequently, the reported income surplus did not reflect a surplus in operational funding or financial sustainability.

The Committee was further informed that since 2011, the University of Zambia had accumulated debt amounting to K10,276,906,943.00. Following engagement with the Treasury, the University of Zambia received an additional amount of K25 million as at 30th December, 2025 towards arrears dismantling. The University of Zambia continued to engage the Treasury to ensure that outstanding debts were progressively settled. As at 31st January, 2026, the total outstanding debt reduced from K10,276,906,943.00 to K8,143,171,150.27, following the payment of K2.1 billion to the Zambia Revenue Authority as part settlement of the outstanding PAYE principal liability.

To enhance revenue generation, the University implemented the following measures:

1. increased enrolment in distance education programmes and other demand-driven programmes where infrastructure capacity permitted, resulting in improved tuition fee revenue;
2. developed and approved Research and Consultancy Policies aimed at strengthening governance, pricing, and revenue-sharing mechanisms to enhance income from research and consultancy activities;

3. developed a Comprehensive Financial Sustainability Framework to strengthen revenue diversification; improve income collection efficiency; and enhance overall financial management; and
4. operationalised business venture initiatives such as Marshlands Lodges and Apartments.

In addition, the University of Zambia ensured full operationalisation of the Research and Consultancy Policy, supported by monitoring and reporting mechanisms to strengthen alignment between budgeted and actual performance.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the measures implemented by the Institution are effectively operationalised in order to enhance the collection of budgeted revenue and will await a progress report on the matter.

b. Operational Matters

i. Failure to Prepare and Submit Audited Financial Statements

The Controlling Officer submitted that the delay in finalising the audited financial statements was primarily attributable to historical factors. The University was addressing significant legacy financial reporting backlogs for the financial years 2019; 2020; 2021; and 2022, which necessitated a sequential approach to audit completion before audits for the current financial years could commence.

The Committee was informed that while Grant Thornton was auditing the 2023 financial statements, the University procured audit services for the financial years 2024; 2025; and 2026, for which ABACUS360 was appointed as the external auditor. The Committee was further informed that the financial year ended 31st December, 2023 was at an advanced stage of completion. Additionally, ABACUS360 had already issued a request for information for the audit of the financial year ended 31st December, 2024. The requested audit information had since been shared with the auditors, together with the draft financial statements for 2024. The field audit for 2024 was expected to formally commence immediately upon completion of the 2023 audit.

Further, the University put in place a structured plan to ensure the timely completion of future audits. As part of this plan, the Finance Unit had already commenced year-end procedures for the 2025 financial year to ensure that the audit of the 2025 financial statements would start immediately after completion of the 2024 audit, without delay. In this regard, the University projected that it would be up to date with both the 2024 and 2025 financial statement audits by December, 2026.

As part of the corrective action plan, the Committee was informed that the University had set the following timelines for the completion of the outstanding audits:

- 2023 Financial Statements – audit completion by 31st March, 2026;
- 2024 Financial Statements – audit completion by 30th June, 2026; and
- 2025 Financial Statements – audit completion by 30th November, 2026.

To prevent recurrence of such delays, the University had instituted Quarterly Audit Progress Reporting to the Audit and Risk Committee of the Council, effective March, 2026

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to comply with the *Higher Education Act No. 4 of 2013* regarding the submission of financial reports. The Committee further urges the Controlling Officer to ensure that corrective action plan is fully implemented, with the audits for 2023, 2024, and 2025 completed within the specified timelines. The Committee also urges the Controlling Officer to sustain the Quarterly Audit Progress Reporting to the Audit and Risk Committee of Council to prevent the recurrence of audit delays. The Committee will await a progress report on the matter.

ii. Failure to Settle Outstanding Obligations

The Controlling Officer submitted that the outstanding obligations amounting to K10,276,906,943.00 were attributed to accumulated legacy liabilities spanning several financial periods due to underfunding of the University payroll, as funding from government grants, subventions, and internally generated funds was only able to cover the net payroll cost. As a result, the University incurred penalties on unpaid statutory obligations.

The Committee was informed that the University had since recorded significant efforts in a bid to reduce the outstanding obligations as follows:

(a) Zambia Revenue Authority

From the total amount of K4,244,111,580.00, an amount totalling K2,196,967,152.85 was settled under the Debt Swap Initiative between the Ministry of Finance and National Planning and the Zambia Revenue Authority (ZRA). The outstanding tax liability as at 31st December, 2025 was K2,124,035,178.00. This amount comprised a principal liability of K461,756,803.78 and K1,662,278,374.22 (estimates) relating to penalties and interest. Management and ZRA conducted a reconciliation on the outstanding tax liability to agree on the principal and associated penalties. This was intended to facilitate the University of Zambia to claim a further debt swap, which would result in a further reduction of the outstanding tax debt.

(b) National Pension Scheme Authority

The University of Zambia contracted a K209 million loan from Zambia National Commercial Bank (ZANACO) at the beginning of 2025 to settle the outstanding principal National Pension Scheme Authority (NAPSA) liabilities, with the objective of qualifying for penalty waivers estimated at approximately K3 billion once the principal debt was fully settled. In this regard, the University conducted a series of reconciliation exercises with NAPSA covering records for the period 2000 to 2020, aimed at establishing the outstanding principal liability. The final reconciliation meeting was held in January, 2026. Upon confirmation of the principal amount due, the University was to formally apply for a penalty waiver, following settlement of the established principal liability.

Preliminary estimates indicated that the University might have required an additional K39 million to fully clear the principal amount and thereby qualify for the penalty waiver, subject to the final reconciliation outcome. Upon approval of the waiver, the total NAPSA liability was expected to reduce from approximately K4.5 billion to about K800 million, largely representing residual penalties. The Committee was to be updated once NAPSA had formally communicated the outcome of the reconciliation exercise.

(c) Terminal Benefits

As at 31st December, 2025 the University received K25 million from the Government towards the settlement of terminal benefits and gratuities, under which seventy-six cases were paid. In addition, during the year 2025, the University utilised internally generated funds

amounting to K33.4 million to further settle terminal benefits, resulting in the payment of eighty-eight cases.

(d) National Health Insurance Management Authority

From the total amount of K2,173,136, the University of Zambia paid K1,764,462, leaving an outstanding balance of K408,674, as at 31st December, 2025. The outstanding balance would be paid in due course.

(e) Workers Compensation Funds

From the total amount of K3,519,084.00, a sum of K1,225,935.00 was paid, leaving an outstanding balance of K2,293,149.00.

(f) Suppliers and Contractors

From the total debt of K72,766,713.00, an amount of K20,591,702.36 was paid, leaving an outstanding balance of K52,175,010.64.

(g) Superannuation Scheme

Management submitted this liability to the Treasury for consideration under the Comprehensive Financial Sustainability Framework. Further, Management and the Unions agreed to discontinue the scheme effective November, 2022. As a result of these measures, the University's outstanding debt obligations were reduced from K10,276,906,943 to K8,143,171,150.27.

The University also developed a document entitled *Comprehensive Financial Sustainability Framework*, which contained measures that, when fully implemented, would significantly address the University of Zambia's long-standing deficits, clear legacy statutory and staff-related debts, and close the financial gap.

Committee's Observations and Recommendations

The Committee urges the Government to consider increasing financial support to the University. The Committee further urges the Controlling Officer to ensure that the University adopts innovative approaches and engages in business ventures to supplement the funding it receives from the Government. The Committee urges the Controlling Officer to continue engaging with the Treasury and other stakeholders to monitor the progress of debt reduction and the effectiveness of the measures outlined in the *Comprehensive Financial Sustainability Framework*. The Committee will await a progress report on the matter.

(h) Management of Kitwe School of Nursing

i. Over Enrolment of Students

The Controlling Officer submitted that the variance in enrolment figures arose from an operational interpretation of the approved quota. The University of Zambia proceeded on the understanding that the quota of fifty applied per intake (January and July) and per program (separating Nursing from Midwifery), rather than as a single annual aggregate for the entire school. Consequently, when these cohorts were combined, the cumulative number exceeded the baseline figure of fifty.

The Committee was informed that the higher enrolment numbers were influenced by two specific factors namely:

- (1) **Program Transfers** - Initial admissions adhered to the quota; however, a number of students originally admitted to the BSc Midwifery program requested transfers into the Nursing program after admission, which inadvertently inflated the Nursing numbers.
- (2) **Yield Management** - Historically, a significant percentage of admitted students failed to report for training (for example, in 2021, only thirty-five out of sixty admitted students reported). To mitigate this attrition and ensure optimal resource utilisation, the University applied a marginal over-admission strategy to buffer against non-reporting students.

The Committee was informed that, to ensure the student population was adequately supported, the University took the following actions:

(1) Infrastructure Expansion

The University acquired additional infrastructure (the “Amigos” facility) in 2023. This expansion significantly increased classroom and administrative space, enabling the facility to comfortably accommodate the combined intakes and reducing reliance on the old Kantanta Street block. The new space at Amigos included additional lecture facilities, comprising:

- one lecture theatre seating 200 students at 1-metre spacing
- one lecture theatre seating 150 students at 1-metre spacing
- one classroom seating 100 students at 1-metre spacing
- one classroom seating 70 students at 1-metre spacing (to be converted into a skills laboratory)
- one classroom seating 40 students at 1-metre spacing

This complemented the existing space at Kantanta Street, which included:

- one lecture theatre seating 150 students at 1-metre spacing;
- one classroom seating 70 students at 1-metre spacing; and
- two skills laboratories measuring 5.3m x 5.15m and 5m x 5.15m each.

(2) Class Segmentation

The University implemented a strict segmentation system, dividing students into distinct January and July streams. Each stream operated on a separate master plan; while one group was in the clinical area, the other attends didactic sessions. This rotation ensured that class sizes during lectures remain within the recommended lecturer-to-student ratios.

(3) Regulatory Reassessment

The University formally engaged the Nursing and Midwifery Council of Zambia (NMCZ) to reassess the School’s capacity based on the new infrastructure. The requisite reassessment fees were paid, and the University was awaiting the Council's inspection to regularise the increased capacity.

To prevent future occurrences of over-enrolment, the University instituted the following measures:

- **Strict Adherence to Quotas** – The University strictly adhered to the specific quota for each intake window. The admissions system was configured to automatically close once the cap of fifty was reached for a specific program intake.

- **Enhanced Record Management** – Student registers were explicitly labelled by Intake Window and Program so that information was easily distinguishable between different approved cohorts and demonstrated compliance.
- **Managing Transfers** – The University enforced a stricter policy on program transfers, encouraging students to maintain their admitted quotas to prevent unplanned increases in numbers in specific programs.

Committee’s Observations and Recommendations

The Committee urges the Government to increase funding to the University to facilitate the expansion of infrastructure at the Kitwe School of Nursing. The Committee further urges the Controlling Officer to ensure strict adherence to the approved enrolment quotas and to strengthen admission controls by aligning enrolment planning, programme transfers, and yield management strategies with approved capacity thresholds so as to prevent inadvertent over-enrolment. The Committee will await a progress report on the matter.

ii. Inadequately Equipped Laboratory

The Controlling Officer submitted that the deficiency in equipment arose because the initial inventory was procured based on the original, lower student quota. As student numbers increased, the rate of equipment procurement and replacement did not immediately match the rate of enrolment growth, thereby creating a temporary imbalance in the student-to-equipment ratio.

In order to prevent recurrence of the audit finding, the Committee was informed as follows:

1. **Inventory verification and planning** - The University of Zambia conducted a comprehensive inventory audit to identify specific equipment gaps. A prioritised list of required items was compiled by the Kitwe Campus Coordinator and was submitted for procurement.
2. **Procurement initiation** - The University of Zambia commenced the procurement process of modern skills laboratory equipment. The skills laboratory equipment was budgeted for in the 2026 financial cycle.

The University noted with concern the deficiencies identified during the physical inspection, particularly the absence of eighteen key equipment items in the General Nursing Skills laboratory and twenty-four key equipment items in the Midwifery Skills laboratory.

To mitigate this deficiency, the University enhanced the clinical exposure of students in order to address the immediate gap in the simulation laboratory and placed greater emphasis on clinical placements. In this regard, students were rotated into hospital wards, including Kitwe Teaching Hospital, for practical experience, thereby ensuring that they acquired the necessary competencies in a real-world setting while the laboratory equipment was being restocked.

In addition, the University took the following measures:

- identified excess equipment at the Lusaka Campus that would be transferred to Kitwe Campus immediately;
- initiated the procurement of the key missing equipment for the UNZA Kitwe Campus to ensure that the skills laboratories were fully equipped; and
- the University ring-fenced a specific portion of student user fees dedicated solely to the “Skills Lab Refill and Maintenance” vote in the budget to ensure that the laboratories remained adequately equipped in the future. This measure was intended to ensure that

funds were always available for the immediate replacement of broken or obsolete items. The University of Zambia had also adopted a Proportional Procurement Policy whereby equipment procurement was directly indexed to student numbers; as enrolment increased, the budget allocation for equipment would automatically be adjusted upwards to maintain the appropriate ratios.

Additionally, the Committee was informed that the University implemented the outlined action plan as follows:

- equipment gap validation was conducted in February 2026;
- procurement was initiated in February 2026;
- initial delivery was scheduled for 30 June 2026; and
- final delivery was scheduled for 30 September 2026.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure the timely completion of the procurement of all identified laboratory equipment at the UNZA Kitwe Campus. The Committee further urges the Controlling Officer to submit regular progress reports on the implementation of the action plan until all equipment gaps are fully addressed and will await a progress report on the matter.

iii. Inadequacy of Laboratory space to Student Ratio

The Controlling Officer submitted that the inadequacy of the laboratory space-to-student ratio was caused by the rapid increase in student enrolment. While student numbers increased, there was no corresponding expansion of specialised physical infrastructure, specifically the skills laboratories which required a phased capital investment approach. This created a temporary misalignment between the total student population and the available laboratory floor space at the time of the audit.

In order to mitigate space constraints and ensure effective practical learning, the University of Zambia undertook the following progressive measures:

- **Acquisition and Repurposing of Infrastructure** - Following the acquisition of the "Amigos" facility, the University identified suitable spaces and budgeted for a room to be repurposed before the end of 2026 to create additional demonstration space. This initiative was expected to significantly decongest the main skills laboratory. The University estimated that, upon completion, the space-to-student ratio would improve to approximately 3.20 sqm per student.
- **Implementation of Group Rotations** - The University operationalised a strict rotation system, dividing students into smaller clinical groups (streams) for practical sessions. This ensured that the number of students using the laboratory at any one time aligned with the recommended space-to-student ratio, even though the total aggregate population remained high.
- **Simulation Scheduling** - Practical sessions were extended to run throughout the week, including afternoons, to maximise the utilisation of available space without overcrowding.
- **Early Clinical Exposure Strategy** - The University adopted Early Clinical Exposure Pedagogy by transitioning students to clinical sites (wards) at an earlier stage for practical learning. This reduced the bottleneck in the University laboratories, which were then used primarily for initial demonstrations rather than full-time practice.

The Controlling Officer further submitted that the University was committed to maintaining student admissions within the approved numbers, in alignment with the available laboratory floor space.

To address the challenge of the inadequacy of the laboratory space-to-student ratio, the University implemented corrective measures, including the conversion of additional space at the Amigos Facility into a skills laboratory, with modifications scheduled for completion by 30th September, 2026 and operational readiness expected by 30th December, 2026.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the completion of the conversion of additional space at the Amigos Facility into a fully operational skills laboratory to improve the laboratory space-to-student ratio and support effective practical learning. The Committee further urges the Controlling Officer to monitor and align future student admissions with the available laboratory capacity to prevent overcrowding and maintain compliance with recommended space standards. The Committee will await a progress report on the matter.

iv. Failure to Utilise Equipment for Commercial Garage Project

The Controlling Officer submitted that the Commercial Garage Project was conceived in 2016 as part of the University's strategy to diversify income sources and provide practical training opportunities for students through apprenticeship. However, following the acquisition of the equipment, the project encountered a number of operational and strategic challenges, including shifts in institutional priorities; constraints in capital funding required to complete complementary infrastructure; and governance decisions to reassess the commercial viability and sustainability of certain income-generating units.

These factors contributed to delays in operationalising the garage, resulting in the equipment remaining unutilised as at 31st October, 2025. The Committee was informed that the equipment was securely stored and maintained to prevent loss, damage, or deterioration, in line with the duty of care over public assets.

To address this matter and prevent recurrence, the University resolved to implement the following corrective actions:

1. a comprehensive review of the Commercial Garage Project was undertaken to determine its continued commercial and academic relevance;
2. a decision was made to operationalise the garage by June 2026, including allocation of the required resources and reallocation of responsibility to Directorate of Business Strategy and Partnerships so as to run it as a business venture;
3. project appraisal and approval processes were strengthened to ensure that future capital expenditures on income-generating projects were supported by fully funded implementation plans and clear accountability frameworks; and
4. periodic monitoring of capital projects and acquired assets were enhanced to ensure timely utilisation and value for money.

Furthermore, the Committee was informed that the University remained committed to exercising utmost care in the stewardship of public resources and would continue to implement measures to ensure compliance with the *Public Finance Management Act, No. 1 of 2018* and sound financial management practices. With these measures instituted, the Controlling Officer expressed confidence that matters such as failure to utilise procured equipment would not recur.

Regarding the Operationalisation Plan, the Controlling Officer submitted that construction of the workshop and installation were scheduled for 30th September 2026, incorporation of a company was scheduled for 31st October 2026, and commencement of operations was scheduled for 15th December, 2026.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure that feasibility studies and comprehensive project appraisals are strictly conducted prior to the commencement of any capital project, in order to ensure viability; proper planning; and timely utilisation of procured assets. The Committee will await a progress report on the matter.

v. Failure to Secure Properties with Title Deeds

The Controlling Officer submitted that the delays in securing title deeds for the identified properties arose primarily from prolonged staffing gaps over the relevant period, compounded by inadequate handover documentation from previous officers.

The Committee was informed as follows:

No.	Location	Cause of Delays	Action Taken
1	Northmead, Lusaka	The title deed was missed during the time of the audit.	The title deed was made available for audit verification.
2	Njoko Road, Livingstone	Conveyancing documents were executed several years earlier but were not lodged with the Lands and Deeds Registry within the statutory timeframe, rendering them stale and legally defective for registration.	The University traced and re-engaged the respective vendors. Fresh conveyancing processes were commenced, including verification of contractual positions, updating of documentation, and re-submission to the Lands and Deeds Registry. The University was confident that, barring unforeseen external delays, registration would be concluded within the financial year.
3	Obote Road, Chipata	Delays were caused by inaccuracies in the surveyed property size, which resulted in a title bearing an incorrect diagram. Registration could not lawfully proceed until the land was re-surveyed.	The property was re-surveyed to correct the erroneous property size. The new survey diagram was undergoing examination by the Ministry of Lands, Survey Department. Once approved, UNZA would lodge for the certificate of title.
4	Kantanta Street, Kitwe	Conveyancing documents was executed several years earlier but were not lodged with the Lands and Deeds Registry within the statutory timeframe, rendering them stale and legally defective.	The University traced and re-engaged the respective vendors. Fresh conveyancing processes were commenced, including verification of contractual positions, updating of documentation, and re-submission to the Lands and Deeds Registry. Registration was expected to be concluded within the financial year, barring unforeseen external delays.

Furthermore, the Committee was informed that the timeline for the acquisition of title deeds was as follows: Livingstone Property: 30th June, 2026; Chipata Property: 31st July, 2026; and Kitwe Property: 30th September, 2026.

The Committee was informed that the University of Zambia instituted structural and procedural controls to ensure sustainable compliance and prevent the recurrence of matters such as failure to secure properties with title deeds, as follows:

1. **Strengthening of Internal Handover and Record-Keeping Procedures** - Formal handover protocols were introduced within the Legal and Properties functions, including mandatory status reports on all ongoing and legacy conveyancing matters, to preserve the institutional memory of the University of Zambia during staff transitions.
2. **Centralised Property and Conveyancing Register** – A consolidated register for all University properties and conveyancing transactions was established, capturing execution dates, lodgment deadlines, registry status, and responsible officers to ensure systematic tracking and accountability.
3. **Early Engagement with Survey and Lands Authorities** – The University of Zambia adopted a proactive approach to survey verification prior to the execution of conveyancing documents to minimise technical defects that could delay registration.
4. **Periodic Compliance Reviews** – Routine internal reviews were scheduled to assess compliance with Section 41(4) of the *Public Finance Management Act No. 1 of 2018*, ensuring that all public properties were progressively secured with valid title deeds.

With these procedural controls in place, the Controlling Officer expressed confidence that the process of acquiring title deeds at the cited stations would be expedited.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the University recruits relevant staff within the legal and properties functions to expedite the acquisition of title deeds. The Committee further urges the Controlling Officer to ensure that Management revisits and reviews all handovers conducted by staff who have left the institution to guarantee continuity; completeness of records; and effective follow-up on pending conveyancing matters. The Committee awaits a progress report on the finalisation of all title deed registrations.

3.14 WORKER’S COMPENSATION FUND CONTROL BOARD

Audit Findings

A review of the accounting and other records maintained by the Worker’s Compensation Fund Control Board (WCFCB) for the period under review revealed the following irregularities to which the Controlling Officer responded as highlighted below.

a. Irregular Payment of Board/Committee Allowances to Management

The Controlling Officer submitted that the sitting allowances paid to employees serving on the Board were approved by the Board of Directors in 2011. The Committee was informed that Management effected these payments in accordance with Part 5 of Cabinet Office Circular No. 11 of 2013 dated 17th June, 2013 which stipulated that: “*all officers shall only be paid allowances in line with the provisions of their Terms and Conditions of Service, except for committees appointed by His Excellency the President of the Republic of Zambia.*”

The Committee was further informed that Management submitted its Conditions of Service to the Emoluments Commission for review, and the payment of sitting allowances to members of staff was subsequently approved by the Commission.

In view of the foregoing, Management had since sought legal guidance from the Attorney General regarding the query raised by the Auditor General.

Committee’s Observations and Recommendations

The Committee resolves to close the matter, subject to audit verification by the Office of the Auditor General.

b. Failure to Collect Outstanding Debt - Financial Analysis - Statement of Financial Position

The Controlling Officer submitted that the failure to collect outstanding debt was caused by the following:

i. Statutory Corporations and State-Owned Enterprises

Tanzania Zambia Railways (TAZARA); Zambia Postal Services; the University of Zambia (UNZA); Mupepetwe Development Company Limited; Zambia Railways; and the National Housing Authority, experienced serious operational and financial challenges, which resulted in their inability to pay assessments when they fell due.

ii. Private companies

Chimwenda Investments Limited; DBK Management Consulting Limited; Consolidated Farming Limited; and Oriental Quarries and Concrete Blocks, faced financial challenges that were exacerbated by the COVID-19 pandemic and the energy crisis, resulting in their inability to pay Assessments when they fell due.

The Committee was informed that Management implemented various corrective measures to collect outstanding Assessment debt as highlighted in the table below.

1.0 Employers that fully settled the outstanding debt						
	EMPLOYER	AMOUNT OWING	AMOUNT PAID	BALANCE 16.10.2025	ACTION TAKEN TO ADDRESS ISSUE	STATUS UPDATE
1.1	Tombwe Processing Limited	1,730,161.49	1,730,161.49	0.00	Debt settled in full.	Payment was made in full
1.2	Lusaka Provincial Health Office	1,274,162.24	1,274,162.24	0.00	Debt settled in full.	Payment was made in full
<i>Subtotal</i>		<i>3,004,323.73</i>	<i>3,004,323.73</i>	<i>0.00</i>		
2.0 Employers that are on payment plans						
2.1	a. Tanzania Zambia Railway Authority (TAZARA)	33,689,008.32	10,000.00	40,154,140.04	The parties entered into a payment plan for settlement of Assessments by employer	The employer submitted a letter of commitment to settle the outstanding debt in instalments. Further, a consultative meeting was held at TAZARA Head
	b. TAZARA Workshops	4,936,541.30				

	c. TAZARA Mununga Stone Quary	1,538,590.42			in instalments.	Quarters to discuss debt dismantling options.
2.2	Zambia Postal Services	3,367,431.92	80,000.00	3,287,431.92	The Board took Zampost to Court to recover the outstanding amount and Consent Judgement was entered in favour of the Board	The employer issued standing order instructions to the bank to remit monthly payments of K40,000.00 in respect of outstanding Assessment debt. ZAMPOST had since paid a sum of K80,000.00 towards Assessment debt.
2.3	University of Zambia	3,496,041.76	1,800,000.00	1,696,041.76	The University of Zambia was on a payment plan and had since paid K1,800,000.0 0.	The employer was discharging the debt in instalments.
2.4	Oriental Quarries & Concrete Blocks	1,991,972.08	275,000.00	1,716,972.08	The Board took Oriental Quarries to Court to recover the outstanding amount and Consent Judgement was entered in favour of the Board.	The employer defaulted in payment of agreed instalments and the Board has filed a Notice to Proceed in Court against the Employer.
2.5	DBK Management Consulting Ltd	1,747,056.75	673,132.40	1,073,924.35	DBK Management Consulting Ltd was on payment plan and had since paid K673,132.40.	The employer was discharging the debt in instalments.
2.6	Consolidated Farming Ltd	1,212,686.12	650,000.00	562,686.12	The Employer was on a payment plan and had since paid K650,000.00.	The employer was discharging the debt in instalments.
Subtotal		51,979,328.67	3,488,132.40	48,491,196.27		
3.0 Employers on special payment arrangements						
3.1	a. Konkola Mineral Resources Limited	6,496,393.32	0.00	6,496,393.32	The parties entered into an agreement for settlement of Assessments through the receivership process and the lockup	The Board awaits payment of Assessment from KCM in accordance with the agreed schedule of payments
	b. KCM (Smelterco) Limited	2,274,597.18	0.00	2,274,597.18		

					agreement was concluded	
Subtotal		8,770,990.50	0.00	8,770,990.50		
4.0 Employer taken to Court						
4.1	Chimwenda Investments Limited	1,826,925.65	0.00	1,826,925.65	The Board took Chimwenda Investments Limited to Court to recover the outstanding amount and Consent Judgement was entered in favour of the Board	The Board took measures to enforce the judgement
Subtotal		1,826,925.65	0.00	1,826,925.65		
5.0 Employers referred to Attorney General						
5.1	Mupepetwe Development Co Ltd	4,559,462.74	0.00	4,559,462.74	The Board engaged Mupepetwe with a view to resolving this matter, however, without success.	The Board escalated the matter to the Attorney General (AG) for intervention on Assessment debt recovery and the Attorney General had since responded
5.2	Zambia Railways Truck	1,683,028.45	0.00	1,683,028.45	The Board engaged Zambia Railways with the view to resolve this matter, however, without success.	The Board wrote to the Attorney General seeking its intervention before the matter can be referred to Court and the Attorney General had since responded.
Subtotal		6,242,491.19	0.00	6,242,491.19		
6.0 Employers paying on debt swap						
6.1	National Housing Authority	1,395,521.75	0.00	1,395,521.75	The parties were engaging on the outstanding debt	The National Housing Authority initially owed the Board K1,926,354.10. The parties entered into a debt swap to liquidate K1,265,000.00 which left a balance of K726,453.26 in March 2021. This debt increased to K1,395,521.75 as at debt of audit. The parties were still engaging on the outstanding debt.

	<i>Subtotal</i>	<i>1,395,521.75</i>	<i>0.00</i>	<i>1,395,521.75</i>		
	<i>GRAND TOTAL</i>	<i>73,219,581.49</i>	<i>6,492,456.13</i>	<i>66,727,125.36</i>		

Out of the above-mentioned measures, the Board received an amount of K6,492,456.13. The debt owed by Statutory Corporations and State-Owned Enterprises amounted to K54,665,626.66, which constituted 74.66 per cent of the total debt.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to strengthen debt collection procedures and ensure timely follow-up on all outstanding Assessments from statutory corporations, state-owned enterprises, and private companies. The Committee further urges the Controlling Officer to engage with financially challenged debtors to negotiate realistic repayment plans while ensuring compliance with applicable laws and regulations.

c. Investments - Emporium Partners Limited

i. Failure to Honor Loan Agreement Terms

The Controlling Officer submitted that failure to honour the Loan Agreement Terms was due to defaults by Urban Brand Asset Management Limited and Vanasie Holdings Limited, who failed to settle the required loan interest payments. The Committee was informed that the Board took steps to enforce its rights under the loan agreement and instructed its lawyers to ensure that the defaulting parties forfeited their shares.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to expedite the enforcement of the Loan Agreement to ensure full recovery of the outstanding amounts and completion of the share forfeiture process. The Committee further urges the Controlling Officer to put in place strict monitoring mechanisms to prevent recurrence of such defaults and will await a progress report on the matter.

ii. Failure to Avail New Shareholding Certificate after Change of Shareholding Structure

The Controlling Officer submitted that at the time of audit, the shareholding certificate was not availed to the Auditors. The Committee was, however, informed that the share capital for Emporium Partners Limited, was altered to align with the new shareholding structure, as evidenced by the Patents and Company Registration Agency (PACRA) printout dated 11th August, 2025.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the updated shareholding certificate is promptly obtained and availed to the Officer of the Auditor General for verification and will await a progress report on the matter.

3.15 ZAMBIA REVENUE AUTHORITY

Audit Findings

A review of the accounting and other records maintained at the Zambia Revenue Authority (ZRA) Head Office and selected stations for the period under review revealed the following irregularities to which the Controlling Officer responded as highlighted below.

Audit of Annual Performance Information

a. Budget and Actual Income

In the Estimates of Revenue and Expenditure for the financial years ended 31st December 2022, 2023 and 2024, provisions totalling K7,099,394,829, were made for ZRA operations and modernisation activities, with supplementary funding of K743,858,910, bringing the total budgeted amounts to K7,843,253,739, against which amounts totalling K7,687,859,094 were released by the Treasury, resulting in an underfunding of K155,394,645. In addition, the Authority collected amounts totalling K1,910,229,654 from other incomes, bringing the total available funds to K9,753,483,393 during the period under review.

The Controlling Officer submitted that the underlisted were the reasons for the underfunding and variances recorded:

- (i) in 2024, the modernisation budget was underfunded. The modernisation projects were initiated on the understanding that full funding would be received. However, only a portion of the approved funds was released, rendering the completion of the projects unattainable. Efforts to secure the outstanding funding from the Treasury were unsuccessful, as the Authority was instead advised to write off the requested amounts. These amounts have not been written off, as the projects remain active pending the availability of fresh funding. Some related activities were nevertheless undertaken using alternative funding sources, including savings from other expenditure lines and other internally generated income.
- (ii) in 2022, the Authority received Government funding in full, and no variance was recorded.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that critical projects, particularly those relating to modernisation, are only commenced when adequate and assured funding is in place. The Committee further urges the Controlling Officer to strengthen engagement with the Treasury to secure full funding commitments for ongoing projects and avoid disruptions and will await a progress report on the matter.

b. Performance of Corporate Strategic Plan for the Period 2022 to 2024

(i) Enhance Compliance

The Controlling Officer submitted that the Authority undertook ongoing collaborative efforts to enhance taxpayer compliance through education programmes, including workshops; radio programmes; public notices; and targeted awareness campaigns. These initiatives were tailored to specific sectors and taxpayer categories to ensure relevance and effectiveness. In areas where the Authority had no physical presence, outreach activities were conducted through mobile tax offices, thereby promoting inclusivity and broader taxpayer engagement across the country.

- Some taxpayer accounts were suspended in 2023, which led to an improvement in filing compliance. However, the suspension status changed at the beginning of 2024. Subsequently, further analysis was conducted on the previously suspended accounts, and those that met the criteria for deregistration were subsequently deregistered at end of 2024. This resulted in an increase in filing compliance for 2025 to 58 per cent from 41 per cent in the previous period. These statistics could be verified by Office of the Auditor General, as the period was under audit review.
- Payment compliance gradually improved in 2025, increasing to 78 per cent from 72 per cent recorded in the previous period. This improvement was attributed to enhanced debt enforcement measures, implementation of key client relationship management strategies, consistent follow-up on outstanding tax liabilities, targeted taxpayer education and improved business activity following the reduction in load shedding and the appreciation of the Kwacha.

The Controlling Officer further submitted that the Authority undertook the following initiatives to enhance taxpayer education and engagement:

- public notices and updates were issued regularly to clarify complex or grey areas in tax administration and to provide timely updates to taxpayers;
- due date reminders were disseminated through various platforms, including SMSs and emails, to encourage compliance and reduce late filings;
- virtual meetings and outreach programmes were conducted through online meetings and training sessions to reach a wider audience;
- education materials were developed in simplified formats to address identified taxpayer education gaps and were delivered through workshops and digital platforms;
- stakeholder engagements were enhanced through collaboration with business associations and other strategic stakeholders to promote dialogue and compliance; and
- online tax courses were developed, with simplified and publicly accessible content on domestic taxes hosted on the Atingi online training platform to improve taxpayer understanding.

In addition to the strategies already implemented, the Authority also carried out other complementary measures aimed at strengthening compliance and improving service delivery as outlined below.

- Data analytics were utilised to identify active but non-filing taxpayers for targeted outreach.
- Newly registered taxpayers were engaged on a monthly basis to ensure understanding of filing and payment obligations, as well as other post-registration requirements.
- Automated emails were sent to targeted taxpayers, including those under Value Added Tax (VAT), Company Income Tax, and Pay As You Earn (PAYE), providing guidance on return filing.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to sustain and further strengthen compliance measures. The Committee further urges the Controlling Officer to intensify enforcement mechanisms against non-compliant taxpayers while ensuring that newly registered taxpayers are adequately supported to meet their obligations. The Committee also urges the Controlling Officer to continuously review compliance strategies to address emerging challenges and will await a progress report on the matter.

(ii) Improve Customer Experience

The Controlling Officer submitted that in order to implement robust mechanisms to capture taxpayer feedback and act on it promptly, the Authority instituted the following measures:

- i. a dedicated Taxpayer Services and Education Department was established, focused on simplifying client engagement and delivering clear, practical taxpayer education through integrated channels, including service centres, radio, television, webinars, and targeted physical tax clinics.
- ii. Taxpayer registration was automated through multiple digital channels, including the ZRA website; the USSD-based Tax-On-Phone platform; and Tax-On-App; which significantly reduced onboarding time, improved access for remote taxpayers, and minimised the need for physical visits to service centres.
- iii. An AI-powered ZAX chatbot was implemented to provide real-time taxpayer support, thereby improving responsiveness and convenience. In December 2025 alone, ZAX handled 5,468 interactions and achieved an 83.5 per cent resolution rate.
- iv. The Customer Relationship Management System (CRMS) was utilised to track staff performance against established service standards, such as response times.
- v. Feedback surveys were conducted during all workshops and taxpayer engagements.
- vi. The Taxpayer Charter was publicised across all service centres, and staff had been sensitised on the importance of adhering to the Charter standards.
- vii. The performance of the Charter standards was regularly monitored through quarterly surveys, and corrective measures had been implemented where necessary.
- viii. A comprehensive feedback framework was implemented to capture taxpayer feedback across all service touchpoints.
- ix. A communication mechanism was established between the National Registration Office and the Zambia Revenue Authority to address challenges arising from duplicate National Registration Cards.

The Controlling Officer further submitted that these initiatives, together with the digital interventions, shortened turnaround times, reduced service queues, enhanced accessibility, and strengthened taxpayer confidence through faster, more consistent, and user-friendly service delivery.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to continuously monitor and improve digital platforms and feedback mechanisms. The Committee further urges the Controlling Officer to strengthen coordination with the National Registration Office to resolve duplicate ID issues and will await a progress report on the matter.

(iii) Improve ICT Solutions

The Controlling Officer submitted that Management continuously improved information systems, which were fundamental to better customer service. The Committee was informed that the ZRA implemented several initiatives to improve ICT service delivery, including:

- i. regular updates of ICT and Tax Administration systems to enhance system performance;
- ii. active or pending ICT issues were reported weekly to ensure timely resolution;
- iii. Email feedback was integrated to users at each incident stage, including creation, escalation, resolution and closure;
- iv. additional officers were recruited to strengthen the ICT service desk team, which served more than 2,000 users;
- v. more end-user computing resources and Internet Protocol (IP) phones were procured; and

- vi. user satisfaction surveys were continuously implemented, with the most recent survey undertaken in 2025.

Committee's Observations and Recommendations

The Committee notes the initiatives undertaken by the Authority to improve ICT solutions. However, the Committee recommends that the Controlling Officer should ensure continuous system updates and maintenance to prevent service disruptions and enhance performance. The Committee further urges the Controlling Officer to regularly monitor and evaluate ICT service delivery through user satisfaction surveys and promptly address identified gaps. The Committee will await a progress report on the matter.

(iv) Improve Public Perception

The Controlling Officer submitted that the target for "Improve Public Perception" was not met, largely due to delays in refund processing. The Committee was informed that Management addressed the underlying causes as outlined below.

- ***Inadequate funding to pay refund claims***

Management recognised that refund delays were primarily caused by liquidity constraints. The Authority's funding was increased significantly in order to clear the backlog. The monthly funding for refunds was increased from K1.35 billion in November, 2021 to K2.2 billion by February, 2025. This increased liquidity directly accelerated the reduction of the backlog (dating back to 2013), thereby improving the "days to pay" metric.

- ***Inadequate Human Resource to Process VAT Claims***

Management submitted that this challenge was substantively addressed through two key strategic interventions:

- i. **Full Automation of the VAT refund process** - Effective March 2024, the Authority successfully transitioned the VAT refund process to full automation on Tax-On-line II. This shift significantly reduced reliance on manual intervention, thereby mitigating the impact of prior staffing constraints.
- ii. **New Operating Model** - The Authority implemented a New Operating Model that specifically increased the number of staff dedicated to the VAT refund process. More officers were deployed to this critical function to expedite claim clearances.

- ***Missing Information from VAT Claimants***

To mitigate delays caused by missing taxpayer data, Management instituted both system-based and operational controls to ensure complete information was captured:

- i. **System Enforcement** - The Tax-On-line II system was configured to compel taxpayers to update their demographics and bank details. The system enforced mandatory fields, preventing claim submission unless all critical data points were populated.
- ii. **Physical Data Capture** - For walk-in clients, the Authority institutionalised the use of taxpayer update forms. These were distributed and collected at all ZRA Service Centres to capture missing details during physical visits.
- iii. **Education and Sensitisation** - The Authority continued to run aggressive taxpayer education campaigns to sensitise the public on the importance of accurate data for refund processing, among others.

- ***Adoption of the First-In-First-Out (FIFO) Approach***

Management clarified that the adoption of the FIFO methodology was a deliberate strategic decision aimed at strengthening governance, despite its temporary effect on processing timelines:

- Trade-off for Integrity** - FIFO impacted the “average time to pay” as it prioritised the settlement of older arrears (dating back to 2013) before newer claims. However, this approach was necessary to eliminate discretion in refund payments, which previously contributed to perceptions of unfairness and corruption.
- Restoring Trust** - The primary objective of improving public perception was anchored on fairness and transparency. While FIFO temporarily extended waiting times for recent claims, it assured taxpayers of a predictable and equitable system.
- Acceleration Strategy** - To offset delays associated with FIFO, Management increased monthly funding to K2.2 billion. This enabled faster movement of the queue, facilitating the clearance of the historical backlog and positioning the Authority to return to the thirty-day Citizen’s Charter standard in the near future.

Committee’s Observations and Recommendations

The Committee resolves to close the matter, subject to verification by the Office of the Auditor-General.

(v) Increase Human Capital and Staff Motivation

The Controlling Officer submitted that the Authority had an ongoing collaborative effort to enhance professional development, which was supported by the Training and Development policy. In terms of Job satisfaction across the Authority, Management had a deliberate strategy of conducting an Employee Engagement Survey, which was scheduled to be carried out every two years. This explained why no survey was conducted in 2023.

From the Employee Engagement Survey Report, Management identified key dimensions and factors that negatively affected staff engagement levels, including internal communication; the work environment; leadership, job satisfaction; work-life balance; as well as rewards and benefits. Strategies to address these challenges were subsequently developed and implemented by the respective divisions and departments.

Further, during the period under review, several factors negatively affected employee engagement levels, including the implementation of the Harmonised and Rationalised Conditions of Service by the Emoluments Commission, which was scheduled for implementation from January, 2023 to December, 2025. Additionally, another key factor was the implementation of the New Operating Model within the Authority, which created considerable uncertainty among some employees despite several change management activities undertaken by Management.

It was anticipated that the status would improve following the completion of the implementation of the Harmonised Conditions of Service and the progress made in the implementation of the New Operating Model.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to sustain the measures implemented to strengthen staff motivation, enhance employee engagement, and improve human capital development across the Authority. The Committee further urges the Controlling Officer to strengthen change management strategies relating to the New Operating Model and will await a progress report on the matter.

(vi) Failure to Meet Key Performance Indicators – Debt Management

The Controlling Officer submitted that failure to meet Debt Management Key Performance Indicators was attributed to the following key factors:

i. Debt/Tax Revenue Ratio

The high debt levels during the period under review were largely due to the effects of COVID-19, drought and load shedding, which also affected production at the mines. Additionally, larger mining companies faced significant liquidity and operational challenges during the period. Following Government intervention, the mining companies successfully restructured, leading to improved production and enhanced debt repayment capacity.

As a result of these improvements in mining operations, the debt-to-tax revenue ratio improved significantly, declining from 40 per cent during the period under review to 27.4 per cent by the end of December, 2025. Furthermore, there was a notable reduction in Government and parastatal debt, with debt swaps contributing over K3.2 billion towards debt reduction by the close of 2025, as illustrated in the table below:

Debt/Revenue Ratio as at December 2025

Description	K Billion
Total Revenue Collected	160.6
Debt at December 2025	44.03
Debt/Tax revenue Ratio (%)	27.4

ii. Debt Arising from Transits

Regarding debt from transits, the failure to meet the target was partly attributed to congestion experienced at the Kasumbalesa Border Post, between 2022 and 2024. During this period, the Democratic Republic of Congo (DRC) Customs Administration allowed fewer trucks into the DRC than those arriving at the border. However, the ratio of outstanding transits improved to 0.02 per cent, which was below the target of 0.04 per cent. This improvement was partly due to reduced congestion at the Kasumbalesa Border Post and strategic reforms implemented by Management over the period, including engagements with the DRC authorities as indicated in the table below:

Status as at 27th January, 2026 for Customs Transits

	Number	Value (K)
Total Registered	422,842	K222,653,694,528.41
Total Outstanding	438	K54,213,855.78
Outstanding (%)	0.10%	0.02%

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to sustain the interventions implemented to address the shortfall in Debt Management Key Performance Indicators and to further strengthen public confidence in the Authority’s financial governance. The Committee will await a progress report on the matter.

Audit of Compliance with Laws and Regulations

a. Information and Communication Technology - Review of the SAP Use of Unsupported Database - Oracle 18 c

The Controlling Officer submitted that the delay in upgrading the database was due to the Authority's need to conduct thorough testing prior to implementation in order to prevent potential technical challenges. However, the Authority successfully upgraded all SAP-related databases to Oracle 19c by the end of 2025.

Committee's Observations and Recommendations

The Committee resolves to close the matter, subject to audit verification by the Office of the Auditor General.

b. Operational Issues - Failure to Secure Title Deeds

The Controlling Officer submitted that the Authority worked towards the acquisition of title deeds for all its properties that were not yet on title through a major reform undertaken in 2022, following the formation of a Special Project Team for title deed acquisition. Following the constitution of a joint team comprising officers from the Authority and the Ministry of Lands and Natural Resources in June 2022, the team was divided into two groups to attend to the Northern and Southern Regions, respectively. The properties were at various stages of the acquisition process, including the preparation of site plans, numbering, provision of survey diagrams, and issuance of invitations to treat.

As at the date of the report, twenty-three title deeds had been issued by the Ministry of Lands and Natural Resources, bringing the total number of title deeds for the Authority's properties across the country to thirty-seven, as fourteen title deeds had previously been secured. However, the slow progress in acquiring title deeds for Authority properties remained a matter of concern. In this regard, the Authority engaged the Commissioner of Lands on several occasions to outline the challenges encountered in the acquisition process. The Commissioner of Lands advised the Authority to submit a comprehensive list of pending cases and to provide the names of assigned officers to be configured on the Zambia Integrated Land Administration System (ZILAS) to facilitate and expedite the lodging of documents. These requirements were subsequently submitted to the Commissioner of Lands to support and facilitate the timely processing of certificates of title for the Authority's properties.

Committee's Observations and Recommendations

The Committee strongly urges the Controlling Officer to prioritise and expedite the acquisition of title deeds for all outstanding properties by strengthening coordination with the Ministry of Lands and Natural Resources and ensuring full utilisation of the Zambia Integrated Land Administration System. The Committee further directs Management to establish clear timelines and provide regular progress updates to ensure the timely conclusion of the process and will await a progress report on the matter.

c. Weaknesses in Contract Management

i. Failure to Charge Liquidated Damages

The Controlling Officer submitted that the decision not to impose liquidated damages was taken to avoid stifling contractors' cash flows. During the period under review, there was a significant escalation in the cost of key construction materials, particularly cement, steel, and fuel, which materially affected contractors' ability to execute the works within the originally planned timelines. During project implementation, several contractors submitted requests for contract price adjustments averaging over 35 per cent.

However, due to the fixed-price nature of the contracts and the absence of a contract price adjustment clause, it was not legally permissible for the Authority to vary the contract sums to accommodate these requests. In view of this limitation, Management determined that the strict enforcement of liquidated damages under such circumstances could have further weakened contractors' financial capacity, increased the risk of project abandonment, and jeopardised the successful completion of the projects. The decision was therefore taken as a risk mitigation measure to safeguard project continuity and was considered to be in the best interest of the Authority.

The Authority, however, instituted measures to strengthen contract administration and management. These measures included the training of officers in best practice contract administration, the development of standardised contract management tools and procedures, regular monitoring and performance reviews, strengthened interdepartmental coordination, and improved documentation and reporting mechanisms. Going forward, the Authority was expected to ensure that all contract provisions, including those relating to liquidated damages, were strictly enforced.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure strict adherence to all contractual terms and conditions, including the enforcement of liquidated damages where applicable, regardless of prevailing circumstances. The Committee further urges the Controlling Officer to ensure that all future contracts incorporate appropriate price adjustment clauses and risk-sharing mechanisms to accommodate market fluctuations and avoid similar challenges. The Committee will await a progress report on the matter.

ii. Failure to Maintain Valid Performance Bond Security

The Controlling Officer submitted that the Authority instituted measures to strengthen contract performance securities. Contractors were required to provide performance securities that were not tied to a fixed expiry date but were instead linked to the satisfactory completion of the works. Specifically, the performance security was required to remain valid until at least twenty-eight days after the issuance of the Certificate of Completion. This measure was aimed at safeguarding the Authority's interests and ensuring that contractors fulfilled their obligations through to the final stages of project delivery.

With reference to the three contracts cited, namely; the Construction of a Parking Yard and Driveway at Chanida Border Post by Pelcon Engineering Limited; the Construction of five two-bedroom semi-detached staff houses; one three-bedroom staff house and external works at Kazungula executed by Madi Construction; and the Construction of two 1×4 single-quarter staff houses at Mwami Border (Lot 2) executed by Tripple V Property Investments Limited, the Authority submitted as follows:

- (i) Following sustained engagement with the contractors regarding the renewal of performance securities, which did not yield the desired results, and in light of continued performance challenges across the cited contracts, the Authority proceeded with project closure processes and the preparation of final accounts for the respective projects.

Arising from the final account determinations, Liquidated and Ascertained Damages (LADs) were applied to the Mwami Border Lot 2 Staff Houses Project; and retention sums were not released in respect of the Kazungula Staff Houses Project and the Chanida Truck Parking Yard Project.

These actions were taken strictly in accordance with the contractual provisions, following due process, and were intended to address the shortcomings in performance observed during project execution.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that all contractors maintain valid and enforceable performance securities throughout the duration of the contracts without exception. The Committee further urges Management to strengthen monitoring mechanisms to track the validity of performance bonds and ensure timely renewals and will await a progress report on the matter.

iii. Expired Advance Payment Guarantees and Unrecovered Advance Payments

The Controlling Officer submitted that the Authority instituted measures requiring contractors to provide advance payment guarantees without fixed expiry dates, which were to remain valid until the full recovery of the advance payments made to the contractors. Accordingly, the Authority mandated that advance payment guarantees remain effective until the advances were fully recovered.

The Committee was informed that, in relation to the cited unrecovered balance of K6,481,836 from the total advance payments made, the Authority successfully recovered K3,029,258.62 as at 31st October, 2025 leaving a balance of K2,526,844.50. This balance related to the advance payment for the construction of six 1x4 single-quarter staff houses in Chirundu, where works were ongoing and had reached over 55 per cent completion.

The Authority further submitted that the advance payment guarantee for the aforementioned contract was extended from the earlier reported expiry date of 30th November, 2025 to 6th January, 2026 in order to cover the period up to the end of the contract duration, which had initially been expected to be 31st December, 2025. However, due to challenges faced by the contractor during execution, such as difficulties in sourcing construction materials within Chirundu and lack of water for concrete works due to dry boreholes, the contractor experienced delays and consequently sought an extension of the contract period. This request was favourably considered and approved by the Authority's Procurement Committee, pending clearance from the Attorney General. Once the extension was finalised, it was expected that a renewed advance payment guarantee would be provided.

The Authority also provided the following detailed status updates on advance payment recoveries for all the projects previously cited by the Office of the Auditor-General, as at the end of December, 2025:

No	Project	Contractor	Contract Price (K)	Advance Payment made to Contractor (K)	Recovered Amount (K)	Outstanding Amount (K)	Advance Guarantee Expiry Date	Contract End date	STATUS UPDATE
1	Construction of Parking Yard and Driveways at Chanida Border Post	Pelcon Engineering Limited	14,811,726.25	3,702,931.56	2,777,198.68	925,732.88	03.10.2024	21.10.2023	The final account was prepared, and the advance payment was recovered in the notional final account that was prepared.
2	Remodelling the Customer Service Centre at Revenue Hall in Lusaka	Hanex Engineering and Construction Limited	3,064,690.42	766,172.61	766,172.61	-	24.10.2025	16.08.2024	100% Recovered Bonds attached
3	Construction of five single-quarter staff houses and associated external works at Kasumbalesa Stop border post.	Koredo Investments Limited	11,625,731.30	2,906,432.83	2,906,432.83	Nil	NotProvided	30.06.2024	The final account was prepared, and the value of the advance payment earlier paid to the contractor had been fully recovered from the value of the work done.
4	Construction of six 1x4 Single quarter staff	Jotech Mining Logistics	13,476,504	3,369,126.00	842,281.50	2,526,844.50	30.11.2025	31.12.2025	25% Recovered of K842,281.50 Bonds attached

No	Project	Contractor	Contract Price (K)	Advance Payment made to Contractor (K)	Recovered Amount (K)	Outstanding Amount (K)	Advance Guarantee Expiry Date	Contract End date	STATUS UPDATE
	houses in Chirundu								
5	Construction of six 1x4 Single Quarters Staff Houses and associated external works at Kazungula One Stop Border Post	Hemmings	7,917,065.41	1,979,266.35	1,979,266.35	Nil	07.02.2026	18.03.2024	The final account was prepared, and the value of the advance payment earlier paid to the contractor had been fully recovered from the value of the work done.
6	Construction of five two-bed semi-detached Staff Houses and one three-bed standalone house and Associated External Works at Kazungula One Stop Border Post	Madi Construction Limited	6,865,623.44	1,716,405.86	1,716,405.86	Nil	30.04.2025	01.05.2024	Final Account was prepared, and the advance payment was recovered fully (100% Recovered).

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that all advance payment guarantees are valid, enforceable, and continuously maintained until the full recovery of the respective advances, without exception. The Committee further urges the Controlling Officer to put in place robust monitoring systems, including advance payment recovery schedules to ensure timely recoveries and prevent lapses in the validity of guarantees. Additionally, the Controlling Officer is urged to expedite the recovery of the outstanding balance and ensure that the renewed advance payment guarantee is secured without further delay. The Committee will await a progress report on the matter.

iv. Failure to Prepare Final Accounts

The Controlling Officer submitted that the Authority prepared the final accounts for the construction of one 1x4 single-quarter staff house and associated external works at Chavuma Border Post in North-Western Province. The delay in preparing the final accounts was attributed to outstanding recruitment processes for key officers within the Projects and Contracts Teams of the Authority, which had since been completed.

Committee's Observations and Recommendations

The Committee resolves to close the matter, subject to verification by the Office of the Auditor-General.

v. Delayed Project Completion

The Controlling Officer submitted that nine infrastructure projects experienced delays ranging from 1 month to 24 months, with widespread issues of poor contractor performance, inadequate planning, material shortages, financial constraints, and external challenges. Despite substantial payments made, most projects remained incomplete, stalled, or required retendering, as outlined below:

- a. **Contract Terminations and Retendering:** Several projects, including those at Kapiri, Kazungula, Choma, Chanida, and Chavuma, were either terminated or earmarked for retendering due to contractor non-performance and inability to complete works.
- b. **Poor Planning and Contractor Capacity:** A majority of delays were attributed to poor planning, lack of technical capacity, and weak project execution by contractors, even where site conditions and requirements were known in advance.
- c. **Stalled and Abandoned Works:** Projects such as Kapiri Enforcement Centre, Chavuma, and Kasumbalesa were either stalled or abandoned, with contractors absent from site and works significantly incomplete despite payments made.
- d. **Material and Supply Challenges:** Some delays, particularly at Chanida, Nakonde, and Chavuma, were linked to difficulties in sourcing construction materials such as sand, stones, and blocks, compounded by logistical and weather-related challenges.
- e. **Financial and Contractual Issues:** At Kazungula, the contractor failed to proceed due to increased material costs and lack of price adjustment provisions. At Kasumbalesa, progress was disrupted by a court injunction, although it was later lifted.
- f. **Poor Workmanship and Scope Deviations:** Projects like Nchelenge and Luangwa exhibited poor workmanship and deviations from specifications, though some

corrective measures were planned through retention funds and defect liability provisions.

- g. **Partial Progress with Ongoing Works:** Some projects, such as Luangwa and Nakonde, had made progress and were nearing completion or were undergoing procurement processes to finalise outstanding works.
- h. **Systemic Weaknesses Identified:** Overall, the projects reflected systemic challenges in project management, including weak contractor oversight, delayed payments, inadequate planning, and insufficient enforcement of contractual obligations.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the completion of all delayed projects by strictly enforcing contractual timelines; ensuring contractors plan adequately for materials and manpower; closely monitoring progress; and addressing performance gaps promptly. The Committee further urges the Controlling Officer to undertake timely valuations of outstanding works, initiate retendering or direct procurement where necessary, and strengthen supervision and defect rectification processes. The Committee will await a progress report on the matter.

vi. Failure to Encash Contract Security Guarantees - Construction of two 1 x 4 single quarters Staff Housing Units and Associated External Works at Mwami Boarder Post in Eastern Province

The Controlling Officer submitted that failure to encash the contract securities in a timely manner was attributed to the lack of automated systems that could have flagged the imminent expiry of the contract securities. The Authority took measures to prevent a recurrence, including the automation and creation of an electronic contracts management dashboard that automatically flagged imminent expiry of contract securities. Furthermore, the Authority enhanced and implemented the appointment of contract managers in line with the Procurement Regulations to closely monitor contract securities.

With regard to the project progress, the works reached 30 per cent completion. However, the contractor was not on site. Consequently, the project was recommended for termination as the contractor had deserted the site. The Authority also issued a demand letter to the contractor for the recovery of outstanding funds to recoup the advance payment.

It was further noted that the Authority awarded construction projects to local or indigenous contractors in the spirit of avoiding externalisation of resources, promoting local upskilling, and creating jobs. However, this approach proved challenging due to poor workmanship.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the recovery of outstanding funds from the contractor and ensure the encashment of all applicable contract securities without further delay. The Committee further urges the Controlling Officer to ensure that all future contracts include enforceable performance and advance payment securities, with strict monitoring and timely follow-up. The Committee will await a progress report on the matter.

d. Staff Related Matters

i. Questionable Conditions of Service - Payment of both Gratuity and Terminal Benefits

The Controlling Officer submitted that the Authority paid both terminal benefits and gratuity to employees in accordance with:

- a. Clause 127 of the *Employment Code Act No. 3 of 2019*, which provides that “where a contract of employment, collective agreement, or other written law provides conditions more favourable to the employee, those conditions shall prevail; and
- b. Clauses 25.1 and 27 of the Administration Manual, which specify that:
 - *Clause 25.1* - The normal retirement age shall be 55 years. The Authority, however, reserves the right, at its discretion, to offer such retired employees’- engagement on a series of fixed term contracts, each not exceeding one year in duration, up to such retired employee’s 60th birthday.
 - Benefits - The Authority will pay to the retiring employee, terminal gratuity at the rate of four months basic salary for each completed year of service in the current contract. The above benefit shall only be applicable for the period that the Authority will have no pension scheme. When the pension scheme is established, retirement benefits shall be paid in accordance with the provisions of the pension scheme. (Please note that all management staff at ZRA are not members of the ZRA Pension scheme).
 - *Clause 27* - The Authority will pay to the contract employee, save for those declared redundant, contract gratuity at the rate of 30 per cent of the basic salary for the contract period on completion of the contract. However, in the event that the employee dies, or is discharged or has served a minimum of 12 months, the Authority will pay contract gratuity proportionate to the period served. No contract gratuity will be paid to the employees separated through dismissal.

Therefore, the award of gratuity and terminal benefits was in line with the Conditions of Service. The Committee was informed that the Authority could not adjust subsisting conditions downward for employees with running contracts in light of the *Employment Code Act No. 3 of 2019* and the Administration Manual’s Clauses 25.1 and 27 stated above. However, employees engaged effective 1st January, 2023 were not eligible to receive both gratuity and terminal benefits.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure that Conditions of Service for all employees, particularly those recruited from 1st January, 2023, are clearly documented, communicated, and consistently applied. The Committee further urges the Controlling Officer to ensure that human resources policies are reviewed and aligned with the *Employment Code Act No. 3 of 2019* and the Administration Manual to ensure no employee receives benefits to which they are not entitled. The Committee will await a progress report on the matter.

ii. Abuse of Additional Procedure Code

The Controlling Officer submitted that, after a review of the cited cases of Additional Procedure Code 403 abuse, twelve out of thirty-four cases were established to be fully compliant. This left twenty-two taxpayers whose declarations were suspicious. The twenty-two taxpayers were subsequently issued demand letters. However, there was poor response from them. As a result, the associated Taxpayer Identification Numbers (TPINs) were suspended on the ASYCUDA World system.

In addition, PAYE audits were instituted on the twenty-two importers, which were scheduled for completion by the first quarter of 2026. Other measures to recover lost revenue included blocking vehicles through engagements with the Road Transport and Safety Agency (RTSA) and impounding them for immediate payment of due taxes.

Going forward, the Authority instituted several post-importation controls to ensure that there was no recurrence of the cited abuse. These measures included, but were not limited to:

- Cabinet approval of a regulation amendment to include annual renewal of red books;
- internal confirmation to ensure that new residents importing vehicles were registered under PAYE;
- creation of APC 431, which was used exclusively for motor vehicle importations by new residents; and
- closer collaboration with the Immigration Department to verify the authenticity of work permits for new residents importing motor vehicles under APC 431.

Committee’s Observations and Recommendations

The Committee urges the Controlling Officer to ensure strict enforcement of the post-importation controls to prevent future abuse of APCs. The Committee further urges the Controlling Officer to expedite the completion of the PAYE audits for the twenty-two importers and recover any outstanding taxes due. The Committee also urges the Controlling Officer to strengthen inter-agency coordination with RTSA to safeguard revenue and prevent non-compliance and will await a progress report on the matter.

3.16 ZAMBIA RAILWAYS LIMITED

Audit Findings

A review of accounting and other records maintained at Zambia Railways Limited (ZRL) Headquarters for the financial years ended 31st December 2023 and 2024 revealed the following irregularities to which the Controlling Officer responded as highlighted below.

a. Financial Analysis

i. Statement of Profit or Loss and Other Comprehensive Income

• Questionable Going Concern

The Controlling Officer submitted that the financial position of ZRL as at 31st December, 2024, reflected material indicators of financial distress, including accumulated losses; negative

working capital; high leverage; and liquidity pressures, which collectively gave rise to material uncertainty regarding the Company's ability to continue as a going concern.

The going concern challenges arose primarily from structural and operational constraints that had persisted over several years, notably:

- i) prolonged under-investment in rolling stock and rail infrastructure, resulting in limited haulage capacity and unreliable service delivery;
- ii) deteriorated track infrastructure leading to extended turnaround times and suppressed revenue generation;
- iii) an ageing locomotive fleet with constrained availability of spare parts, high maintenance downtime, and increased operating costs; and
- iv) inadequate revenue generation relative to the fixed cost base, resulting in sustained operating losses and weak cash flows.

These factors limited the Company's ability to internally fund operations and meet short-term obligations as they fell due. To mitigate the going concern risks, Management implemented the following measures:

- i) signed a contract for the rehabilitation of six ZRL - owned locomotives, with works commencing in March, 2026 and completion expected by December, 2026;
- ii) implemented interim locomotive leasing arrangements to stabilise operations and sustain freight movements pending fleet rehabilitation;
- iii) commenced track maintenance and upliftment of temporary speed restrictions, supported by Government financial assistance;
- iv) secured K100 million in Government support in 2025, with a further K100 million provided for in the 2026 National Budget; and
- v) advanced engagements for a European Union grant of EUR 50 million, primarily earmarked for track rehabilitation and network reliability improvements.

The Committee was informed that Management considered that while material uncertainty remained, the combination of confirmed Government financial support, anticipated external grant financing; signed locomotive rehabilitation contracts; interim capacity enhancement through leasing; and ongoing infrastructure rehabilitation works provided a reasonable basis for the continued operation of the Company in the foreseeable future, subject to the timely release of committed funding and the successful execution of the turnaround initiatives.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to strengthen the Company's financial sustainability measures by ensuring the timely implementation of all approved turnaround initiatives. The Committee further urges the Controlling Officer to intensify efforts to secure and promptly utilise Government and external funding and will await a progress report on the matter.

- **Recurring Operating Losses**

The Controlling Officer submitted that the recurring operating losses reflected structural operational challenges that accumulated over time. In particular, the continued reliance on

an ageing and inefficient locomotive fleet resulted in disproportionately high operating and maintenance costs, which could not be sufficiently offset by revenue generated under constrained operating capacity. The Committee was informed that these losses were not attributable to inefficiencies in demand for rail services, but rather to capacity limitations and asset condition, which restricted the Company's ability to fully exploit available freight and passenger market opportunities. Addressing these constraints remained a priority under the ongoing operational recovery and turnaround initiatives.

The recurring operating losses were primarily attributable to:

- i) prolonged under-investment in locomotives and wagons, resulting in high maintenance costs, frequent breakdowns, and operational inefficiencies; and
- ii) limited operational capacity, which constrained revenue generation and reduced the Company's ability to adequately cover its operating cost base.

To address the operational and cost inefficiencies giving rise to recurring operating losses, Management implemented the following measures:

- i) leased four locomotives from the region to immediately enhance haulage capacity and improve revenue generation; and
- ii) engaged a contractor to rehabilitate six ZRL - owned locomotives, with rehabilitation financing structured within the contract arrangement to minimise immediate cash outflows.

ZRL operated with four leased locomotives to stabilise service delivery while rehabilitation works on six owned locomotives were underway. In addition, Government grant support enabled the procurement of essential materials for track maintenance and repairs, which aimed to improve operational efficiency; reduce turnaround times; and support the reduction of operating losses going forward.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to intensify implementation of the operational turnaround measures to eliminate recurring losses. The Committee further urges the Controlling Officer to optimise the use of leased locomotives for revenue generation and adhere to set timelines for the rehabilitation of the six owned locomotives. The Committee will await a progress report on the matter.

- **Failure to Achieve Revenue Targets - Set Financial Key Performance Indicators**

The Controlling Officer submitted that failure to achieve revenue targets, particularly in 2024, was driven by external market disruptions and internal capacity constraints, which significantly reduced freight volumes and constrained the Company's ability to meet agreed performance thresholds.

The shortfall in revenue was primarily due to a decline in freight tonnage, which resulted from reduced operational capacity and the suspension of transit coal traffic to the Democratic Republic of Congo (DRC) for approximately nine months in 2024. Transit coal, which

accounted for nearly 50 per cent of budgeted revenue, could not be moved as DRC-based customers suspended orders pending the renewal of the coal import waiver, which expired on 31st December, 2023 and was delayed due to the post-election transition period in the DRC.

To mitigate the revenue shortfall and sustain operations, Management deployed capacity towards local traffic, including sugar and domestic coal, to partially offset the loss of transit coal revenue; and continued engagements with the DRC railways (SNCC) and relevant stakeholders to facilitate the resolution of the coal import waiver matter. Following the resolution of the transit coal issue, ZRL resumed coal movements to the DRC. However, capacity constraints continued to affect the achievement of revenue targets. To address these challenges and strengthen revenue performance, Management:

- i) leased four locomotives and commenced procurement processes for additional units;
- ii) finalised the contract for the rehabilitation of six ZRL - owned locomotives;
- iii) advanced engagements with stakeholders to mobilise recapitalisation funding, including near final discussions with the European Union on track rehabilitation, expected to improve transit times and competitiveness;
- iv) explored regional corridor partnerships to grow freight volumes; and
- v) pursued revenue diversification initiatives, including advanced discussions with NACALA Logistics on operations along the Chipata-Mchinji line and restructuring of the Estates department.

Overall, the Company was developing a comprehensive turnaround plan to address operational, capacity, and financial constraints and to support improved and sustainable revenue performance going forward.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the implementation of the turnaround plan by prioritising locomotive availability, accelerating rehabilitation of existing assets, and fast-tracking recapitalisation engagements. The Committee will await a progress report on the matter.

- **Failure to Attain EBIT Margin as a Percentage of Total Revenue**

The Controlling Officer submitted that the reported EBIT performance did not fully reflect sustainable operational improvements. The underlying operating results continued to be constrained by capacity limitations; external operational disruptions; and an undiversified freight base. Management recognised that reliance on one-off items to meet performance thresholds was not sustainable and therefore prioritised operational capacity restoration and revenue diversification as key levers for improving EBIT performance on a recurring basis.

The failure to attain the targeted EBIT margins on an underlying basis was primarily attributable to:

- i) inadequate availability of reliable and serviceable locomotives, which constrained haulage capacity and revenue generation;
- ii) suspension of operations at GCK Mines in the DRC due to flooding, which reduced freight

volumes; and

- iii) prolonged operational disruptions in the DRC following the general elections, which adversely affected traffic flows and revenue continuity.

To address the underlying drivers of weak EBIT performance, Management leased locomotives under arrangements where maintenance was undertaken by the lessor, thereby improving fleet availability while containing maintenance costs and diversified the freight portfolio beyond coal, to include fertilizer and sulphur traffic along the North-South Corridor, in order to improve revenue stability and margin resilience.

The Committee was informed that ZRL optimised coal haulage operations while progressively expanding its freight mix to include fertilizer and sulphur traffic; aimed at improving capacity utilisation; stabilising revenues; and supporting a more sustainable improvement in EBIT performance going forward.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite measures aimed at improving EBIT margins and will await a progress report on the matter.

- **Increase in Administrative Expenses as a Percentage of Revenue**

The Controlling Officer submitted that the increase in administrative expenses as a percentage of revenue, was largely driven by a significant decline in revenue arising from capacity constraints, while the administrative cost base remained relatively fixed. Management recognised that this imbalance adversely affected cost efficiency indicators and underscored the need to expand operational capacity and revenue generation in order to restore acceptable cost ratios. The increase in administrative expenses as a percentage of revenue was primarily due to reduced revenue levels caused by constrained operational capacity, while administrative costs remained largely unchanged.

To address the imbalance between revenue and administrative costs, Management focused on capacity enhancement initiatives aimed at improving revenue generation and operational throughput. In addition, ZRL leased four locomotives to enhance operational capacity. Furthermore, the rehabilitation of locomotives from the existing fleet was scheduled to commence in March, 2026 with completion expected by the end of 2026, which was anticipated to improve revenue performance and restore administrative cost efficiency ratios.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the implementation of capacity enhancement measures and will await a progress report on the matter.

- **Failure to Reduce Administrative Expenses**

The Controlling Officer submitted that the increase in administrative expenses was influenced by both revenue contraction and exceptional cost items incurred during the period. The Committee was informed that while some costs were non-recurring, the overall trend highlighted the need for improved cost discipline alongside enhanced revenue generation.

The increase in administrative expenses was attributable to reduced revenue levels, which adversely affected financial ratios; and a one-off charge of K19.42 million, relating to the replacement value of an accidented hired locomotive owned by Transnet following an incident at the Lukanda level crossing, which was included under administrative expenses.

To address the identified cost pressures and exceptional expenditure items, Management:

- i) engaged Transnet to pursue settlement of the replacement cost through a net-off reconciliation process; and
- ii) continued implementation of operational efficiency measures, including targeted track maintenance and the reduction of Temporary Speed Restrictions (TSRs), aimed at improving turnaround times and overall productivity.

The Committee was informed that Management focused on restoring revenue growth at a faster rate than administrative cost growth as part of the broader turnaround efforts. The engagement of a contractor to rehabilitate six ZRL-owned locomotives was expected to increase operational capacity and revenue generation, thereby improving administrative cost efficiency on a sustainable basis.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to strengthen cost containment measures and ensure that administrative expenses are controlled and will await a progress report on the matter.

i. Statement of Financial Position

• Return on Capital Employed (ROCE)

The Controlling Officer submitted that the negative ROCE reflected structural operational constraints, particularly inadequate and unreliable operating equipment and infrastructure, which limited revenue generation while costs remained elevated. Management further recognised that external cost pressures, including fuel levy increases, adversely affected competitiveness and operating margins. The negative ROCE was primarily attributable to insufficient revenue generation due to unreliable rolling stock and constrained operational capacity; and high operating cost structures, compounded by infrastructure limitations and external cost pressures.

To address the underlying causes of weak returns on capital employed, Management initiated measures to enhance operational capacity, including locomotive leasing and rehabilitation; and secured Government support and external funding commitments to support infrastructure and fleet recovery. In addition, ZRL engaged a contractor for locomotive rehabilitation and leased four locomotives to improve interim capacity. Engagements with the European Union on the EUR 50 million grant remained ongoing to support track rehabilitation and improve operational efficiency.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to accelerate the implementation of capacity restoration measures and to expedite engagement with the European Union for funding support, in order to restore a positive Return on Capital Employed (ROCE).

- **Poor Working Capital**

The Controlling Officer submitted that the negative working capital position was a consequence of revenue underperformance arising from capacity constraints, coupled with limited capital investment, which adversely affected operating cash flows. The poor working capital position was mainly due to declining revenue levels, driven by constrained operating capacity and weak operating cash flows, limiting the Company's ability to settle short-term obligations.

To improve liquidity and cash flows, Management focused on capacity enhancement and the removal of temporary speed restrictions to improve operational efficiency and throughput, and also secured Government financial support together with anticipated external grant funding to stabilise operations. In addition, ZRL applied for a USD 1 million term loan with ZANACO Bank and received K23.6 million in shareholder loan support from IDC, aimed at improving short-term liquidity while operational recovery initiatives are implemented.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to sustain liquidity enhancement measures and will await a progress report on the matter.

- **Poor Gearing Ratio**

The Controlling Officer submitted that the high gearing level reflected persistent operating losses and constrained revenue generation, which limited the Company's ability to settle liabilities as they fell due. The elevated gearing ratio was primarily attributable to:

- i) inability to generate sufficient operating cash flows to service liabilities;
- ii) lack of fit and compatible equipment to generate interchange revenue; and
- iii) escalating interchange costs, arising from reliance on wagons owned by other railway administrations, amounting to R120.8 million as at 31 January 2026.

To address the gearing position, Management ring-fenced Government support and the anticipated EUR 50 million EU grant for track rehabilitation, aimed at improving wagon turnaround times and operational efficiency. Further, ZRL initiated a locomotive leasing programme to improve short-to medium-term capacity, while longer-term capital structure and operational solutions were being pursued under the broader turnaround plan.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to sustain the turnaround interventions and will await a progress report on the matter.

- **Failure to Achieve Set Current Ratio Target**

The Controlling Officer submitted that the weak current ratio reflected poor operational performance, driven by inadequate rolling stock availability and deteriorated track conditions, which constrained revenue generation and liquidity. The failure to meet the current ratio target was mainly due to non-availability of wagons and locomotives; and deteriorated track infrastructure, which collectively constrained capacity and cash generation.

The Committee was informed that, to improve liquidity and service delivery, Management leased rolling stock to enhance revenue generation; and initiated the process of engaging a consultant to develop a comprehensive turnaround plan to address operational and financial challenges. The Committee was further informed that four leased locomotives were currently operating on the network, and Management focused on improving service delivery and stabilising cash flows as part of the broader turnaround programme.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the implementation of the turnaround plan in order to address operational and financial challenges and will await a progress report on the matter.

ii. Consolidated Statement of Cashflow

• Reduction in Net Cash Flow from Operating Activities

The Controlling Officer submitted that the decline in operating cash flows reflected operational inefficiencies and capacity constraints, which limited freight volumes and revenue generation during the period. These challenges adversely affected service reliability and cash inflows from core operations.

The reduction in operating cash flows was primarily attributable to unreliable locomotive availability, resulting in frequent breakdowns, service disruptions, and delays in freight movements; and constrained operational capacity, which limited the Company's ability to maximise revenue and cash generation.

To mitigate the cash flow constraints and stabilise operations, Management implemented interim locomotive leasing arrangements to improve fleet availability and sustain revenue generation; and initiated capital recovery measures, including the rehabilitation of owned locomotives, to restore sustainable operating capacity. Further, ZRL was currently operating with leased rolling stock to maintain continuity of operations. In parallel, the Company engaged a contractor to rehabilitate six locomotives from the existing fleet, which is expected to improve service reliability, increase revenue, and strengthen operating cash flows on a sustainable basis.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to accelerate locomotive rehabilitation and sustain interim leasing arrangements, while expediting broader capacity enhancement measures. The Committee will await progress report on the matter.

b. Poor Management of Core Assets and Infrastructure

i. Increased Temporary Speed Restrictions (TSRs) Distances

The Controlling Officer submitted that the increase in TSRs negatively affected operational efficiency, transit times, and overall network reliability. The situation reflected prolonged infrastructure under-investment arising from cash flow constraints and delayed release of maintenance funding. The increase in TSRs was primarily due to inadequate investment in periodic track maintenance, resulting from cash flow challenges; and delayed release of Government funding, which constrained timely execution of maintenance and rehabilitation works.

To address the deterioration of track infrastructure, Management commenced works to uplift TSRs, with 1 km already addressed; and initiated engagements to access the K100 million allocation provided for in the 2026 National Budget, earmarked for infrastructure rehabilitation. The Committee was informed that ZRL was actively implementing works to reduce TSRs. Procurement of fishplates and bolts had been completed, with delivery expected in May, 2026 after which works to uplift approximately 67 km of TSRs would commence. In addition, the European Union-funded project to uplift TSRs and upgrade the Kapiri-Ndola section was expected to commence upon receipt of the grant, further improving network reliability and operating efficiency.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the implementation of track maintenance and rehabilitation works in order to significantly reduce Temporary Speed Restrictions (TSRs) and restore operational efficiency. The Committee further recommends that the Controlling Officer ensures the timely utilisation of the K100 million allocation under the 2026 National Budget and strengthens engagement with cooperating partners to facilitate the prompt commencement of the European Union-funded project and will await a progress report on the matter.

ii. Failure to Invest in Modern Locomotives

The Controlling Officer submitted that the ageing locomotive fleet significantly constrained operational capacity, increased maintenance costs, and limited service reliability. The Committee was informed that the inability to modernise the fleet over time reflected sustained revenue underperformance and limited capital availability, which restricted reinvestment in critical operating assets.

The failure to invest in modern locomotives was primarily due to insufficient revenue generation arising from constrained operational capacity, which limited the Company's ability to finance fleet renewal; and prolonged under-investment in capital assets, resulting from weak cash flows and limited access to long-term financing. To address fleet obsolescence and restore operating capacity, Management assigned a contract for the rehabilitation of six ZRL - owned locomotives, with the contractor providing financing under the contract arrangement and mobilising to site in March, 2026 with completion expected by December, 2026.

The Committee learnt that ZRL continued to operate using the existing ageing fleet, supplemented by leased locomotives from the region to support interim capacity requirements. The rehabilitation contract for six owned locomotives had been signed, and delivery of the rehabilitated units was expected by the end of 2026, which would materially improve fleet availability and operational performance.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the rehabilitation of the six locomotives and ensure timely delivery of the rehabilitated units and will await a progress report on the matter.

c. Lack of Weigh Bridges for Declaration of Weight Moved

The Controlling Officer submitted that the absence of functional weigh bridges limited the Company's ability to independently verify freight tonnage, with potential implications for billing accuracy and revenue assurance. The Committee was informed that the absence of weigh bridges was attributable to damage and obsolescence of weigh bridges that had been constructed alongside the rail lines; and to limited capital investment arising from constrained cash flows, which delayed replacement and rehabilitation. The Controlling Officer submitted that the absence of functional weigh bridges limited the Company's ability to independently verify freight tonnage, with potential implications for billing accuracy and revenue assurance.

To mitigate the risk and strengthen revenue assurance, Management utilised customer and supplier weigh bridges, complemented by border verification of weights; and planned the procurement of three portable weigh bridges to be installed at strategic locations in Livingstone, Lusaka, and Bwana Mkubwa, while earmarking the existing Ndola weighbridge for repairs.

The Committee was further informed that the Ndola weighbridge had been repaired and was operational, with sample wagons currently being weighed. In addition, weigh bridges belonging to private partners and customers were being utilised, which provided additional assurance over declared freight tonnages pending full deployment of ZRL-owned portable weigh bridges.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the installation of portable weigh bridges and ensure full utilisation of the Ndola weighbridge. The Committee further urges the Controlling Officer to prioritise investment in permanent weighing infrastructure to enhance revenue assurance and operational accountability and will await a progress report on the matter.

d. Failure to Insure Rolling Stock K447,546,787

The Controlling Officer submitted that there was recognition of the importance of asset insurance in mitigating operational and financial risk. Efforts were made to obtain insurance cover. However, market constraints limited the availability of suitable insurance products for ageing rolling stock. Failure to insure rolling stock arose from the inability to secure insurance cover from local insurers, as the insured values and risk profiles of the ageing locomotives exceeded acceptable underwriting thresholds; and from industry-wide challenges in insuring railway rolling stock, particularly for older fleets, which were also experienced by other railway administrations.

To mitigate risk exposure, Management ensured that all leased locomotives were insured, in accordance with lease agreement requirements, despite the high cost of premiums, in order to limit asset and liability exposure.

The Committee was informed that only leased locomotives were insured, while most ZRL-owned locomotives remained uninsured due to their non-operational status. This position was expected to change once the rehabilitated locomotives were returned to service, at which point insurance cover would be progressively extended to the operational fleet.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to secure appropriate insurance cover for rolling stock, particularly as locomotives return to service, and to strengthen risk management measures for uninsured assets. The Committee will await a progress report on the matter.

e. Failure to Enforce Court Order

The Controlling Officer submitted that the delay in enforcement arose from a decision by the affected parties to pursue an amicable resolution at the execution stage, which allowed Kafue Town Council time to identify alternative land for the encroachers prior to demolition; and ongoing engagements which had not yet been concluded, notwithstanding that the court order remained valid and enforceable.

The Committee was informed that Management continued to engage Kafue Town Council to expedite corrective action and facilitate the relocation of affected occupants. In the event that these engagements did not yield timely resolution, ZRL remained prepared to enforce and execute the court order in accordance with the law. In addition, the matter remained under engagement, with the court order still in force and available for execution should alternative resolution efforts fail.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to conclude engagements with Kafue Town Council and to proceed with immediate enforcement of the court order should amicable resolution efforts fail. The Committee will await a progress report on the matter.

f. Delayed Completion – Contract for Construction of Bunk House at Mulobezi

The Committee was informed that the project delay resulted in prolonged non-availability of the intended facility and highlighted weaknesses in contractor performance management.

The delay was primarily due to:

- i) failure by the contractor to adhere to approved project schedules and inconsistent execution;
- ii) multiple extensions granted to the contractor, including an initial five-week extension approved on 27th December, 2023; and a subsequent thirty-seven-week extension approved on 21st October, 2024; and
- iii) continued non-performance despite assurances of external financing support.

In response to continued non-performance, the Committee was informed that the contract was terminated on 9th September, 2025 in accordance with contractual provisions, and a decision was taken to complete the remaining works in-house.

In addition, an Engineer was engaged to undertake the remaining works, which were expected to be completed by April, 2026. Management also took note of the lessons learnt and strengthened contract and project management controls, particularly with respect to the granting of contract extensions following contractor default.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure timely completion of the remaining works for the bunk house through close supervision and effective coordination of in-house resources. The Committee further urges the Controlling Officer to strengthen contract and project management controls by enforcing strict adherence to project timelines and will await a progress report on the matter.

g. Failure to put in place deliberate measures for the implementation of Statutory Instruments

The Controlling Officer submitted that the Company had not yet been able to operationalise the statutory haulage requirements at the intended scale. Management noted that the underperformance reflected structural capacity constraints and the non-actualisation of key assumptions underpinning the 2024 -2025 Strategic Business Plan.

The limited implementation of the statutory instruments was primarily due to:

- i) Non-actualisation of critical Strategic Business Plan assumptions, which arose from increasing capacity constraints;
- ii) insufficient rolling stock and infrastructure capacity, which limited the Company's ability to uplift available cargo; and
- iii) delayed capitalisation, despite multiple engagements and submissions that had been made to the line Ministry and shareholder seeking investment support for rolling stock and infrastructure development.

The Committee was informed that Management continued engaging Government and key stakeholders to mobilise investment for rolling stock and infrastructure recapitalisation. These efforts were integrated into the comprehensive turnaround plan under development, which was intended to align statutory obligations with realistic capacity enhancement measures and phased implementation once operational constraints were resolved.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to prioritise the full operationalisation of statutory haulage requirements by ensuring that the implementation of Statutory Instruments, is aligned to realistic capacity and supported by a clear and funded rollout plan. The Committee further urges Management to expedite engagements with Government and other key stakeholders to secure timely recapitalisation of rolling stock and infrastructure in order to address existing capacity constraints. The Committee will await a progress report on the matter.

h. Failure to Settle Statutory Obligation -K330,232,467

The Controlling Officer submitted that the accumulation of statutory arrears was primarily attributable to persistent cash flow constraints, arising from insufficient operational capacity and weak revenue generation, which limited the Company's ability to meet all statutory obligations as they fell due.

To address the outstanding statutory obligations, Management continued to engage with NAPSA and ZRA to formalise and maintain Time-to-Pay agreements; and ensured payment of current PAYE and statutory contributions to prevent further accumulation of arrears. In addition, Time-to-Pay agreements with NAPSA and ZRA were in place, and ZRL met current statutory obligations while progressively addressing historical arrears in line with agreed payment plans.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure timely remittance of all current contributions to NAPSA, ZRA, and other relevant authorities to prevent further arrears. The Committee further urges the Controlling Officer to comply with Time-to-Pay agreements and intensify efforts to clear historical arrears within the agreed timelines. The Committee will await a progress report on the matter.

i. Filled Positions Not on the Establishment

The Controlling Officer submitted that there was a need to align the payroll with the approved establishment to strengthen governance, control personnel costs, and ensure organisational efficiency. The anomaly arose due to misalignment between the approved establishment and actual operational requirements; and the absence of a recently reviewed organisational structure reflecting current and emerging operational needs.

The Committee was informed that Management initiated a comprehensive review of the organisational structure, aimed at aligning approved positions with operational requirements and rationalising staffing levels accordingly. In addition, the organisational structure review was at an advanced developmental stage, and the process of aligning the payroll to the approved establishment was ongoing, with corrective adjustments to be implemented upon final approval of the revised structure by the Board.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to expedite the finalisation and approval of the revised organisational structure and align the payroll with the approved establishment. The Committee further urges the Controlling Officer to strengthen establishment control mechanisms to prevent staffing anomalies and ensure all positions are properly authorised. The Committee will await a progress report on the matter.

3.17 OTHER AUDIT RECOMMENDATIONS

(a) PUBLIC SERVICE PENSION FUND

1. Funding Level and Funding Gap

The Secretary to the Treasury submitted that the Funding Level and Funding Gap of Public Service Pension Fund (PSPF) arose from the declining membership following the creation of the National Pension Scheme Authority (NAPSA), which left only members of the Defence Forces as new entrants. The situation systematically reduced contributions year by year in the face of rising claims, as the scheme was a Defined Benefit that based its claims on age, service period and final salary. The final salary criterion, in particular, resulted in higher pension benefits compared to the contributions made by members over their length of service.

To address these challenges, the Fund made changes to the Public Pension Bill which was to be tabled in the next session for amendment. The proposed Bill introduced an Occupational Pension Scheme that based the calculation of pensions on the contributions made by members over the length of their service plus returns on investment made by the Pension Fund. This ensured that claims made were commensurate with the funding level of the Pension Fund. The Committee was informed that this model might provide for healthier packages for members in an environment where investments were well managed.

The Committee was further informed that the PSPF's ability to invest under the existing law had been capped at 20 per cent of the Fund's total capital. To address this challenge, the proposed Bill sought to remove the cap and allow the Fund to pursue favourable investment opportunities in the market place in order to grow the fund.

With the above submission, the Secretary to the Treasury envisioned that the Funding Level and Funding Gap for the Fund would be addressed comprehensively.

Committee's Observations and Recommendations

The Committee urges the Secretary to the Treasury to expedite the enactment of the Public Pension Bill, implement the Occupational Pension Scheme, and strengthen investment management to improve the Fund's sustainability. The Committee will await a progress report on the matter.

2. Administration of Pension Contributions and Benefits

The Secretary to the Treasury submitted that the total amount of K96,557,225 was remitted to the Fund and that the Treasury was current on all its obligations to the Fund. The Committee was informed that the Treasury had, over the past six years disbursed K12,278,253,905.54 for the settlement of pension benefits and had allocated K4.7 billion in the 2026 Annual Budget.

Committee's Observations and Recommendations

The Committee notes the response and resolves to close the matter, subject to verification by the Office of the Auditor General.

3. Failure to Recover Loan - Shimaini Investment.

The Secretary to the Treasury submitted that the investment appraisal was conducted by PSPF on Shimaini Investment Limited (SIL) produced a favourable outlook, and the Fund found it suitable to invest in order to grow the Fund. However, the investment had not meet expectations, resulting in the three lenders namely: Public Service Pension Fund, Development Bank of Zambia (DBZ) and Workers Compensation Fund Control Board (WCFCB) invoking the Inter-Creditor Pari Passu Agreement to place SIL under receivership.

The Committee was informed that the process was underway and was expected to be completed by end of the second quarter of 2026. It was the Treasury's position that Public Funds would be fully recovered.

Committee's Observations and Recommendations

The Committee urges the Secretary to the Treasury to expedite the receivership process, ensure full recovery of the outstanding loan, and strengthen investment appraisal and monitoring mechanisms to safeguard public funds and will await a progress report on the matter.

(b) ZAMBIA REVENUE AUTHORITY

Audit of Annual Performance Information

a. Budget and Actual Income

The Secretary to the Treasury submitted that the Treasury funded two budget lines for the Zambia Revenue Authority (ZRA), namely the Operational Grant and the Modernisation Fund, which was meant for the upgrade and installation of state-of-the-art infrastructure in compliance with an agreement between Southern African Development Community (SADC) Revenue Authorities.

The Committee was informed that the Operational Grant for ZRA, was fully funded for the period under review and that a Supplementary Budget amounting to K743,858,910 was approved by Parliament. However, during this period under review, the country experienced a severe drought that necessitated the Treasury to realign the Budget in order to address the effects of the drought. The realignment resulted in the modernisation budget line being underfunded. The Committee was further informed that, in line with Public Sector Accounting Standards - Cash Basis, funds that were not released in a particular financial year were not accrued, and ZRA was expected to write off the funds that were not released by the Treasury for that year.

In view of the above, the Treasury continued to provide for the Modernisation Fund in the 2026 budget and that ZRA received these funds on a quarterly basis.

Committee's Observations and Recommendations

The Committee urges the Secretary to the Treasury to enhance engagement with the Office of the Auditor General at management level in order to promptly resolve audit issues and prevent recurrence of similar queries in future audit reports. The Committee will await a progress report on the matter.

b. Weaknesses in Contract Management

The Secretary to the Treasury submitted that the *Public Procurement Act No. 8 of 2020*, section 76 (1), (2) had addressed the matter of contract management. The Committee was informed that the Public Procurement Regulations, 2022 (Statutory Instrument No. 30 of 2022) section 146 (1) had applied contract management under section 76 (1), (2) of the Act. The provisions in the regulations on contract management had been framed in such a way that if fully applied, they would result in well-managed contracts.

To ensure that the regulations were complied with, ZRA took steps to allocate specific personnel to track the management of contracts in order to avert contract delays; ensure that liquidated damages were triggered, and ensure that valid Performance Bond Securities and Advance Payment Guarantees were maintained and final accounts were promptly prepared. Further, an automated Excel Sheet was developed and was monitored by the newly appointed contracts officer to track the validity of all contracts, including performance bonds. The appointment was made in October 2025, and the tracker was implemented in the first quarter of 2026. This aided the tracking of all running contracts and flagging contracts that were due to expire within thirty days.

The Committee was informed that all the final accounts had been prepared and all unrecovered advance payments would be deducted before final payments were made to the contractors. The Authority was also maintaining valid Performance Bond Securities.

Committee’s Observations and Recommendations

The Committee resolves to close the matter, subject to verification by the Office of the Auditor General.

3.18 AUDITOR GENERAL’S RECOMMENDATIONS ON THE AUDIT REPORT

To address the weaknesses identified in the entire report, the Auditor General recommended the following:

i. Failure to Prepare Audited Financial Statements

The Auditor General recommended that the management of the respective institutions that did not prepare audited financial statements should ensure that audited financial statements were prepared timely.

Submission by the Secretary to the Treasury

The Secretary to the Treasury submitted that the State-Owned Enterprise Supervisory and Performance Monitoring Framework, which identified baseline Key Performance Indicators (KPIs), had put in place and helped to ensure that parameters such as preparation of audited financial statements, were satisfied in accordance with the *Companies Act, No. 10 of 2017* and the *Public Finance Management Act, No. 18 of 2018*.

Further, the Committee of Officials comprising members that provided technical support to the Committee, as permanent witnesses identified the need for capacity building in the Public

Finance Management legal framework, which the Treasury was implementing to ensure there was no knowledge gap in SOEs.

Committee’s Observations and Recommendations

The Committee urges the Secretary to the Treasury to enforce timely preparation of audited financial statements by all institutions and strengthen compliance monitoring under the SOE performance framework and will await a progress report on the matter.

ii. Poor Working Capital

The Auditor General recommended that the management of the respective institutions should improve their working capital management by strengthening receivables collection and payables management, as well as establishing minimum liquidity thresholds and regularly monitor compliance with the set thresholds.

Submission by the Secretary to the Treasury

The Secretary to the Treasury submitted that for an entity to remain a going concern, it had to maintain healthy working capital. The undercapitalisation and financial performance of SOEs, remained a major concern to the Treasury. This was due to the fiscal risks that SOEs posed to the budget; the country’s debt sustainability levels; the important role SOEs played in providing essential goods and services; especially in sectors where the private sector was not fully operational and their role in addressing market failures essential for economic competitiveness.

The Committee was informed that given Government’s commitment to fiscal discipline and budget credibility, the Treasury undertook reforms regarding the recapitalisation of SOEs, as reflected in the SOE Bill and the recently approved Performance Monitoring and Supervisory Framework for SOEs. The focus was to ensure that recapitalisation funds allocated to SOEs were used for intended purposes to achieve value for money and ensure financial sustainability going forward.

Notwithstanding this, K1.928 billion was remitted to SOEs as grants and recapitalisation in 2025. SOEs in the energy sector received the largest share, particularly ZESCO, which received about K784.688 million to cover its low cost-recovery ratio arising from below market tariff rates as illustrated in the table below.

2025 SOE RECAPITALISATION

S/N	SOE	Amount Disbursed (ZMW)	Source of Funding
1	Public Service Microfinance Institution	112,000,000.00	Central Government
2	Zambia Airports Corporation Limited	45,352,446.02	Central Government
3	National Housing Authority	66,752,822.51	Central Government
4	ZAMPOST	54,966,576.00	Central Government
5	TAZARA	263,569,760.48	Central Government
6	Zambia Credit Guarantee Scheme	208,049,943.00	Central Government

7	Lusaka South - Multi Facility Zone	60,000,000.00	Central Government
8	Zesco	784,688,926.43	Central Government
9	Mulungushi Village Company Limited	81,488,345.97	IDC
10	ZAMPALM	27,545,639.90	IDC
11	Zamtel	100,000,000.00	Central Government
12	Zambia Railways	123,600,000.00	Central Government (ZMW100 million and IDC (23.6 million))
	Total	1,928,014,460.31	

In this fiscal year under review, Government allocated K1.267 billion for recapitalisation and investment. Of this amount, K800 million was allocated for on-lending to SOEs to stimulate their investments; K224.6 million was allocated for the recapitalisation of Zambia Railways Limited and NATSAVE; while K142.9 million was allocated as a capital contribution to Public Service Microfinance Institution.

Consequently, to ensure that parameters set for receivables collection and payables management were met and promptly monitored by the shareholder, the Revised State-Owned Enterprise Policy required that SOEs to submit reports on a regular basis to the Ministry of Finance and National Planning (shareholder ministry) on matters relating to their financial performance; business strategies; investments plans; and all matters relating to the rights of the shareholder.

Committee's Observations and Recommendations

The Committee resolves to keep the matter open and will await a progress report on improved working capital management and financial sustainability of SOEs.

iii. Poor Contract Management

The Auditor General recommended that Management should ensure strict compliance with procurement laws; contract conditions; including the timely enforcement of penalties such as liquidated damages.

Submission by the Secretary to the Treasury

The Secretary to the Treasury submitted that in order to ensure compliance with procurement laws and general contract management, the Treasury would conduct capacity building, as earlier alluded to, with relevant departments of all SOEs in order to reduce the identified capacity gaps. Further, the Minister of Finance and National Planning signed performance contracts with Boards of Directors in line with the Supervisory and Performance Monitoring Framework, which placed SOEs under close monitoring of their performance and compliance with applicable laws.

Committee's Observations and Recommendations

The Committee urges the Secretary to the Treasury to strengthen contract management in SOEs by ensuring strict compliance with procurement laws and contract conditions,

including the timely enforcement of penalties such as liquidated damages, supported by ongoing capacity building and effective performance monitoring under signed performance contracts. The Committee will await a progress report on the matter.

iv. Monitoring of Boards of Directors

The Auditor General recommended the introduction of regular contract performance monitoring and reporting to management and the Board of Directors.

Submission by the Secretary to the Treasury

The Secretary to the Treasury submitted that the Treasury issued the State-Owned Enterprises (SOEs) Supervisory and Performance Monitoring Framework to enable SOEs to function more effectively by improving accountability and transparency. The monitoring framework applied to all SOEs where Government had a controlling interest, including holding companies and their subsidiaries.

Under this framework, annual performance contracts were developed and executed between the Minister of Finance and National Planning (Shareholder Minister) and the Board of Directors of the holding companies. According to the work plan for 2026, five performance contracts were prepared for the Zambia National Broadcasting Corporation (ZNBC); National Savings and Credit Bank of Zambia (NATSAVE); National Housing Authority (NHA); Zambia Credit Guarantee; and Public Service Microfinance Limited. Out of the five performance contracts, two were signed with Zambia Credit Guarantee and NATSAVE, while the remaining three were expected to be signed by the second quarter of 2026.

The performance contracts served as a foundation for monitoring and evaluating the performance of SOEs and contained Key Performance Indicators (KPIs). The KPIs included both financial and non-financial metrics and were developed based on the SOEs' mandate and Government's expectations in terms of financial performance and contribution to economic growth and development. Further, the Boards of Directors were held accountable under this framework, and in turn, the Boards were expected to hold Management accountable.

Committee's Observations and Recommendations

The Committee urges the Secretary to the Treasury to ensure full implementation of the SOE Supervisory and Performance Monitoring Framework by completing the signing of outstanding performance contracts and strengthening regular monitoring and accountability of Boards of Directors and Management through agreed Key Performance Indicators. The Committee will await a progress report on the matter.

v. Performance Targets

The Auditor General recommended that the strategic and operational plans of institutions under IDC should ensure that they were well aligned to the performance targets set by IDC, and that internal monitoring systems were established to track progress against IDC targets on a regular basis. This was further strengthened through accountability mechanisms such as linking management performance contracts to the achievement of agreed targets.

Submission by the Secretary to the Treasury

The Secretary to the Treasury submitted that IDC developed a ten-year Transformation Strategic Plan, with a strategic focus on implementing a comprehensive portfolio transformation programme aimed at optimising investments and enhancing operational efficiencies across its portfolio companies. The various plans and strategies of IDC subsidiaries were aligned within the context of this strategic plan. The progress towards turnaround objectives and performance targets were monitored through the framework of Annual Performance Management Contracts (PMCs).

Under this framework, the IDC met with the Boards of respective subsidiaries on a bi-annual basis to review progress against agreed targets and to discuss remedial actions where necessary. To enhance accountability, performance against the PMC formed a critical component in the assessment of Board performance and the consideration of Board tenure renewal.

Committee's Observations and Recommendations

The Committee urges the Secretary to the Treasury to ensure alignment of IDC subsidiary plans with performance targets and to strengthen monitoring and accountability through effective use of PMCs and regular performance reviews. The Committee will await a progress report on the matter.

CONCLUSION

Parastatal entities in Zambia remain constrained by significant weaknesses in corporate governance, financial management, and operational performance. Persistent failures in meeting strategic objectives, coupled with negative working capital positions and uncollected revenues, have undermined their financial sustainability and service delivery. It is also noted that serious lapses in accountability, including failure to produce audited financial statements, weak procurement and contract management practices, and inadequate asset management systems, continue to persist. These deficiencies have exposed public resources to loss and inefficiency.

In view of the foregoing, the Committee urges the Executive to urgently put in place reforms that will strengthen oversight, enforce compliance with established regulations, and enhance financial discipline in order to improve the performance and accountability of parastatal entities. The Committee is confident that the Executive will give due consideration to its recommendations in addressing the identified challenges.



Dr Chitalu Chilufya
CHAIRPERSON

April, 2026
LUSAKA

Appendix I – List of National Assembly Officials

- i. Mr Stephen Chiwota, Director - Financial Committees
- ii. Mr Geoffrey Zulu, Deputy Director - Financial Committees
- iii. Mr Charles Chishimba, Senior Committee Clerk – Financial Committees
- iv. Ms Carol Ndoti, Committee Clerk
- v. Ms Anita Mulale, Administrative Assistant
- vi. Mr Daniel Lupiya, Senior Committee Assistant
- vii. Mr Muyembi S Kantumoya, Committee Assistant
- viii. Ms Taona Chabinga, Committee Assistant

Appendix II – List of Witnesses

- i. Ministry of Finance and National Planning
- ii. Ministry of Labour and Social Security
- iii. Ministry of Education
- iv. Ministry of Technology and Science
- v. Ministry of Tourism
- vi. Ministry of Energy
- vii. Competition and Consumer Protection
- viii. Indeni Energy Company Limited
- ix. Industrial Development Corporation
- x. Infratel Corporation Limited
- xi. Kawambwa Tea Industries Limited
- xii. Lusaka South Multi Facility Economic Zone
- xiii. Mulungushi International Conference Centre Limited
- xiv. Mulungushi Village Complex Limited
- xv. National Institute for Scientific and Industrial Centre Limited
- xvi. Public Service Pension Fund
- xvii. Rural Electrification Authority
- xviii. Tazama Pipelines Limited
- xix. Tanzania Zambia Railway Authority
- xx. University of Zambia
- xxi. Workers Compensation Fund Control Board
- xxii. Zambia Revenue Authority
- xxiii. Zambia Railways Limited