



**ZIMBABWE**

**REPORT**

**of the**

**Auditor-General**

**for the**

**FINANCIAL YEAR ENDED DECEMBER 31, 2014**

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**NARRATIVE REPORT**

**ON**

**STATE ENTERPRISES AND PARASTATALS**

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**ZIMBABWE**

**Office of the Auditor-General of Zimbabwe**

5<sup>th</sup> Floor, Burroughs House  
48 George Silundika Avenue  
Harare, Zimbabwe

The Hon. P. Chinamasa  
Minister of Finance and Economic Development  
New Government Complex  
Samora Machel Avenue  
Harare

Dear Sir,

I hereby submit my Report on the audit of State Enterprises and Parastatals in terms of Section 309(2) of the Constitution of Zimbabwe read together with Section 10(1) of the Audit Office Act [Chapter 22:18], for the year ended December 31, 2014.

Yours faithfully,

**M. CHIRI,**  
**AUDITOR-GENERAL.**

HARARE  
....., 2015



**ZIMBABWE**

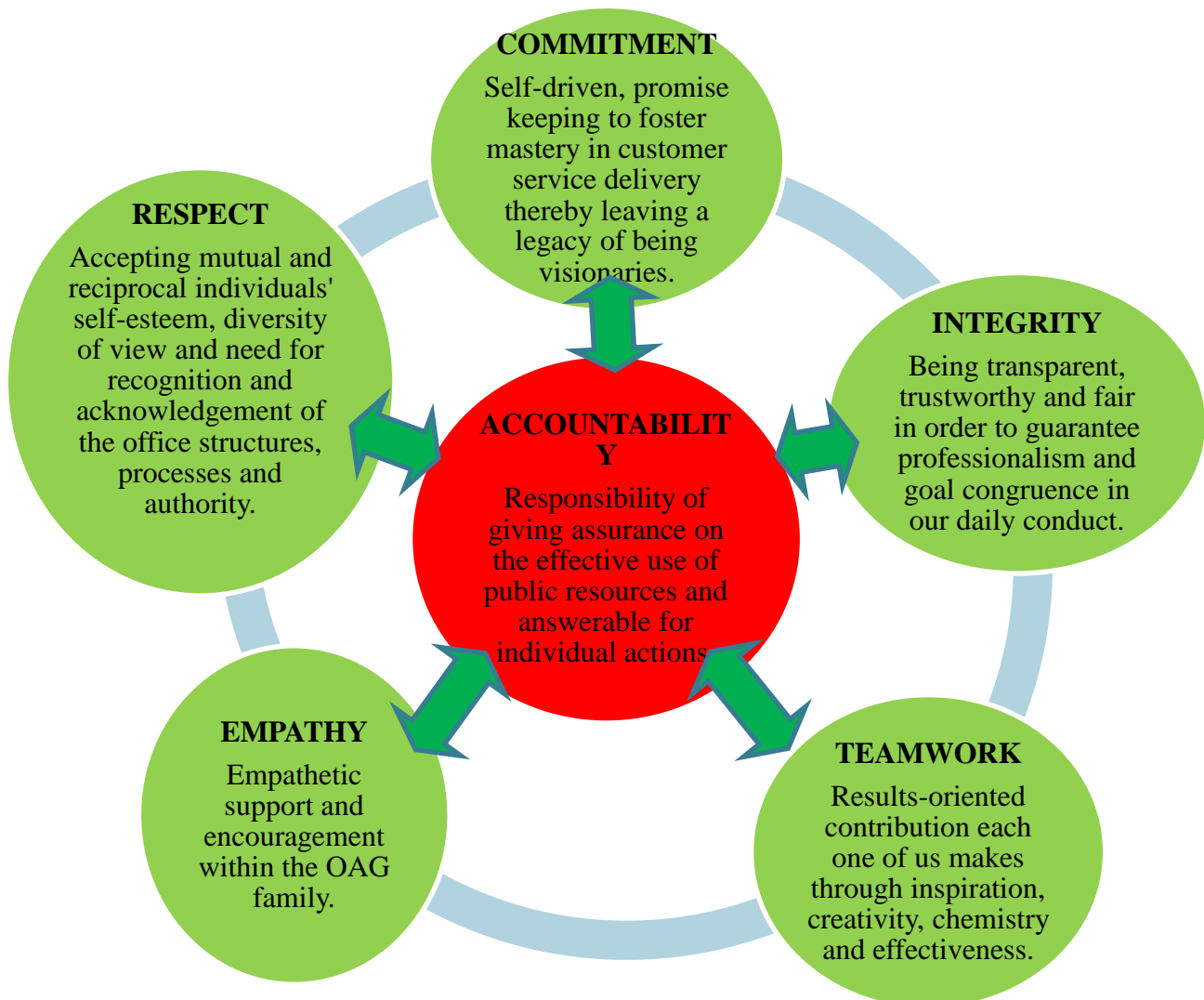
## **OAG Vision**

To be the Centre of Excellence in the provision of Auditing Services.

## **OAG Mission**

To examine, audit and report to Parliament on the management of public resources of Zimbabwe through committed and motivated staff with the aim of improving accountability and good corporate governance.

## **OAG Core Values**



## **LIST OF ACRONYMS**

1. CAAZ – Civil Aviation Authority of Zimbabwe
2. CBZ - Commercial Bank of Zimbabwe
3. EIA – Environmental Impact Assessment
4. FCR – Foreign Currency Reserve
5. GRN – Goods Received Note
6. IFRS – International Financial Reporting Standards
7. JV – Joint Venture
8. MMCZ – Minerals Marketing Corporation of Zimbabwe
9. NRZ – National Railways of Zimbabwe
10. NSSA – National Social Security Authority
11. OAG – Office of the Auditor-General
12. PAYE – Pay As You Earn
13. POSB – People’s Own Savings Bank
14. POTRAZ – Postal Telecommunication Regulatory Authority of Zimbabwe
15. PSIP – Public Sector Investment Programmes
16. RBZ – Reserve Bank of Zimbabwe
17. RTGS - Real Time Gross Settlement
18. S.H.E – Safety Health and Environment
19. SBU – Strategic Business Unit
20. SEDCO – Small and Medium Enterprises Development Corporation
21. SMEs – Small to Medium Enterprises
22. SPB – State Procurement Board

23. SSB – Salary Service Bureau
24. TIMB – Tobacco Industry Marketing Board
25. VAT – Value Added Tax
26. ZIA – Zimbabwe Investment Authority
27. ZIMDEF – Zimbabwe Manpower Development Fund
28. ZIMPOST – Zimbabwe Posts
29. ZIMRA – Zimbabwe Revenue Authority
30. ZINARA – Zimbabwe National Roads Administration
31. ZMDC – Zimbabwe Mining Development Corporation

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## **EXECUTIVE SUMMARY**

### **Audit mandate**

My duties as set out in the Constitution of Zimbabwe and amplified in the Audit Office Act [Chapter 22:18] are, in addition to examining, auditing and reporting on accounts of all persons entrusted with public monies or state property, to audit all institutions and agencies of government, and at the request of government carry out special audits of the accounts of any statutory body or government controlled entity.

### **Audit approach**

I conducted my audit in accordance with the International Standards on Supreme Audit Institutions (ISSAIs) and the International Standards on Auditing (ISAs). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. My audit approach was designed to enable me to express an opinion on the State Enterprises and Parastatals' financial statements.

All aspects of the entities' activities and procedures may not have been examined. I consider maintenance of adequate internal controls to be the responsibility of management. My work cannot therefore, be expected to identify all weaknesses in the systems and procedures, which a special investigation directed at those areas might reveal. As to the possibility of fraud, I plan my audit to have a reasonable expectation of its disclosure if the potential effects of the fraud would be material in the financial statements. However, there are many kinds of fraudulent activities, particularly those involving defalcation, forgery, collusion and management override of controls, which would be unreasonable to expect the normal audit to uncover. The principal objective of my audit procedures is to enable me to express an opinion on the truth and fairness of the financial statements as a whole. An audit opinion is based on the concept of reasonable assurance. It is not a guarantee that the financial statements are free of misstatements.

### **Financial reporting framework**

All the State Enterprises and Parastatals financial statements are prepared in accordance with International Financial Reporting Standards as provided for by the Public Finance Management Act [Chapter 22:19]. The entities are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS).

The report outlines material audit findings noted during the audits of the financial statements of the State Enterprises and Parastatals. The audit findings are classified under Governance issues, Revenue collection and debt recovery, Procurement of goods and services, and Employment costs/issues. Also included under each audited account are possible risks /implications associated with the audit findings, audit recommendations, management responses in respect of the findings, audit comments to management

responses where necessary and the audit opinion thereto. Although some of the issues identified are common within the audited entities, the majority of the findings are not the same due to the nature, uniqueness and varying mandates of the entities. The highlights are summarised below.

## **1. GOVERNANCE ISSUES**

Most of the challenges that continue to plague the Zimbabwean public sector entities are of a corporate governance nature. Corporate governance is the system by which corporations are directed, controlled and held to account. It is about oversight of corporations by those responsible to shareholders and stakeholders. Corporate governance world over has been recognised as a tool to fight, among other ills, corruption, corporate scandals, poverty and the agency problem i.e. ensuring that directors and managers avoid serving their own interests but those of government and the people of Zimbabwe.

Some entities continued to operate without Boards of Directors following the expiry of the previous Boards' terms of office. Entities which operated without boards or with boards which were not fully constituted included; ZIMRA which operated without a board of directors since February 28, 2014, GMB whose Board's tenure of office expired on November 2, 2013, Securities and Exchange Commission of Zimbabwe which had five (5) Commissioners against a prescribed minimum of seven (7). In some instances, the Permanent Secretary of the respective Ministry played the role of the Board in the interim as the case of Marange Resources which operated without a substantive board after the board was dismissed in December 2013.

Some entities boards and board committees did not regularly meet in line with best practice. These entities included; National Biotechnology Authority whose board only met twice and committee meetings were not held and ZIMSEC whose Audit Committee only held one meeting during the year.

Some entities did not have declaration of interest registers while in some cases board members were not declaring their interest before meetings. Best practice requires that, board members and management should declare interests, if any, before a board or management meeting. The entities include, Petrotrade, ZARNet and Civil Aviation Authority of Zimbabwe.

Weak control environments existed in such entities like; ZINARA which made payments amounting to US\$ 4 157 937 which were not supported by authorised payment vouchers, ZMDC which had various expenses amounting to US\$ 3 163 091 in its Corporate Social Responsibility ledger account that had no breakdowns or acknowledgements of receipt from the beneficiaries, Litefold Engineering which was operating without books of accounts, Parirenyatwa Group of Hospitals whose inventory management system did not generate drug expiry and aged analysis reports and National AIDS Council's implementing partners which dispensed expired drugs.

Override of controls by management was noted in the case of the Anti-Corruption Commission of Zimbabwe which through a shelf company, purchased an office building in December 2010 without the approval by its Commissioners. A payment of US\$ 1 680 000 was made to a Real estate agent which, on instruction by the Commission's Chief Executive Officer, paid US\$ 1 200 000 to the owner of the building and distributed the remaining funds to certain individuals.

Supervision, segregation of duties and the carrying out of reconciliations continued to be a challenge to some entities whereby an individual had a super user profile which enabled the creation of users, updating of vehicle particulars, effecting of license fee corrections, and management of exemptions among other functions.

A number of State Enterprises and Parastatals were not honouring their statutory obligations to NSSA, ZIMRA, Pension funds and Medical Aid Societies. Some of the parastatals who did not honour statutory obligations include Radiation Protection Authority, Agricultural Marketing Authority, CAAZ, ZINARA, ZARNet, ZMDC, and ZENT. The tax obligations as at December 31, 2014 were approximately US\$450 million.

A number of entities continued to show signs of liquidity and break even challenges like; CAAZ whose current liabilities exceeded current assets by US\$ 155 669 420 as at December 31, 2013, Radiation Protection Authority whose current liabilities exceeded current assets by US\$ 615 831 as at December 31, 2014, National Arts Council of Zimbabwe whose current liabilities exceeded current assets by US\$ 183 364 as at December 31, 2013, ZNFPC and ZARNet which made losses for three consecutive years, NRZ which was in a net current liability position of US\$ 131 131 446 as at December 31, 2014, Powertel Communications whose current liabilities exceeded current assets by US\$ 9 121 211 as at December 31, 2014 and ZENT whose current liabilities exceeded current assets by US\$ 16 552 540 as at December 31, 2014.

On review of policies and procedures, I noted that NRZ had some policies and procedure manuals covering finance and operations that were published as far back as 1954 and 1970.

A number of entities were paying board fees and management salaries and benefits which were not authorised. , For example EMA, whose Board passed a resolution to increase its own fees without the parent Ministry's approval, Health Service Board which approved fuel allocations to its Board members without Treasury's concurrence, ZINARA which awarded its Chief Executive Officer a monthly salary and a representation allowance increase which were above the contract stipulated rates, ZARNet which paid its Chief Executive Officer a monthly housing allowance whilst paying month rentals for his residence, ZMDC which gave non-executive directors a total of 2,940 litres of fuel and holiday allowances of US\$ 27,450 each without the parent Ministry's approval, and POSB which paid board fees that were above those approved by the parent Ministry by US\$ 26 868.

## **2. REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

The challenge facing most of the State Enterprises and Parastatals was failure to recover outstanding debts.

Revenue collection systems appeared weak as evidenced by huge debtors on financial statements of; CAAZ: US\$ 26 757 754, ZNFPC: US\$ 11 565 652, Parirenyatwa Group of Hospitals: US\$ 33 746 672, ZARNet US\$ 191820, and GMB: US\$ 8 214 363. GMB was also not adhering to its credit policy limits, despite the fact that recoverability of the debtors was an issue.

Revenue leakages were noted where some tax payers were claiming non-existent Value Added Tax (VAT) refunds hence prejudicing the State. For instance two clients claimed VAT refunds amounting to US\$ 822 780 for non-existent input tax.

The administration of leases was in some cases, not being done in a transparent and accountable manner, for example there were no lease agreements between SEDCO and its tenants. In addition, there were cases where entities failed to collect lease rentals from tenants for example NSSA was owed US\$5.5 million as at December 31, 2014.

## **3. PROCUREMENT OF GOODS AND SERVICES**

There were issues noted that ranged from lack of due diligence in procurement to non-compliance with procurement regulations which include the following:

ZINARA procured 40 motorised graders through tender for US\$ 8 040 800 and procured 40 additional graders from the same supplier at the same price without going to tender in contravention of procurement regulations which require purchases above US\$ 300 000 to go through the State Procurement Board (SPB). The same supplier was also engaged without going to tender to develop a US\$ 54 million vehicle licensing system.

Parirenyatwa Group of Hospitals made purchases amounting to US\$ 64 851 which had insufficient supporting documentation.

## **4. INVESTMENT ISSUES**

ZMDC had no share certificates for five (5) of its investments and its joint venture partners did not fulfil their funding obligations resulting in the undercapitalization of some of its joint venture mines.

ZIMRA invested US\$ 601 779 in St Lucia Park Training and Conference Centre cumulatively from 2012 (2014: US\$ 228 597, 2013: US\$ 200 000, 2012: US\$ 173 182) but the Centre only generated revenue amounting to US\$ 14 525 to date.

## **5. EMPLOYMENT ISSUES**

Employment issues noted during the audits included the following:

Allowances paid outside the payroll and were not being taxed, contrary to the Income Tax Act [Chapter 23:06].

ZINARA provided home security benefits to seven (7) managers amounting to US\$ 94 964 and other benefits that were not in their employment contracts.

Institutions like Health Service Board and United Bulawayo Hospitals hired motor vehicles for use by management and incurred hiring costs of US\$ 440 756 and U\$ 85 827 respectively. The funds could have been used to purchase motor vehicles instead of hiring. Marange Resources similarly paid repairs and maintenance allowances to management for using their private vehicles for business purposes. The cumulative allowance paid to an average of nine (9) managers was US\$ 349 397. The entity bought ISUZU double cab for other managers as at a cost of US\$ 49 000. The repairs and maintenance allowances paid were equivalent to the purchase price of seven (7) motor vehicles.

Marange Resources was paying full salaries to seven (7) of the company's senior managers who were sent on special leave in February 2014 to pave way for an investigation instituted by the government. As at December 31, 2014, a total of US\$ 1 166 472 in gross earnings had been recognised in respect of salaries and wages relating to these managers.

## **6. CONCLUSION**

I obtained sufficient and appropriate audit evidence that I considered relevant to arrive at my audit conclusions/ audit opinion. Seven (7) out of forty (40) entities I audited had modified opinions including an adverse opinion on ZMDC, UBH and Ingutsheni Hospital.

ANNEXURE "A" shows the details on the audit opinion per each public entity audited.

**PUBLIC ENTITIES UNDER THE CATEGORY OF  
AUTHORITIES AND AGENCIES.**

## **CIVIL AVIATION AUTHORITY OF ZIMBABWE (CAAZ) 2013**

### **Background information**

Civil Aviation Authority of Zimbabwe was incorporated in Zimbabwe in terms of the Civil Aviation Act [Chapter 13:16]. The Authority was established to promote safe, regular and efficient use and development of aviation inside and outside Zimbabwe and to advise the Government on all matters relating to domestic and international civil aviation.

I have audited the financial statements for Civil Aviation Authority of Zimbabwe for the year ended December 31, 2013.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Civil Aviation Authority of Zimbabwe as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Emphasis of matter**

I draw attention to note 11 and note 24 of the financial statements which details uncertainty related to the capacity to service foreign and domestic loans by the Civil Aviation Authority of Zimbabwe. My opinion is not qualified in respect of this matter.

However, below are other material issues noted during the audit.

## **1. GOVERNANCE ISSUES**

### **1.1. Sustainability of service delivery**

#### **Finding**

An analysis of the financial statements for the year ended December 31, 2013 revealed that the Civil Aviation Authority of Zimbabwe's current liabilities exceeded current assets by US\$155 669 420 (2012: US\$ 155 538 829).

I also noted that the Authority had domestic and foreign loans amounting to US\$242 181 801, that were not being serviced and had become overdue. Details of the loans are listed below:

<b>Nature of loan</b>	<b>Date of acquisition</b>	<b>Total current debt including interest(US\$)</b>
Loans inherited through SI 193 of 2003 (various international financiers)	Statutory Instrument 193 of 2003	168 647 827
IDBZ loan	May 2010	73 533 974
<b>Total</b>		<b>242 181 801</b>

In addition, the Authority also incurred a net loss amounting to US\$ 14 881 295 for the year ended December 31, 2013 (2012: US\$ 23 593 038). The accumulated losses rose from US\$ 97 861 030 in 2012 to US\$ 112 742 325 in 2013 representing a 15% increase.

### **Risk/Implication**

These conditions may indicate the existence of a material uncertainty that casts doubt about the Authority's ability to continue to offer sustainable service delivery.

### **Recommendation**

The Authority should come up with sustainable revenue growth strategies that ensure profitability and improved capacity to service the loans.

### **Management response**

**The Authority's going concern looks compromised if assessed from the liquidity and loss making point of view. The loss making position is mainly attributed to low business volumes which lead to below capacity utilization. The Authority has huge and high value assets base that are not used optimally to generate commensurate revenue. The core business of the Authority is to ensure there is right and modern aviation infrastructure which meets the ICAO standards regardless of the business level, hence the need for the Authority to keep on investing on infrastructure development through external funding.**

**The major line items which contribute to loss making position, going concern and liquidity concerns are as follows:-**

#### **Inherited Long Term Debt – US\$168,647,827**

**The loans were passed to the Authority by the Government of Zimbabwe through Statutory Instrument 193 of 2000. The loans were borrowed by the Government for the construction of the Harare International Airport. The principal amount was US\$110,392,483 and attracted US\$58,141,979 interest. The Authority has no capacity to service both the principal and the interest.**

**The bulk of the principal amount and the entire interest are now sitting under the current liabilities against current assets of US\$27,525,885 hence the perceived technical insolvency.**



**The Authority is engaging the Ministry of Finance to move the loan from Civil Aviation Authority of Zimbabwe's books of Accounts and house it under its portfolio. This will make the Authority's Balance Sheet look attractive as we move towards the split. The inter-ministerial committee on CAAZ split has embraced the idea and are currently discussing with Ministry of Finance on how to handle the transaction. The two successor companies will start on a clean sheet but with an obligation to liquidate the debt.**

#### **Ministry of Finance/IDBZ Loan US\$73,533,974**

**The loans were advanced to the Authority by Ministry of Finance to fund the projects which were traditionally funded under PSIP. The Authority does not have the financial capacity to repay these loans and these projects are still not complete.**

**The Authority is engaging Ministry of Finance to convert the loans to shareholder equity for capitalizing the business. The inter-ministerial committee on CAAZ split has also recommended that the loans be converted to equity.**

#### **Depreciation**

**The Authority has a high depreciation figure which contributes to loss making position because of the high value assets which are not fully utilized. The capacity utilization is currently below 30%. However the Authority will continue on investing on key assets and infrastructure as they are key and critical to our operations and mandate of safety and security.**

**The Authority is in a drive to market its products and lure more airlines. The Routes Africa conference held in Victoria Falls in June 2014 was one of the marketing strategies and we are happy to announce that it was a success as shown by new airlines which started operating in Zimbabwe such as Fast Jet and Fly Africa.com.**

#### **Victoria Falls Airport Development Project**

**The US\$150 million Victoria Falls Airport development project is expected to be a game changer. The project is expected to be complete by December 31 2015 and is expected to make Victoria Falls a tourism hub as all types of aircrafts will be able to land at the airport. We expect an increase in business after the completion and operationalization of the 4km runway and the new terminal building with its associated state of the art systems. A marketing plan for the airport has been developed. The government is also working on a plan to bring direct flights from China.**

#### **Turnaround Strategy**

**The Authority is implementing a Turnaround Strategy that will run from 2015 to 2018. The major objective is to operate on a breakeven basis in the first year, cut costs and enhance revenue substantially in the second year and consolidate in last 2 years through capacity utilization. The Authority is going to establish a Business Development Unit which will spearhead the identification of areas of revenue growth**

from new and existing revenue streams. The unit will also look on streamlining the operations to achieve efficiency and cost effectiveness.

The Authority is confident that besides the loss making position the business is still viable with a potential to grow. A lot of effort is being channeled in recapitalization and modernization of aviation infrastructure to attract more business. We are also realizing a stable revenue growth on an annual basis.

## **1.2. Declaration of interest by Board members**

### **Finding**

Board members are required to declare their interest at every meeting, however, during the year under review Board members only declared their interest once for all five meetings held.

### **Risk/Implication**

Objectivity may be compromised when decisions on issues that members have an interest in are made resulting in financial loss.

### **Recommendation**

The board should ensure that all the board members declare their interest in all the meetings they attend.

### **Management response**

The Board members declared their interest at the beginning of their terms. It was an oversight thereafter on the part of the corporate secretary to have the Board members declaring their interest at each meeting. With the guidelines received recently from the Ministry management will ensure that Board members declare their interests before sitting for each and every meeting.

## **1.3. Budget approval**

### **Finding**

There was no evidence that the Authority's budget for the year ended December 31, 2013 was approved by the parent Ministry.

### **Risk/Implication**

Unauthorised expenditure may not be prevented or detected timeously in the absence of an approved budget.

## **Recommendation**

The Authority should ensure that its budget is approved by the Minister.

## **Management response**

**The budget was approved by the Board and submitted to Ministry of Transport and Infrastructural Development for the final approval. However the copies with ministerial approval were never returned to CAAZ but were told to use the budget. The Authority operated within that budget. We are still making follow up on that budget.**

### **1.4. Board allowances**

#### **Finding**

Board members received fuel allowances and holiday allowances amounting to \$133 908 and these amounts were not taxed as required by the Income Tax Act [Chapter 23:06].

#### **Risk/Implication**

Financial loss arising from penalties and fines for non-compliance.

#### **Recommendation**

The Authority should comply with the Income Tax Act [Chapter 23:06] by charging all board allowances applicable withholding taxes.

#### **Management response**

**The issue was resolved with ZIMRA. The Authority was only charging withholding tax on board fees and other monthly allowances such as fuel and airtime. ZIMRA then advised that the same should apply to their holiday allowance. Management will ensure compliance with the Income Tax Act is always upheld.**

### **1.5. Creditors' balances**

#### **Finding**

The Authority was taking between 120 to 150 days to pay creditors and was not preparing creditors' reconciliations. Outstanding balances of individual creditors were not being reconciled on a monthly basis.

#### **Risk/Implication**

Financial loss due to overpayments to suppliers that may not be timeously detected.

Loss of supplier goodwill due to non-payment of their accounts timeously.

### **Recommendation**

Creditors should be paid within reasonable time and reconciliations be prepared on a regular basis.

### **Management response**

**The long outstanding creditors were as a result of cash flow challenges but have since been cleared. The only creditors that the Authority has are the utility creditors, and reconciliations are done monthly and are up to date.**

**The other outstanding suppliers were cash on delivery which are paid based on invoice, it is practically impossible to do a creditors reconciliation using an invoice as the suppliers will be refusing to avail statements as they will be saying CAAZ does not have accounts with them, thus you need to pay based on the invoice.**

## **2. REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1. Aviation Infrastructure Development Fund (AIDEF) revenue targets**

#### **Finding**

The Aviation Infrastructure Development Fund (AIDEF) was established to collect a total of US\$ 400 000 000 over a 10 year period from the year 2012 to 2022. My audit revealed that the fund had raised a total of US\$ 7 000 000 for the year ended December 31, 2013 against an annual target of US\$ 40 000 000. At this rate it will take 57 years to raise the required amount.

#### **Risk/Implication**

Projects may take more time than planned due to lack of funding.

Maintenance may be compromised thus adversely affecting service delivery.

### **Recommendation**

Management should take steps to ensure that revenue targets are met to address the abovementioned risk.

### **Management response**

**Management has submitted a request to Ministry to seek approval to increase the rate per passenger from the current US\$15 for International and US\$5 Domestic to US\$30**

**and US\$10 respectively. However, the total collected at the end of the ten year period will largely depend on the business performance which is driven by the passenger movement. The Authority is therefore doing its best to market its products to attract more airlines to come to Zimbabwe.**

## **2.2. Concessionaires' revenue**

### **Finding**

According to concessionaires' contracts, the Authority should receive monthly statements showing total revenue collected from concessionaires out of which the Authority shall be paid a percentage of the amount of revenue collected. In addition, the Authority is required to inspect their books of accounts including audited financial statements to ensure that the net income payable to the Authority by the concessionaire is received. However, the Authority was not independently verifying the payments from concessionaires therefore could not authenticate the gross revenue figures but only invoiced based on the statements submitted by the concessionaires.

Furthermore, there was no evidence of client account reconciliations done when the concessionaires had submitted their financial statements resulting in undercharging of concessionaires. Re-computation of the revenue from concessionaires revealed that there was variance amounting to US\$111 321.

### **Risk/Implication**

Revenue leakages through under-billing of the concessionaires.

### **Recommendation**

Management should ensure that client account reconciliations are carried out and gross revenue figures are independently verified.

### **Management response**

**Reconciliations are being done when the financial statements are sent by the customer and when the concessionaire gets audited as explained to the auditor during the audit. However challenges are being faced in enforcing audited financial statements as this requires Concessionaire's Board resolution. Management will include audited financial statements as a requirement on all new concession contracts.**

## **ENVIRONMENTAL MANAGEMENT AGENCY (2013)**

### **Background information**

The Environmental Management Agency was established in terms of the Environmental Management Act [Chapter 20:27]. Its core function is to manage and protect the environment.

I have audited the Financial Statements of Environmental Management Agency for the year ended December 31, 2013.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Environmental Management Agency as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

However, below are material issues noted during the audit.

#### **1. GOVERNANCE ISSUES**

##### **1.1. Board fees**

### **Finding**

The Agency's Board through its 41<sup>st</sup> Environmental Management's Board meeting dated October 10, 2013, passed a resolution to increase its own board fees without the Minister's approval. The board membership fee per month rose as follows:

<b>Position</b>	<b>Old rates per month US\$</b>	<b>New rates per month US\$</b>
Board chairperson	400	621
Vice board chairperson	380	522
Board member	335	439

### **Risk/Implication**

Non compliance with standing rules.

The fees paid were unauthorised.

### **Recommendation**

Board fees, sitting allowances and other board benefits should be approved by the Minister.

### **Management response**

**Observation is noted. However, Board Resolution CM34/1 of 14/12/11 to effect the new rates is in place.**

**It was approved by the Minister that Board fees will be pegged at the salary rate paid to the lowest paid worker in EMA as such salaries were adjusted to reflect this scale. In future, the Minister will be notified of the Board fee adjustments consistent with the principle of the lowest paid worker in the event of worker salary adjustment.**

## **1.2. Risk Management Policy**

### **Finding**

The Agency was operating with a draft Risk Management Policy since 2013. This was not in compliance with the requirements of the Corporate Governance framework for State Enterprises and Parastatals which requires all Parastatals to operate with approved policies. This policy will ensure that: appropriate control systems are in place, to identify the material risks facing the Agency, to ascertain potential financial impact and delegation of the responsibility to control the identified risks effectively.

### **Risk/Implication**

Financial losses in the event of a disaster as the draft policy may not be binding.

### **Recommendation**

The Agency should expedite the approval of the risk management policy.

### **Management response**

**The draft Risk Management Policy in place is pending approval by the Ministry and its synchronization with the Ministerial risk management policy which is being finalized.**

## **2. EMPLOYMENT ISSUES**

### **2.1. Vacant posts**

#### **Finding**

The position of the Finance Director remained vacant since inception of the Agency. The Agency was being served by two directors namely, the Environmental Protection Director and Environmental Management Services Director. These directors were also responsible for the role of the Financial Director.

#### **Risk/Implication**

EMA's financial decisions may be compromised as these were being made by non-financial managers.

#### **Recommendation**

The Agency should consider recruiting a Finance and Administration Director.

#### **Management response**

**The Board had made a deliberate decision to operate without Finance & Admin Director. A review to appoint is subject to the Agency's performance, and the review is made from time to time.**

### **2.2. Tax on incentives**

#### **Finding**

The Agency's management and three (3) other employees were paid their monthly allowances outside the payroll system. The monthly allowances comprised of retention allowances, clothing allowances and entertainment allowances. These payments were made on cash basis and were not subjected to tax.

The total payments made to management outside the payroll system for the year ended December 31, 2013 were \$78 770 and 12 144 litres of fuel per annum.

#### **Risk/Implication**

Non Compliance with the Income Tax Act [Chapter 23:06].



**Recommendation**

Management should ensure that all the payments are processed through pastel and the payroll systems and be subject to tax as provided for in the Income Tax Act [Chapter 23:06].

**Management response**

**Noted, the Agency has since started effecting all benefits through the payroll system for ease of administration and the benefits are subjected to tax.**

## **NATIONAL BIOTECHNOLOGY AUTHORITY 2010- 2012**

### **Background information**

The National Biotechnology Authority is a statutory body established under the National Biotechnology Authority Act [Chapter 14:31], (transformed from the Biosafety Board of Zimbabwe). Its mandate is to manage the import, export, production, research, development, use and release into the environment of Genetically Modified Organisms.

I have audited the financial statements for National Biotechnology Authority for the years ended December 31, 2010, December 31, 2011 and December 31, 2012.

### **Basis of qualified opinion**

#### **Information deleted from the Belina Payroll system.**

The Belina Payroll systems controls were weak to the extent that deletion and additions made to the standing data had no audit trail and not approved. During the year, employees were being created and subsequently deleted with no supporting documents authorising the creation and deletions. I could not therefore place reliance on the payroll systems.

#### **Qualified Opinion 2010**

In my opinion, except for the effect on the financial statements of the matter described in the Basis of Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of National Biotechnology Authority as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### **Qualified Opinion 2011**

In my opinion, except for the effect on the financial statements of the matter described in the Basis of Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of National Biotechnology Authority as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### **Qualified Opinion 2012**

In my opinion, except for the effect on the financial statements of the matter described in the Basis of Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of National Biotechnology Authority as at December 31, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

However, below are other material issues noted during the audit.

## **1. GOVERNANCE ISSUES**

### **1.1 Payroll system**

#### **Finding**

The Belina Payroll systems controls were weak to the extent that deletion and additions made to the standing data had no audit trail and not approved. During the year, employees were being created and subsequently deleted with no supporting documents authorising the creation and deletions. These irregularities that were noted in the Belina payroll system covered the financial years ended December 31, 2010 to December 31, 2012 and subsequent and these are some of the anomalies:

On 30 October 2012, an employee, code NBA030T was deleted from the Belina system. This was done by the finance manager. According to the Authority's records, this employee was never employed by the Authority.

I also noted that an employee that was already in system in 2009, code NBA011FA was added again but with a different code of NBA019FA and the old record was then deleted permanently on March 26, 2013.

On 28 August 2013, the same user "mmangami" deleted two employees with employee details of NBA027T and NBA082T from the system. The reasons for the deletion were not documented. On 23 October 2013, another employee, code NBA025T was also deleted and at the same time another employee was created with same name but with different banking details.

When an employee's name is deleted in the system, all the record of payments made to such an employee are lost. I was therefore unable to determine the total amount paid to the employees as salaries and benefits during the period under review due missing data of deleted employees.

#### **Risk/Implication**

Ghost workers may easily be processed through the payroll if employees can be easily added or deleted from payroll system.

#### **Recommendation**

Payroll controls should be put in place so that only bona fide employee records can be added to the payroll by an authorised official. Employee records should not be deleted even if they leave the organisation. The record should be frozen and its reactivation should only be made possible using a higher user profile.

## **Management response**

**Erroneous deletion of exiting employees is noted. It was due to handover takeovers of payroll function especially when the Finance Manager was away, usually attending lessons on Block release and the PA or A/CEO has to do the payroll and some clarifications used to be given over the phone. This again is due to personnel shortage which was supposed to provide enough cover whenever someone is away.**

**It should be noted that T. Mateka joined the organisation as a relief, left and then re-joined the NBA. It is noted that instead of resuscitating the closed account upon here re-joining a new file was created. This also applies to R. Dhlakama who joined the organisation as an intern before joining the organisation as a contract employee.**

**Mike Moyo was a dummy employee created by the Finance Manager with the auditors when they were testing and reviewing the NBA Payroll during the special audit in September/October 2012. A new dummy employee was input into the system with an Id of an existing employee (in different ID format) to see if the system was going to reject of which it accepted. Upon processing of the October pay sheet the Finance Manager had to remove this dummy record from the NBA payroll.**

## **1.2 Board meetings**

### **Finding**

Good corporate governance practice requires that the board of directors meet at least once per each quarter. I however, noted that the Authority's board did not meet frequently but met twice during the year ended December 31, 2011 and no board committee meetings were held during the same period.

### **Risk/Implication**

Effective oversight and direction to executive management may be lost, as the board was not regularly meeting.

### **Recommendation**

The board should meet regularly at least four times per year in compliance with good Corporate Governance practice.

## **Management response**

**The Board was appointed for a period of three years from June 2010. Long vacation leave for the former CEO from 2011 who eventually left at the beginning of 2012 negatively impacted on the coordination of the meetings of the NBA board.**

### **1.3 Financial statements**

#### **Finding**

The Authority failed to produce financial statements for audit on time for the 2010, 2011 and 2012 financial years. The financial statements were finalised in 2015. In addition the Authority was not keeping proper books of accounts.

#### **Risk/Implication**

Effective financial decision making may be compromised in the absence of current financial results.

#### **Recommendation**

Submission of accounts for audit is a statutory requirement that should be given priority and done within the stipulated time frames.

#### **Management response**

**Delays in production of accounts were caused by the delay to finalise the 2009 accounts and to changes that had taken place (CEO departure). The Interim A/CEO could not take conclusive position with regards finalization of 2009 accounts without the involvement of former A/CEO. In addition, delays in production of accounts was compounded by, as you rightly observed, critical shortage of staff in the Finance department where only one post was filled i.e. Finance Manager. Effort have been made but all in vain to have the critical posts unfrozen hence the NBA has, to date, been depending on non-finance personnel to do the critical functions in the department. This problem is still persisting as no favourable response has been received from Treasury on the issue.**

### **1.4 Inspections at border posts**

#### **Finding**

The Authority's mandate among others is to inspect and validate goods entering the borders to ensure that undesirable genetically modified goods do not enter the country. I however, noted that the Authority's officers were only at Beitbridge border post. All the other border posts were not manned by National Biotechnology officials.

#### **Risk/Implication**

Irregular food stuffs may enter the country's borders without being detected.

## **Recommendation**

The Authority should assign officers at all ports of entry into Zimbabwe.

## **Management response**

**This has been noted and efforts are being made to have presence at all the country's border posts. The slow rate of placing officers at border posts is a result of the recruitment freeze. Besides Beitbridge, the NBA now has officers at Forbes and Chirundu border posts and will soon have an officer at Plumtree Border post and other remaining ports of entry. All these posts are currently filled by contract workers as the freeze remains in force.**

### **1.5 Acquittal of foreign travel**

#### **Finding**

The foreign travels were not supported by acquittal forms and the copies of passports to evidence travel. The following is a sample of foreign trips undertaken but without evidence acquittal forms.

<b>Date</b>	<b>Reference</b>	<b>Amount (US\$)</b>
01/04/11	FC18	550
18/07/11	FC37	1380
12/08/11	FC41	420
12/10/11	FC52	690
04/01/12	12/3	550
18/10/12	12/440	1150
14/09/12	12/40	1371
1/11/12	12/47	985

#### **Risk/Implication**

In the absence of acquittal forms and relevant copies of passport pages it becomes impossible to verify whether the officer concerned travelled as per Cabinet Authority and whether the stay in the respective country was for the days stated therein.

## **Recommendation**

Acquittal forms and copies of the passports should be submitted upon return from foreign travel.

## **Management response**

**This has been noted. From 2013 all claims for foreign travel are now acquitted by copies of the passports showing the period T&S was claimed.**

## **1.6 Change from cash purchases**

### **Finding**

The Authority was not properly accounting for both cash purchases and change from its petty cash, for example a total of \$ 1 264 was requested in 2010 but no supporting documents were availed for expenditure to the tune of \$ 627.

### **Risk/Implication**

It was difficult to establish if all the cash requested was used for the approved purpose.

### **Recommendation**

All petty cash disbursements should be supported by the appropriate receipts and any cash refunds should be receipted and entered in the petty cash register.

### **Management response**

**This has been noted. The system has since been corrected to ensure that all change from petty cash or withdrawal is receipted and banked. There are no cash receipts that are used before banking. All unused change used to be accounted for to petty cash account.**

## **1.7 Segregation of duties**

### **Finding**

The Finance Manager was responsible for preparing the payroll and the authorisation was done by the Acting Chief Executive Officer. The same people were responsible for processing and authorising payments in the paynet system thus both parties were involved in initiating, authorising and processing the payments. As a result of this arrangement, loan repayments were being adjusted in the system by the Finance manager and no documentation to justify or approve the changes was availed to audit.

### **Risk/Implication**

Unauthorised changes or fraudulent alterations could be processed through the payroll in the absence of adequate supervisory controls.

### **Recommendation**

The payroll should be processed by a staff member who is not responsible for payments and segregation of duties should be adhered to.

### **Management response**

**Need for clear segregation of functions is appreciated. However during the period under review there was critical shortage of personnel to effect a fully functional system. The situation has since improved as the payroll is now being run by the HR department. Please note that the Finance Manager has never been a signatory to the NBA bank account. With additional staff the segregation of functions will be fully implemented to improve the internal control environment of the Authority.**



## **NATIONAL SOCIAL SECURITY AUTHORITY (NSSA)**

### **Background information**

The National Social Security Authority is a corporate body that was established in terms of the National Social Security Authority Act, [Chapter 17:04], to establish Social Security Schemes for the provision of benefits to contributors of the Schemes. It has the mandate to administer the National Pension and Other Benefits Scheme, the Workers Compensation Insurance Fund and every Scheme and Schemes to be established in terms of the Act. These financial statements are in respect of the Authority as a whole (consolidation of the two schemes and the subsidiaries) and separate financial statements have been prepared for the individual schemes.

I have audited the financial statements for the National Social Security Authority for the year ended December 31, 2014.

### **Opinion on the Group financial statements**

In my opinion, the Group financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2014 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

### **Opinion on the Authority's financial statements**

In my opinion, the Authority financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2014 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

### **Emphasis of matter**

Without qualifying my opinion, I draw your attention to Note 26 of the Group financial statements which indicate that Capital Bank results have not been included in the consolidated financial statements. The Bank's operating licence was withdrawn by the Reserve Bank of Zimbabwe after the major shareholder had opted for voluntary liquidation due to recurring and unsustainable losses. The liquidation process is yet to be initiated as the matter is before the courts following an objection by minority shareholders. No final determination has been given with regards the value of assets and liabilities held by the Bank as no financial information was available.

However, below are other material issues noted during the audit.

## **1. GOVERNANCE ISSUES**

### **1.1 Approval of investments budget**

#### **Finding**

Section 29 of the NSSA Act [Chapter 17:04] requires the Authority to submit to the Minister a budget with the yearly funds allocation for investment purposes. That approval shall form the basis for which the Authority should invest its funds. During the year under review, I however noted that the approval for the 2014 funds allocation was done in October 2014 two months before the year ended. As a result the investments made from January to October were done before the approval by the Minister.

#### **Risk/Implication**

Financial loss as a result of investments that may not achieve the desired returns.

Non-compliance with the NSSA Act [Chapter 17:04].

#### **Recommendation**

The Authority should review its budgetary process to ensure it gives room for the budget to be approved before the start of the year.

#### **Management response**

**Observation by the Auditor is noted. However, despite frequent follow ups to our Parent Ministry and also the Ministry of Finance, no approval was received until October 2014. Going into the future, efforts are being made to put in place an arrangement which will ensure that the budget gets approved before the start of the financial year. The Asset allocation proposed in the budget set for approval is always linked to actuarial advice. The Investment team tries by all means to adhere to the proposed allocations but the availability of some types of assets remains a challenge.**

### **1.2 Property management contract**

#### **Finding**

The Authority engaged Dawn Properties with instructions to manage fourteen (14) additional properties effective 1 July 2014 without signing any contract. As at December 31, 2014 there was an unsigned contract and subsequent to year end the contract was still unsigned.

In addition, I also noted that this arrangement was entered into without going to tender as required by the State Procurement Board Regulations. Management came up with this arrangement as an interim measure after the cancellation of the Midstar Managing Agent

contract. The Authority did not seek a waiver from the State Procumbent Board (SPB) in the appointment made to replace Midstar Managing Agent.

### **Risk/Implication**

In the event of a dispute, the Authority has no recourse in the absence of a formal contract.

Financial loss due to unnecessary fines for non-compliance.

### **Recommendation**

The Authority should ensure contracts are put in place for any contractual arrangements.

The Authority should also seek condonation from the State Procurement Board.

### **Management response**

**Observation noted. It was seen prudent that the properties are distributed to those companies which were chosen and approved by the SPB considering that they also had capacity. The properties were allocated on the same terms and conditions of the original managing agent agreement. The addendum to the managing agent agreement took some time to conclude as it had to be subjected through legal checks by both parties and concluded on.**

## **1.3 Property lease records**

### **Finding**

There was no evidence to show that the Authority was adequately monitoring the performance of the property manager (Dawn Properties). The Property Manager was expected to keep updated rent rolls and lease agreements. I noted that differences existed between details contained in the rent roll and those enshrined in the lease agreements of various sitting tenants. The files of some sitting tenants contained expired lease agreements dating as far back as 2010, while other tenants had up to date lease agreements which were not captured on the rent roll. Out of fifty (50) files of sitting tenants inspected, thirty two (32) had various anomalies as at December 31, 2014 as indicated in the table below;

<b>Lessee</b>	<b>Lease expiry date on the rent roll</b>	<b>Expiry date on the lease Agreement</b>
<b>Compensation House –Harare</b>		
Lands Inspectorate	31.12.15	31.12.11
Ministry of Justice Legal and Parliamentary Affairs	31.12.15	No lease agreement on file
<b>Sakubva Shopping Mall</b>		

<b>Lessee</b>	<b>Lease expiry date on the rent roll</b>	<b>Expiry date on the lease Agreement</b>
TM supermarkets	31.1.16	No lease agreement on file
Number 1 Stores	31.5.17	31.5.14
Cling On Investments	16.8.17	31.8.14
Bata Shoe Company	31.8.14	31.8.14
Mutare Cools	31.3.16	30.4.10
<b>Bindura Commercial</b>		
Bright Pharmacies	31.12.13	31.12.12
PSMI	Blank	29.2.16
PSMAS	31.5.15	31.10.12
The Capernaum Trust	30.9.14	30.9.15
NIEEB	31.12.14	31.12.15
Cell Services	31.12.15	31.12.11
POSB	30.4.15	No lease in file
Yambukai Finance	31.7.15	No lease in file
Lancet Laboratories	31.10.15	No lease in file
Kreamorn Investments	30.6.17	No lease in file
Coloursell Distributors	31.3.15	No lease in file
<b>Hwange Compensation House</b>		
Ministry of Primary and Secondary Education	31.1.15	31.8.11
Trails communication	31.1.11	31.8.11
Parks and Wildlife	31.1.15	31.8.11
Department of Social Welfare	31.1.11	31.1.11
Ministry of Labour and Social Welfare	31.8.15	31.8.11
<b>Chesterton House</b>		
Crown Catering	30.9.14	30.4.14
Lenview Trading	31.5.14	31.5.14
Powercraft Designs	31.12.11	31.3.15
Etmuel Electronics	31.5.15	31.5.14
Chamaz Enterprises	Nothing written	28.2.15
Farscape Investments	Nothing written	30.6.15

### **Risk/Implication**

Legal disputes emanating from expired lease agreements may be difficult to solve, resulting in a financial loss.

### **Recommendation**

Management should ensure that the managing agent updates the records on time.

## Management response

**Observation noted. Lease master files are kept by the Managing agent, however, we will ensure that all leases missing on NSSA files are replaced by 15 May 2015.**

### 1.4 Payment of long term benefits

#### Finding

According to Statutory Instrument 393 of 1993 section 44 (1) (b), long term benefits should be processed and paid within six (6) weeks. However, I noted that the Authority was not processing and paying long term benefits within the stipulated time. On average payments were being made between eleven (11) to seventeen (17) weeks as detailed below;

SSN	Benefit /Rate\$	Date Applied	Date Paid	Time Gap
1015047S	RP/ 60.00	17/12/2013	14/03/2014	11 weeks
1015325S	RP/60.00	16/12/2013	10/03/2014	11 weeks
1034067X	RP/60.00	29/11/2013	11/03/2014	13 weeks
1051333A	RP/60.00	28/11/2013	11/03/2014	13 weeks
1065050Y	SP/30.00	08/10/2013	11/03/2014	17 weeks
2666651D	SP/30.00	28/11/2013	06/03/2014	17 weeks

#### Risk/Implication

The delays may cause financial burden on pensioners.

Negative perception on the Authority.

#### Recommendation

The Authority should ensure that long term benefits are paid on time as specified in the Statutory Instrument.

## Management response

**Increase in claims is no longer proportional to manning levels.**

**The computer system in place is now old and this has resulted in slow processing of benefits. The Authority is in the process of implementing a new computer system. It is hoped this will facilitate quick processing of claims and improve the situation. Manning levels will be reviewed after implementation of the computer system.**

**The Authority came up with the following interim measures to manage the workload: Recruitment of students on attachment. Undertaking overtime as and when necessary. The claims shown have all been processed. Long term claims are in payment.**

## 1.5 Expired lease agreements

### Finding

Some of the tenants occupying the ZIMNAT House in Bulawayo had expired lease agreements as at December 31, 2014 and subsequent to the year end as shown below:

<b>Tenant</b>	<b>Lease expiry date</b>
Grass Roots	December 31, 2011
Portfy	February 28, 2014
Tile and Carpet	December 31, 2014
Morgan Moyo Mines	August 31, 2014

### Risk/Implication

The Authority may have no recourse in the absence of contracts in the event that disputes arise.

### Recommendation

All sitting tenants should have valid lease agreements.

### Management response

**Observation noted. Some leases were not reviewed as the tenants are in arrears and the matters have been handed over to lawyers for eviction and recovery of outstanding rentals. Once cases have been handed over to lawyers leases cannot be reviewed until the matter has been resolved by the courts.**

## 1.6 Maintenance of Masvingo Compensation House

### Finding

The Authority appointed Bard Real Estate to manage Masvingo Compensation House. According to Managing Agent Agreement dated November 7, 2012 which provides that “the Property Manager (Bard Real Estate) shall inspect the property, prepare a schedule of dilapidation or condition and present a report to NSSA”. In addition the agreement further states that, the Property Manager shall bring to the notice of Authority any major defects which may become apparent whether of a structural nature or otherwise.

However, I noted that the Masvingo Compensation House’s walls were peeling off on the lintels. Upon inquiry, I was advised that Bard Real Estate last visited the properties in February 2014 and there was no evidence to support that a report on the state of the building was subsequently submitted to NSSA.

### **Risk/Implication**

The Property Manager may be paid commission for services not rendered.

Financial loss in the event of major defects that may not be timeously detected and cause harm at the work place.

### **Recommendation**

The Authority should monitor the performance of the Property Manager and ensure that there is constant check on the property.

### **Management response**

**The above observation refers. Compensation House Masvingo has indeed been put under Agent management. However for some unknown reasons, they have not been able to visit the Office for inspection as noted by Audit. The office had however reported through the Administration Officer any defects noted on the building, with the defect noted by Audit having been in a memo to the Director Investments dated March 17, 2015.**

## **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1 Rental income and receivables**

#### **Finding**

NSSA was owed US\$5, 5 million as at December 31, 2014. Among these receivables was South Medical Hospital that has not been paying rentals, according to the lease agreement, the hospital is supposed to be paying monthly rentals of US\$21 600 and currently it has an outstanding amount of US\$142 164 which is about six (6) months of non-payment of rentals.

#### **Risk/ Implication**

Loss of revenue as a result of default by the tenant

#### **Recommendation**

Follow ups should be done on the outstanding rentals and a payment plan must be put in place for the outstanding amount.

#### **Management response**

**Observation noted. Please note that the Hospital is co-owned and NSSA owns 49.5% shareholding. NSSA is entitled to 49.5% of the monthly rent. The Operator/Tenant is**

**facing serious challenges due to PSMAS failing to remit medical fees due to government failure to remit contributions for government employees.**

### **3 INVESTMENTS**

#### **3.1 Rainbow Tourism Group (RTG)**

##### **Finding**

As previously reported, RTG was advanced a loan of US\$10 million in November 2012 for it to recapitalise its operations. The principal amount was to be repaid within one year whilst the interest component would be calculated at 10% of the principal amount and payable on a monthly basis. As at December 31, 2014, RTG had outstanding interest amounting to US\$1 300 000. From the records availed for my inspection, I noted that the company last paid interest in August 2014. The provision of the contract clearly stipulates that in cases of default, the disbursed amounts plus interest and any charges shall become immediately due and payable by RTG.

On enquiry, I was advised that RTG had made a new commitment to clear the outstanding interest obligations by June 30, 2015. However, at the time of my audit in April 2015, RTG had not paid anything towards settling this debt.

This loan was secured by Bulawayo Rainbow Hotel (through title deeds). This was however rescheduled to be repaid in three years when the Authority realised that RTG was facing difficulties in servicing the debt and would not be able to repay within the stipulated timeframe.

During 2013 a further \$4 400 000 was advanced to RTG for capitalisation of Beitbridge Hotel. This \$4 400 000 was not secured despite indications that RTG was experiencing difficulties in servicing an earlier loan that was rescheduled.

##### **Risk/Implication**

Financial losses in the event that RTG fails to repay the loan.

Depletion of capital resources as a result of a non performing loan book.

Loss of potential income from investments.

##### **Recommendation**

The Authority should make decisions that minimize financial losses and also preserve pensioners' funds.

The Authority should further pursue the matter of pledged security on the additional loan of \$4 400 00 to ensure it has a fall back option.



## **Management response**

**Observation noted. However, please note the following;**

**RTG had advised that they were facing some liquidity challenges to meet their monthly interest payment due to low seasonal business and would prefer paying the arrears by end of June 2015 when the business has picked up. They have written to us giving a payment plan to clear the arrears by June 2015 and we still hope that this commitment will be honored by this date.**

**Please note that the board had given management the node to advance \$4.4 million to RTG before the release of the security i.e. A 'Zambezi Hotel due to some challenges which were associated with the release of the security. This security was already attached to another DFI as First Mortgage Bond therefore it was a process to rewind the deal. However, the Board authorised management to proceed to release the loan on condition that a follow up to regularise the situation will be done. There were two options which were suggested:**

- 1. RTG to release A 'Zambezi to NSSA**
  - 2. RTG to borrow cheap and long term money from PTA and pay back to NSSA.**
- These were the two processes which RTG was pursuing and it took long to settle. However, we are happy to advise that PTA has now agreed that RTG can proceed to register a Mortgage Bond in favour of NSSA on A' Zambezi Hotel to securitise the loan. The process of unlocking the security was delayed due to controls beyond RTG and NSSA. However, we kept pushing to regularise this position until recently when PTA accepted to allow RTG register a Second Mortgage Bond.**

**Please also consider the main reason and objective of the loan to RTG. NSSA was in partnership with RTG to construct Beitbridge Hotel. This project took very long to complete and by the time we completed the construction RTG was faced with liquidity challenges to furnish the Hotel. The Board found it prudent to support RTG as the majority shareholder and also to make sure that we did not lose revenue in our asset in terms of rental income. Without this loan, this Hotel was going to be a white elephant.**

### **3.2 Metbank loan repayments**

#### **Finding**

**In December 2013, the Authority decided to execute the security pledged by Metbank for an outstanding amount of \$25 336 160. The Bank had pledged properties worth \$27 852 000. NSSA went on to pay the residual amount of \$662 272 to Metbank before finalisation of the transfer of title to them. Metbank failed to raise and pay the required Capital Gains Tax (CGT) amounting to \$1 700 000. The Bank then approached NSSA for a loan and an agreement was signed where the latter would pay the amount directly to ZIMRA. Subsequently, Metbank failed to service this debt and the Authority again had no option**

but to execute other properties it held that had been pledged by the Bank. It is my view that these transactions may turn into a cycle of pledge executions without payments for CGT by the Bank.

### **Risk/Implication**

Loss of resources from protracted pledge execution transactions.

Lack of proper due diligence on the execution of securities.

### **Recommendation**

Management should exercise due care when executing pledged security. The Authority should pay off any residual amounts after all aspects of the execution including payment of CGT, have been concluded.

### **Management response**

**Observation noted however, please note the following;**

**Legally when a Power of Attorney has been signed this means the deal is not reversible. Power of Attorney's for Metbank were signed way back before the residual value was released so this means NSSA was 100% covered with the power of attorneys. Once power of attorney was signed this meant that legally the assets were now in possession of NSSA and if it was cash it would have started accumulating interest. Residual balance of \$662 272 was released on the 2/10 2014 after the power of attorney's had already been signed. Please note that proper due diligence is carried out before any security or funds are released. Our legal department will always be in front to advise when it is ready to do so.**

**Observation noted.**

**The external audit recommendation is also noted but however it must be clearly understood that the obligation to pay CGT rests with the seller, in this case Metbank. Here is an outline of what transpired on the transaction;**

**The NSSA board resolved to take over Metbank properties whose values were equivalent to the outstanding investment deposits held at the bank in December 2013. The Authority appointed Chihambakwe legal practitioners to handle the conveyancing process in liaison with the Metbank lawyers.**

**During the above process, the bank was required to remit to ZIMRA a total of \$1.7 million in terms of taxation law being Capital gains.**

**This was preceded by a ZIMRA assessment of the property values which the Authority was acquiring. However, Metbank could not settle the CGT bill and could therefore not be issued with a Capital Gains Tax Certificate.**

**The implication of the above was that the lodgement of conveyancing documents without a Capital Gains Tax certificate would have been unstructured without the CGT Certificate and consequently the properties would not be transferred into NSSA's name.**

**The Authority came to learn about the above upon giving pressure to the bank to deliver the deeds in order to put the matter to rest and consummate the property acquisition. The Authority had to be again compelled to sit down with the bank on how to resolve the above problem. This is when it was then agreed to avail the bank with a loan (CGT LOAN) intended solely to assist the bank to settle its ZIMRA obligations.**

**A ring fenced loan contract was signed by NSSA and the bank. It clearly identified two properties as collateral for the loan to be sold by NSSA in the event of default. The properties are still in the Authority's custody pending the foreclosure which has already been initiated by NSSA through Chihambakwe.**

### **3.3 Investment property**

#### **Finding**

On my visit to South Medical Chitungwiza Hospital, I noted that there were falling trusses in ward C and the theatre room. In ward C, I was advised that trusses once fell on patients resulting in the closure of the ward and the same for the paediatric ward where the ceiling board also fell on patients being treated resulting in the closure of ward. In ward B, there were ceiling leakages in most of the offices especially the manager's office. The hospital kitchen was leaking and had a fallen roof tiles and observable cracks on the walls.

This investment property had no major renovations since its construction in 1999.

#### **Risk /implication**

Service delivery is compromised and patients are endangered by falling objects.

Prevailing conditions might result in impaired reputation of the hospital.

#### **Recommendation**

A major inspection should be done on the property to assess critical areas that need urgent attention and to enable the hospital to operate at full capacity as they make use of all the available wards.

### **Management response**

**Observation noted. It has to be noted that the property is co-owned by ZB LIFE, Original Investments and NSSA. Any proposed renovations have to be agreed by the Co-owners first before implementation. However phase one has been completed and next is phase two with design completed and tender documents being prepared.**

## **RADIATION PROTECTION AUTHORITY OF ZIMBABWE**

### **Background information**

The Authority was established in 2008. The Authority's mandate is to ensure the protection of people and the environment against radiation effects through effective regulatory processes. The Authority also offers registration licenses, import licenses to individuals and corporations importing equipment and medicinal machines or even drugs. The Authority also carries on inspections to all the registered entities at a fee. Trainings and awareness campaigns are also offered to hospitals at a fee. The regulatory authority has been formed as a result of an Act of Parliament. As such all its operations are guided by the provisions of the Radiation Protection Act [Chapter 15:15].

I have audited the financial statements of the Radiation Protection Authority of Zimbabwe for the years ended December 31, 2014.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Radiation Protection Authority as at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

However, below are the material issues noted during the audit.

#### **1. GOVERNANCE ISSUES**

##### **1.1. Going concern**

### **Finding**

The Authority made a loss of \$395,196 during the year under review and had not received government grants at sustainable levels. Its cumulative loss as at 31 December 2014 was US\$ 437,955. The Authority's current liabilities exceed current assets by US\$ 615,831.

### **Risk/Implication**

The Authority may fail to achieve its mandate due to liquidity challenges.

### **Recommendation**

Management should continuously review the Authority's going concern and measures should be put in place to ensure the costs of the Authority are adequately covered by sustainable inflows.

## **Management response**

**Noted.** Management is very concerned with this development. Government plays a very critical role (funding) in the operations of the organisation. However, due to other competing priorities Treasury have not been availing operational and capitalisation support to the Authority. The Authority clients whose concentration is high in government and government related institutions have not been owning up to their obligations exposing the organisation to high and negative mismatches between assets and liabilities. The Audit observation is very valid was arrived at after a further provision of bad debts of \$472 685 reducing the debtors by the equivalent amount. (i.e. our debtors by \$472 685 to \$17 340 (Current Assets \$113 329 : Current Liabilities \$729 160). Management is pursuing all avenues at law including enforcements, involvement of the shareholder to ensure all outstanding debt obligations are collected. Through these processes, management is very optimistic that part of the debt written off in the 2014 financials will be collected; a significant portion of the provisions for bad debt will be recovered thereby offsetting the going concern worries. Management continues to lobby the shareholder to resume capitalisation and financial support.

**Board and management to continue shareholder engagement; debt recovery strategies; and to explore alternative means to widen and deepen the Authority revenue base.**

### **1.2. Insurance of assets**

#### **Finding**

The first schedule of the Radiation Protection Act [Chapter 15:15] require that assets should be insured against losses, damages and other risks. I noted that all fixed assets, except for motor vehicles, were not insured.

#### **Risk/Implication**

Non-compliance with Radiation Protection Act.

Losses in the event of theft or damage of the asset without cover.

#### **Recommendation**

Management consider insurance of fixed assets and all the other insurable risks with the guidance of a reliable insurance broker.

### **Management response**

**Noted. Cash flow challenges have been a major constraint. However, management have adopted a graded approach on risk management to insure high risk assets i.e. movable assets for now.**

**Management to prioritise assets insurance as the cash flow improves.**

## **2. PROGRESS IN IMPLEMENTATION OF PRIOR YEAR RECOMMENDATIONS**

I reviewed the progress made towards the implementation of prior year recommendations and found that the Authority made some progress and there was some room for improvement in respect of the following recommendation:

### **2.1. Statutory remittances**

#### **Recommendation**

Management should ensure that statutory remittances and the respective payments are done timeously to the relevant authorities.

#### **Progress made**

**NSSA deductions for the months ranging from July 2014 to December 2014 were remitted after their respective due dates.**

## **ZIMBABWE NATIONAL ROAD ADMINISTRATION (ZINARA) 2012 & 2013**

### **Background information**

The Zimbabwe National Road Administration was established in 2001 by the Roads Act [Chapter 13:18] to administer the fixing, collection, management and disbursement of road funds. The Fund consists of road user charges collected. The funds are disbursed to Local Authorities, Department of Roads and District Development Fund for the purpose of road maintenance, rehabilitation and construction.

I have audited the financial statements for The Zimbabwe National Road Administration for the year ended December 31, 2012 and 2013.

### **Basis of the Qualified Opinion on the separate and Consolidated Financial Statements 2012**

#### **i. Licensing receivables**

The Administration did not recognise motor vehicle licencing receivables in the year 2012. This was due to the Motor Vehicle Licensing system failing to calculate the outstanding receivables at a particular period and the system does not show cut off dates for the receivables. Failure to recognise the receivables in the statement of financial position have resulted in receivables balances being materially misstated.

#### **ii. Tolling assets**

ZINARA had toll gate assets that were not allocated values and are not recognised in the financial statements. Failure to recognise the Tolling assets in the statement of financial position have resulted in asset balances being materially misstated.

### **Qualified Opinion on the Consolidated Financial Statements**

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Zimbabwe National Road Administration and its subsidiary Infralink (Private) Limited as at December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Qualified Opinion on the Zimbabwe National Roads Administration's Financial Statements**

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Zimbabwe National Road Administration as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



## **Report on Other Legal and Regulatory Requirements**

In my opinion, the consolidated financial statements of the Zimbabwe National Road Administration and its subsidiary have, in all material respects, been properly prepared in compliance with the disclosure requirements of the Roads Act [Chapter 13:18], the Companies` Act [Chapter 24:03] and other relevant Statutory Instruments except for Section 15(d) of the Roads Act which states that the Administration shall use the Road Fund in meeting any salaries, allowances and other expenses of the Road Administration provided that expenditure of this purpose shall not exceed 2.5% per centum of the revenue of the Road Fund in any financial year. ZINARA incurred 6% which is 4.5% above the 2.5% specified in the Roads Act.

## **Basis of the Qualified Opinion on the Consolidated Financial Statements 2013**

### **i. Licensing receivables**

The Administration did not recognised motor vehicle licencing receivables in the year 2013. This was due to the Motor Vehicle Licensing system failing to calculate the outstanding receivables at a particular period and the system does not show cut off dates for the receivables. Failure to recognise the receivables in the statement of financial position have resulted in receivables balances being materially misstated.

### **iii. Tolling assets**

ZINARA had toll gate assets that were not allocated values and are not recognised in the financial statements. Failure to recognise the Tolling assets in the statement of financial position have resulted in asset balances being materially misstated.

### **ii. Super user profile**

The Vehicle Licensing system allowed Collection agencies supervisors the rights to create and delete users in the system without a verification mechanism for their business need. The Licensing and Transport Controller had a super user profile which enabled him create users, update vehicle particulars, license fee correction, manage exemption and generate the audit trail among other functions. Licensing error corrections were effected without any source documents and approval by the Administration Manager. The possible effects of misstatements that may arise from such unsupported adjustments may be material to the financial statements couldn't be established.

## **Qualified Opinion the Consolidated Financial Statements**

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Zimbabwe National Road Administration and its subsidiary Infralink (Private) Limited as at December 31, 2013, and its consolidated

financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Qualified Opinion on the Zimbabwe National Roads Administration's Financial Statements**

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Zimbabwe National Road Administration as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Report on Other Legal and Regulatory Requirements**

In my opinion, the consolidated financial statements of the Zimbabwe National Road Administration and its subsidiary have, in all material respects, been properly prepared in compliance with the disclosure requirements of the Roads Act [Chapter 13:18] and other relevant Statutory Instruments except for Section 15(d) of the Roads Act which states that the Administration shall use the Road Fund in meeting any salaries, allowances and other expenses of the Road Administration provided that expenditure of this purpose shall not exceed two point five per centum of the revenue of the Road Fund in any financial year. ZINARA incurred 9% which is 6.5% above the two point five per centum (2.5%) specified in the Roads Act.

However, below are other material issues noted during the audit.

#### **1. GOVERNANCE ISSUES**

##### **1.1. Super user profile**

###### **Finding**

A Super user status is a powerful profile which grants unlimited access to the system, including all functional areas and Security Administration. ZINARA allowed the Licencing Agency's supervisors the rights to create and delete users in the vehicle licensing system without a verification mechanism for their business needs.

Furthermore, the ZINARA Licensing and Transport Controller had a super user profile which enabled him to create users, update vehicle particulars, license fee corrections, manage exemption and generate the audit trail among other functions. My audit revealed that licensing error corrections were effected without any source documents and approval by the Administration Manager. The following discrepancies were observed on the Vehicle Licensing system;

Vehicle Registration Number	Date last paid	Current date paid	Exemption Applied	Balance Paid- (US\$)	Actual to be paid- (US\$)	Difference (arrears +penalty) (US\$)
ACM7414	6 Nov 2012	16 Dec 2014	None	81	260	179
ACR0013	24 Jan 2014	16 Dec 2014	None	310	475	165
ABY9983	6 June 2012	16 Dec 2014	19 Nov 2014	310	1 120	810
ABO3575	8 June 2013	16 Dec 2014	None	115	165	50
ACO3912	2 April 2013	16 Dec 2014	None	68	230	162
<b>TOTAL</b>				<b>884</b>	<b>2 250</b>	<b>1 366</b>

### **Risk/Implication**

Unauthorised changes may be effected in the system if super users' activities are not monitored.

### **Recommendation**

Audit trails of super users should be reviewed periodically to ensure that authorised transactions are processed in the system.

### **Management response**

**Noted.** The user profiles are still being reviewed in line with systems changes and modifications since the system rights will be adjusted to suit new requirements. The Super user profile is also affected by such changes. Adjustments to the system will be made such that additional supervisory access rights will be given to the Administration Manager for checks and balances on the Vehicle Licencing Supervisors. Additional high level training will be proffered to the Administration Manager immediately.

Moreover, the agencies supervisors can only add users in the system but cannot delete users. No profile in the system can delete users as some records created by such users are linked to them and will remain in the system database for auditability purposes.

It is ideal that we also have an IT Auditor with the relevant and appropriate qualification for ICT Audit within the organization to assist with compliance in ICT Governance requirements.

## **1.2. Toll gate assets**

### **Finding**

ZINARA had toll gate assets which included, computers, the toll shelters and boom gates which were not allocated values and were not recognised in the financial statements.

Failure to recognise the tolling assets in the statement of financial position have resulted in asset balances being materially misstated.

The exercise to allocate values was not timeously carried out and was in progress as at May 2015 because key management personnel were on suspension.

**Risk/Implication**

The financial statements may not show a true and fair view due to potential material misstatements.

**Recommendation**

It is recommended that the value of the assets be recognised in the financial statements.

**Management response**

**The assets at tollgates have been listed and the valuation is in progress.**

**1.3. Compliance with the Roads Act [Chapter 13: 18]**

**Finding**

The expenditure incurred by the Administration for salaries, allowances and other expenses amounted to 9% and 6% of revenue for the years ended December 31, 2012 and 2013 respectively. This expenditure exceeded the 2.5% of revenue by 6.5 % in 2013 and 4% in 2012 contrary to the requirement of Section 15(d) of the Roads Act [Chapter 13:18] which states that the Administration shall use the Road Fund in meeting any salaries, allowances and other expenses of the Road Administration provided that expenditure of this purpose shall not exceed two point five per centum (2.5%) of the revenue of the Road Fund in any financial year.

**Risk/Implication**

Non-compliance with statutory regulations.  
Service delivery activities of the Road Fund may be compromised.

**Recommendation**

The Administration should comply with the requirements of the Roads Act [Chapter 13:18].

### **Management response**

**Noted.** The 2.5% of administration cost here referred to was agreed upon at the formation of the ROAD fund. A lot of changes in the operations, administration and staff compliment have occurred and the percentage is no longer sufficient. Management have since applied for an increase in the percentage from the parent Ministry.

## **1.4. Approved structure**

### **Finding**

The Administration had no approved organisational structure during the period under review. An organisational structure defines how activities such as task allocation, coordination and supervision are directed towards achievement of organisational goals.

### **Risk/ Implication**

It may be difficult to allocate tasks, coordinate and supervise organisational activities in an efficient and effective manner.

### **Recommendation**

The Administration should have an organisational structure approved by the Board.

### **Management response**

**Observation noted.** The new organisation structure has been recommended by the board and awaiting Ministry approval.

## **1.5. Board fees and allowances**

### **Finding**

According to the Income Tax Act [Chapter 23:06], board fees earned by board members should be subject to 20% withholding tax which should be paid by the 10<sup>th</sup> day of the month following the month of payment. I noted that withholding tax on director's fees was not levied in terms of the Income Tax Act.

### **Risk/Implication**

Financial loss through penalties and interest.

## **Recommendation**

Management should ensure that withholding tax is deducted and remitted according to the Income Tax Act [Chapter 23:06].

## **Management response**

**Measures are now in place to reduce exposure in this respect with effect from January 2015.**

### **1.6. Executives contracts**

#### **Finding**

There was no evidence of approval for the increase in the Chief Executive Officer's salary on his contract of employment paid from the period July 1, 2013 to December 31, 2013. In addition, the Chief Executive Officer was also getting a representation allowance per month which was not on his contract of employment. No deemed vehicle benefit was included on the payroll from July 2013 to February 2014. The Chief Executive Officer also received unlimited fuel contrary to the 300litres authorized on the contract of employment.

I also noted that the Director Finance, Director Administration and Director Technical were getting a monthly representation allowances which were not on their contracts of employment. No deemed vehicle benefit was included on the payroll from July 2013 to February 2014. A total of 300 litres of unauthorised fuel had been drawn from March 2013 when they were appointed up to December 2013.

In addition, the Corporate Secretary was getting a representation allowance per month which was not on the contract of employment. No deemed vehicle benefit was included on the payroll from July 2013 to February 2014.

Vehicle loans amounting to US\$140 000 availed to each of the directors were above the authorised US\$100 000 in the contracts of employment. The vehicle loan of US\$74 000 availed to the Corporate Secretary was above the authorised amount in the contract of employment of US\$60 000.

The following allowances for senior management were not processed through the payroll and hence were not taxed.

<b>Nature</b>	<b>Allowances</b>
Home telephone	US\$225 per month
Entertainment Allowance	US\$750 per month
Home security	24 hours
Private fuel	750 litres
Holiday Allowance	\$9000

**Risk/ Implication**

Financial loss due to unauthorised payments.

Financial loss for non-compliance with the Income Tax Act.

**Recommendation**

The Administration should ensure that contracts of employment are adhered to and also that all benefits are taxed as per the Income Tax Act.

**Management response**

**All related benefits are now going through the payroll, recommendations have been taken up. This was effected from January 2015 except for Private Fuel. We have since engaged tax consultancy to guide us in all tax issues and tax health checks.**

**1.7. Project expenditure****Finding**

An Initial Payment Certificate (IPC) is a document originated by the contractor and the responsible road authority detailing work done and an amount due for payment. ZINARA made payments to Haingate Investments without certified Initial Payment Certificates (IPCs) which then resulted in an overpayment of US\$ 661 175. This was in violation of the Administration standing instructions which requires that when a payment is being made to a contractor for a special project (initiated by a road authority without prior budget) it should be accompanied by an Initial Payment Certificate (IPC) certified by the ZINARA project coordinator.

In addition ZINARA paid Badon Enterprises Civil Projects (Pvt) Ltd US\$1 238 000 and Bitumen Construction US\$133 979 without valid contracts and proof of tendering for the work carried out at VID depots countrywide.

**Risk/ Implication**

Financial loss due to irregular payments.

**Recommendation**

ZINARA should follow proper procurement processes.

Management should ensure that all payments made have relevant supporting documents.

The Administration should take measures to review and recover all payments that may have been irregularly made.

### **Management response**

**Observations noted.** The reconciliation is in progress to find if there is an overpayment. Furthermore, all payments to contractors will be processed after authorization of IPC.

## **1.8. Acquittal of disbursed funds**

### **Finding**

According to sections 16 and 26 of the Road Act [Chapter 13:18], the Administration is required to disburse funds to Road authorities for routine and periodic maintenance of roads. The disbursements are made on a quarterly basis. The road authorities then submit quarterly acquittals of how they would have used the funds before the next batch of funds could be released. However, the Administration received acquittals from Harare City Council for the first quarter of 2012 which had expenditure amounting to US\$1 250 000 made in 2011 instead of the relevant first quarter.

### **Risk/Implication**

Funds may not be used in the best interest of maintaining efficient road network.

### **Recommendation**

Management should request for timeous acquittal for effective accountability.

### **Management response**

**Observation noted.** The issues will be regularised going forward. The Road Fund (ZINARA) have internal audit and technical teams which are responsible with the review and monitoring of disbursed funds.

## **1.9. Disbursement of funds**

### **Finding**

The Administration disbursed funds to Urban Council and Rural District Councils without regard to predetermined/budgeted allocations. This resulted in some road Authorities receiving amounts 1503% over and above their allocation while others received nothing. The predetermined allocations were based on the status or condition of existing road networks in the Councils. The table below shows some of the significant variances:

<b>Recipient</b>	<b>Amount Allocated US\$</b>	<b>Amount Disbursed US\$</b>	<b>Percentage variation %</b>
Department of Roads 2012	3,309,234	14,389,365	335



<b>Recipient</b>	<b>Amount Allocated US\$</b>	<b>Amount Disbursed US\$</b>	<b>Percentage variation %</b>
Department of Roads 2013	985,163	15,789,782	1503
Kariba Urban Council 2012	149,786	0	-100
Kariba Urban Council 2013	93,616	0	-100
Rusape Town Council 2012	123,746	891,810	621
Rusape Town Council 2013	93,012	668,343	619

### **Risk/Implication**

Objectives of the Road Fund may not be met in the absence of a clear basis for disbursing the funds.

### **Recommendation**

The Administration should consider disbursing funds according to the system allocations so that roads across the country may be fairly maintained.

### **Management response**

**The periods in question refer to a period when allocations to the Road Authorities mainly rural district councils were withheld to adopt the mechanization program after realizing that most of the funds disbursed were not contributing much on the ground since the hiring of equipment was gobbling a huge chunk of the FUND.**

## **1.10. Road maintenance payments**

### **Finding**

I noted that the Administration purchased a Jeep Grand Cherokee and office furniture for an official in the parent Ministry worth US\$83,042 and US\$10 230 respectively. The payment was recorded under disbursements to Head Office –Provincial Road Engineers for routine and periodic road maintenance. I also noted that on December 28, 2012 the Administration paid for Christmas hampers worth \$173,070 to the Department of Roads staff members serving under the Ministry of Transport. This was in violation of Section 16 and 26 of the Roads Act [Chapter 13:18].

### **Risk/Implication**

Funds may not have been used in the best interest of maintaining efficient road network.

### **Recommendation**

Management should ensure that funds are disbursed for the purpose outlined in the Roads Act [Chapter 13:18] Section 16 and 26.

## Management response

**Observation noted. An effort to stop such transactions is being instituted by disbursing the funds to the relevant authority so that they are responsible for their expenditure.**

### 1.11. Payment authorisation

#### Finding

According to ZINARA standing instructions for payments to be made, the payment voucher and the bank transfer request should be authorised by the relevant signatories. I observed that payments amounting to \$4 157 937 were made without authorization since the payment vouchers were not signed by the relevant signatories. Below is a table with a sample of unauthorised expenditures.

DATE	DOCUMENT NUMBER	AMOUNT (US\$)
17/04/13	D 638	100 000
17/01/13	A 2283	200 000
18/01/13	A 2282	49 031
29/04/13	D 661	47 064
30/01/13	A 2424	500 000
30/01/13	A 2425	122 393
05/04/13	D 606	58 089
23/04/13	D 658	100 000
19/10/13	D313	243 463
01/08/12	D 169	638 971
17/17/12	D 143	139 000
17/07/12	D 144	291 000
21/12/12	D 435	165 000
Not Dated	A2065	147 517
09/10/12	A 288	626 479
05/11/12	A1977	216 166
02/10/12	D 277	513 751

#### Risk/Implication

Fraud and errors may not be detected resulting in financial loss to the organisation.

#### Recommendation

Management should ensure all pay payments are authorised by relevant signatories.

## Management response

**Observation noted.** Those who signed the transfers are the same authority who should have passed the vouchers for payment. Effort is being placed to make sure that the documents are certified and passed for payment first before a transfer is signed.

### 1.12. Withholding tax

#### Finding

I observed that ZINARA did not deduct 10% withholding tax for payment made to suppliers without a valid tax clearance certificates. Details of the suppliers that were paid are as follows:

Supplier	Amount Paid US\$	10% withholding Tax due but not withheld US\$
Fremus Enterprises	2,270,244	227,024.42
Forit	200,000	20,000
Applied Wighing Scale	99,134	9,913
Badon Enterprises	2,479,444	249,744
Best Brans Wholesalers	47,700	4,770
Bitumen	20,000	2,000
Brown Engineering	19,930	1,993
Carlordy Marketing	22,000	2,200
Cortman Investments	30,000	3,000
Easthset	40,963	4,096
Fruitstone Investments	200,000	20,000
Gramaton	23,600	2,360
Gratric Trading	29,881	2,988
Group Five Engineering	200,000	20,000
Heritage Agro Equipment	2,470,000	247,000
Synegy car Rental	17,097	1,710
Tegasteel Construction	180,167	18,017
Tencraft Construction	437,320	43,732
Transnzansi	17,715	1,772
Tronhem P/L	42,660	4,266
Twalumba Civils	2,499,650	249,965
ZIMCHEM Refineries	10,462	1,046
Infralink	63,729,505	6,372,951
<b>TOTAL</b>	<b>75,087,471</b>	<b>7,283,523</b>

**Risk/Implication**

There is a risk that the Administration may suffer financial loss through penalties and interest from ZIMRA.

**Recommendation**

Management should ensure that they trade with suppliers with a valid Tax clearance or if they have traded with a supplier without a valid tax clearance deduct 10% withholding tax.

**Management response**

**INFRALINK has been part of ZINARA and was formed only for the purposes of acquiring DBSA loan and repayment thereof.**

**ZIMRA had two of its Commissioners conflicting on INFRALINK registration for VAT and income taxes. One Commissioner registered it and another deregistered it. This brought confusion and the likely exposure.**

**Major suppliers here stated participated in major projects that they billed ZINARA and were paid money over a long period. While they had tax clearances at point of getting contracts these tax clearances lapsed hence the exposure. The 10% withholding tax is being recovered from the responsible suppliers.**

**1.13. Vehicle Inspection Department (VID) fuel****Finding**

I noted that during the years 2012 and 2013, the Vehicle Inspection Department (VID) Head Office received a monthly fuel allocation of 7 000 litres of diesel yet VID was charging 20% commission amounting to US \$ 3 607 897 in 2013 and US \$ 3 373 388 during the year ended December 31 2012, on Transit Coupon sales and Overload fees collected on behalf of the Road Administration.

**Risk/ Implication**

There is risk that Administration might divert from its core mandate of collecting and distributing funds to Road authority.

**Recommendation**

Management should ensure that the VID source its own fuel to meet its operations.

## **Management response**

**Observation noted. ZINARA has stopped allocating Fuel to VID as from February 2015.**

## **2. REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1. Recognition of receivables**

#### **Finding**

The Administration did not recognise motor vehicle licencing receivables in the years 2012 and 2013. This was due to its motor vehicle licensing system failing to calculate the outstanding receivables at a particular period and the system did not show cut off dates for the receivables. Failure to recognise the receivables in the statement of financial position have resulted in receivables balances being materially misstated. There was no policy to recognise vehicle licensing debtors as receivables.

Furthermore, motor vehicle licensing system was not designed to show receivables age analysis.

#### **Risk/Implication**

Financial statements maybe materially misstated by failure to recognise the receivables.

Receivables could become irrecoverable in the absence of an effective receivables management system.

#### **Recommendation**

Management should develop a policy on recognition of revenue from licences and the related receivables

Vehicle licensing system should be customised to include receivables age analysis.

## **Management response**

**The revenue received by the Road Fund is recognised on cash basis. The debtors from vehicle licensing here being referred to is in respect of the vehicles that did not renew and were not up to date at the end of 2012 and 2013. The debtors cannot be measured with accuracy as the system is being developed. We anticipate that this feature will be available after completion of the system development. The vehicles that have been taken off the road still form part of this debtor listing and the ones which have since changed ownership.**

## **2.2. Agent contract**

### **Finding**

There was no contract between ZINARA and the Vehicle Inspection Department (VID). There was no basis for the Vehicle Inspection Department to charge 20% as commission for Transit coupon sales and Overload fees.

### **Risk/Implication**

There may be no basis for recourse to the Administration in the event of a breach in the absence of an agreement in writing.

### **Recommendation**

Management should ensure that a service level agreement/agency contract is put in place.

### **Management response**

**The contract between ZINARA and V.I.D will be put in place. The Corporate secretary in our new structures will ensure that such documentations and contracts are given priority. The arrangement had been as a result of the parent ministry negotiations and resolution which however had not been transferred into an enforceable contract over the years**

## **3. PROCUREMENT OF GOODS SERVICES**

### **3.1. Purchase of motorised graders**

#### **Finding**

ZINARA procured 40 motorised graders through tender number ZINARA /01/2012 for US\$ 8 040 800 from Univern (Pvt) Ltd trading as Southern Region Trading Company (SRTC). However, ZINARA further procured 40 additional graders from the same supplier at the same price without going to tender. This was in contravention of procurement regulations which require purchases above US\$300 000 to go through the State Procurement Board (SPB).

#### **Risk/ Implication**

Financial loss due to the purchases that are not at competitive prices.

#### **Recommendation**

All the procurement regulations should be complied with.

## **Management response**

**The procurement of the first motorized graders went through the set tender process. The second batch procurement used the results of the first tender results and ZINARA merely had to ride on the first tender.**

### **3.2. Procurement of the vehicle licensing software**

#### **Finding**

ZINARA entered into a concession with Univern (Pvt) Ltd in which the latter was engaged to develop a vehicle licensing system without going to tender. The total cost for developing the software as at December 31, 2013 was US\$ 54 million a figure which should have gone to tender. This was in contravention of procurement regulations. The cost of the software was not stated upfront but the arrangement agreed was that ZINARA would pay 18.5% of the total revenue collected through the system for a period of 10 years.

The software vendor has so far been paid US\$ 21,300,939 as commission based on 18.5% of all revenue collected through the system.

#### **Risk/ Implication**

Financial loss due to the purchases that are not at competitive prices.

Financial loss arising from penalties charged by State Procurement Board for non-compliance.

#### **Recommendation**

All the procurement regulations should be complied with.

## **Management response**

**Observation noted. Consultations with Univern is underway with a view to reduce the commission percentage and the committee has been set in January 2015.**

### **4. EMPLOYMENT ISSUES**

#### **4.1. Tolling controllers' contract**

#### **Finding**

The five (5) tolling controllers received 160 litres of fuel instead of 150 litres authorised on their contracts of employment. A total of 450 litres unauthorised fuel was drawn from April 2013 when they were appointed up to December 2013. In addition this fuel was not taxed as per requirements of the Income Tax Act [Chapter 23:06].

**Risk/ Implication**

Unauthorised and wasteful expenditure may be incurred.

Penalties and interest for non-compliance with the Income Tax Act [Chapter 23:06].

**Recommendation**

The Administration should ensure that contracts of employment are adhered to and also that all benefits are taxed as per Income Tax Act [Chapter 23:06].

**Management response**

**Observation noted. Fuel is issued in 20litres coupons which has given rise to the issuance of 160litres per month and an effort to recover the excess fuel will be initiated in June 2015 by issuing 140 litres per month until we have fully recovered the excess fuel issued.**

**4.2. Security benefits****Finding**

There was no evidence to show that home security benefits for seven (7) managers amounting to \$94 964 were approved. In addition, these allowances were not being taxed.

**Risk/ Implication**

Financial loss as a result of payments for unauthorized benefits.

Penalties and interest for non-compliance with the Income Tax Act [Chapter 23:06].

**Recommendation**

The Administration should ensure that all benefits are authorized and taxed as per Income Tax Act [Chapter 23:06].

**Management response**

**Observation noted. The benefits were in the period 2014 taxed before withdrawal of the service in January 2015.**



#### **4.3. Performance measurement**

##### **Finding**

There was no evidence to show that agreed work plans were in place and employee performance was being appraised.

##### **Risk/Implication**

Employee performance and training needs may not be identified and addressed timeously.

Promotions and re-grading of employees may be done without proper assessment.

##### **Recommendation**

Employee performance agreed work plans should be put in place and performance appraisals done.

##### **Management response**

**Observation noted. Management and staff being trained to implement effective appraisals.**

#### **5. PROGRESS IN IMPLEMENTATION OF PRIOR YEAR RECOMMENDATIONS**

I reviewed the progress made towards the implementation of prior year recommendations and Special Report on Service Delivery by ZINARA (2010) recommendations and found that the Administration made some progress and there was some room for improvement in respect of the following recommendations:

##### **5.1. Suppliers of goods and services**

##### **Recommendation**

ZINARA should procure from approved suppliers in compliance with the state procurement regulations.

**No progress was made since the Administration was still procuring goods and services from suppliers without tax clearances.**

##### **5.2. Acquittals**

##### **Recommendations**

Diligent follow up should be made to compel councils to submit acquittals in the earliest possible time frame.

Finance and engineering should combine in scrutinizing and assessing authenticity of supporting documents submitted by beneficiaries.

Acquittals should be used as a basis for future allocation of funds.

**No progress made as Councils were failing to account for Road Fund expenditure separately and to sufficiently acquit for funds and fuel received from ZINARA. Budget overruns, overpayments of contract prices and flouting of tender regulation were still occurring with some Councils.**

### **5.3. Utilisation of disbursements**

#### **Recommendations**

Formulation of a clear policy on the utilization of funds clarifying hiring out of council assets to ZINARA

Formulation of policy on repairs and maintenance of road equipment and hiring.

**No progress made as Councils were still using the Road Fund for payment of non-road related expenditure such as salaries.**

### **5.4. Organisational deficiencies**

#### **Recommendation**

Development of a new organigram with adequate human resources capacity to deliver mandate.

**No progress made since the Administration is yet to come up with a new organogram.**

## **ZIMBABWE REVENUE AUTHORITY (ZIMRA) & ITS SUBSIDIARY**

### **Background information**

The Zimbabwe Revenue Authority (ZIMRA) started to operate as an Authority on September 1, 2001 from the former Department of Taxes and is constituted in terms of the Zimbabwe Revenue Authority Act [Chapter 23:11] of 1999. Its core business is the collection of revenue for the Government of Zimbabwe, administration of tax laws and the facilitation of trade and economic development in the region and beyond.

The Authority also registered St Lucia Park a company to provide training and conference facilities.

I have audited the financial statements and the consolidated financial statements of the Zimbabwe Revenue Authority and its subsidiary St Lucia Park for the year ended December 31, 2014.

### **Opinion on the consolidated financial statements**

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Zimbabwe Revenue Authority and its subsidiary St Lucia Park Training and Conference Centre (Private) Limited as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Opinion on the Authority's financial statements**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Zimbabwe Revenue Authority as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Report on Other Legal and Regulatory Requirements**

In my opinion, the consolidated financial statements of the Zimbabwe Revenue Authority have, in all material respects, been properly prepared in compliance with the disclosure requirements of the Revenue Authority Act (Chapter 23:11), and other relevant Statutory Instruments except for the collection and retention of \$4 197 490 from clearance fees on bills of entry. The national budget statement for the year 2014 and Statutory Instrument 169 of 2013 [Customs and Excise (General Amendment No. 70) Regulations, 2013] did not indicate whether the Authority should have retained the clearance fees nor was there evidence of approval of the arrangement by Treasury.

However, below are other material issues noted during the audit.

## **1. GOVERNANCE ISSUES**

### **1.1. Board of Directors**

#### **Finding**

The tenure of office for the Authority's board of directors expired on February 28, 2014 and since then; the Authority was operating without a board of directors.

#### **Risk/Implication**

There may be lack of oversight on the Authority given its size and operations.

There may be a policy formulation vacuum.

#### **Recommendation**

The Authority should continue to liaise with the Minister in respect of the appointment of the Board of Directors.

#### **Management response**

**It must be noted that the appointment of directors for the Revenue Board is the prerogative of the Minister of Finance. The Authority has repeatedly brought this issue to the attention of the Minister and relevant officials who have indicated that the matter is under active consideration.**

**The Authority is eagerly waiting for the reconstitution of the Board so that compliance with good corporate governance principles and practices is upheld.**

### **1.2. Clearance fees**

#### **Finding**

The Authority collected and retained US\$ 4,197,490 in clearance fees in 2014. Upon enquiry I was informed that retention of clearance fees was agreed in 1992 with Treasury in order for the Authority to recover costs associated with Asycuda licence fees, subscriptions and connection of agents to the customs system. I was further informed that retention of clearance fees was discontinued in 2007 and reintroduced in 2014. However, I was not availed with documentation which authorized the Authority to retain these fees during the year under review.

#### **Risk/Implication**

Non-compliance with the Appropriation Act.

## **Recommendation**

Compliance with the Act is recommended.

## **Management response**

**Observation noted. Authority to retain and ring-fence the funds for Automation and Border post developments was granted by Treasury in the 2014 budget year in order to lessen pressure on the PSIP and Recurrent expenditure budgets. Efforts are being made to obtain written confirmation of this agreement from the Ministry of Finance and Economic Development to regularize this transaction.**

## **Auditor's comment**

**Authority to retain the funds was not availed for audit inspection.**

### **1.3. IT Policy**

#### **Finding**

I noted that the IT Policy was not approved. The Information Security Policy communicates how an organisation plans to protect its physical and information assets.

#### **Risk/Implication**

Enforcement of the policy may be compromised if it is not approved.

#### **Recommendation**

The IT policy should be approved.

#### **Management response**

**Agreed. Once the board is in place the draft policy will go through the approval process.**

### **1.4. Audit Information System**

#### **Finding**

The Audit Information System (AIS) is an auditing tool within SAP which auditors utilise to effectively carry out an audit of the systems. One of its primary objectives is to draw together all the tasks one would typically perform in an audit. Audit sought assurance that the AIS was enabled to facilitate the audit of certain key areas on a continuous basis.

I observed that the AIS module was not fully functional. As a result, auditors could not access system security reports which include profile parameter and transaction logs for the Tax and Revenue Module.

### **Risk/Implication**

Failure to utilise the audit module may impact negatively on the effectiveness of the audit as well as the value which the auditors would add to management through the audit findings.

### **Recommendation**

The Audit Information System should be fully enabled so that auditors may carry out their audits efficiently and effectively.

### **Management response**

**The Audit Information System (AIS) was activated and signed off as functional after the SAP upgrade. Resource personnel trained on the AIS module left the Authority and staff training will be conducted before end of Q2 2015 for full use of AIS.**

## **1.5. Motor vehicles**

### **Finding**

One hundred and thirty seven (137) vehicles out of six hundred and fourteen (614), representing 17% of the total vehicle fleet countrywide developed faults and were grounded for various lengths of time. Upon enquiry, ZIMRA indicated that timely repairs could not be effected due to budgetary constraints. The condition of the vehicles continued to deteriorate as they were exposed to bad weather conditions since there were no sheds.

### **Risk/ Implication**

Efficiency and effectiveness of operations are compromised due to shortage of resources.

### **Recommendation**

Timely repairs should be effected to ensure availability of resources. The storage facilities for the Authority's assets should be improved through provision of sheds for motor vehicles.

### **Management response**

**Observation noted. Of the 137 vehicles that were grounded, 33 vehicles were resuscitated and 43 are earmarked for disposal. The resuscitation of vehicles is a continuous process which is subject to availability of funding therefore, specific times for resuscitation may not be established.**

**Structural engineers were engaged for drawing of plans for appropriate car sheds for all Authority vehicles. We expect to complete the process by fourth quarter 2015 funds permitting.**

#### **1.6. Segregation of duties over release orders**

##### **Finding**

The controls at Beitbridge over assessment and release orders were weak in that the same officer who would have assessed an electronic bill of entry would/could also raise the corresponding release order.

I also noted that the cashier responsible for receipting at Chirundu was the same person who did the banking of cash at the following dates.

<b>Date receipted</b>	<b>Amount</b>	<b>Date banked</b>
19/11/14	US\$ 2,372 ZAR 2,800	20/11/14
27/11/14	US\$ 1,540	28/11/14
01/12/14	US\$ 3,698 ZAR 680	02/12/14
07/12/14	US\$ 5,995 ZAR 770	08/12/14
19/12/14	US\$ 6,117 ZAR 1,200	23/12/14

##### **Risk/Implication**

Errors may be concealed or may not be detected timeously.

Irregular declarations may be processed and not timeously detected.

##### **Recommendation**

Assessment of bill of entries and release orders duties should be segregated.

There should be segregation of duties between the receipting cashier and the banking officer.

##### **Management response**

**Observation noted. Currently both profiles are being allocated to officers given the staffing situation. The current arrangements to ensure the same officer does not perform both functions on the same entry will be reviewed to manage the risk involved.**

**Due to staff shortages the Authority cannot have a banking officer who does not receipt. It should be noted that the banking officer banks previous day's collections and not collections from the shift the cashier would have been in. To mitigate against compromised controls due to staff shortages, the prepared deposits are checked against the Asycuda totals by the Supervisor for completeness and errors.**

## **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1 DOMESTIC TAXES**

#### **2.1.1 Value Added Tax (VAT) refunds**

##### **Finding**

Some business partners were claiming false input tax refunds hence prejudicing the State. Clients were claiming non-existent Value Added Tax (VAT) refunds. For instance two clients claimed Value Added Tax refunds amounting to \$822 780 for non-existent input tax during the period under review.

In addition, I noted that the Beitbridge Station recommended for refund to a new client BP Number 200132773, without visiting the client's premises given the fact that this client claimed in January 2014, a VAT input of \$33 128 for agricultural activities within the Border Post Town and also was a new client. In March 2014, the same client filed a claim of \$23 399 and subsequently claimed \$18 468 in April 2014, which the station rejected for failure by the client to provide some documentation.

I further noted that this client filed documents that had false information regarding the directors. At year end and subsequent to December 31, 2014, had not paid back this amount. I also noted that the case was with the police and the Authority is yet to recover the amount.

It also come to light that in Chiredzi, the same supplier through his various companies prejudiced the State \$54 789 in September 2014 and there was a pending case of \$1 million for Kurima House VAT fraudulent claims that had not been resolved since 2009.

Another client with BP number 200125040 also filed claims of VAT refund of \$622 780 in 2014 at Kurima station over a six months period and these were later reversed on April 02, 2015 and was under audit. The following table has details of claims by this business partner (200125040):

<b>Amount paid (US\$)</b>	<b>Payment Run Date</b>	<b>Date reversed in the system</b>
58,562	02.01.2014	02.04.2015
81,856	30.04.2014	02.04.2015
105,734	18.06.2014	02.04.2015
127,960	19.08.2014	02.04.2015
108,024	06.11.2014	02.04.2015



<b>Amount paid (US\$)</b>	<b>Payment Run Date</b>	<b>Date reversed in the system</b>
140,644	02.04.2014	02.04.2015
<b>622 780</b>		

The extent of fraudulent claims from a total refunds of \$226 358 004 processed during the year was yet to be established through the investigations that were being undertaken.

### **Risk/Implication**

False claims may be source of revenue leakages.

### **Recommendation**

Concerted efforts should be made that after investigations outstanding amounts should be recovered.

All zero rated claims should be audited prior to processing of refunds.

Investigations should be conducted and advise audit on the results.

In future it should be made mandatory that new clients and those making substantial claims be visited to verify the claims to prevent recurrence such losses.

### **Management response**

**Management agrees with the recommendations. Management will increase verification visits on clients with refund claims and continue with the current investigations, including liaison with the police. The current investigations have prevented further losses amounting to \$1,099,747.89. Once the investigations are completed, recovery procedures will be instituted over and above any prosecution that may be preferred against offenders.**

**Management have already strengthened the supervision of audit refunds beyond the identified entities.**

## **2.1.2 Registered tax clients**

### **Finding**

There was no efficient and effective mechanism to identify all potential tax clients except when identified on tax return submission.

For instance, the list of companies registered for income tax in Region 2 (which covers Bulawayo, Victoria Falls, Plumtree, Gwanda) was not matching with the list of companies assessed for income tax in the same Region during 2014 as shown in the table below:

List of assessed companies (number of companies)	5 184
Income tax Non-filers (number of non-filers)	594
Less number of companies registered for income tax Region 2	(3 108)
<b>Variance</b>	<b>2 670</b>

Upon enquiry, I was informed that the system can only generate lists for companies registered as from year 2013 going forward.

### **Risk/Implication**

There may be more potential clients not submitting tax returns.

### **Recommendation**

Reconciliation should be done between the registered clients in the Authority's database and the companies registered with the Registrar of companies.

### **Management response**

**The observation is noted and the recommendations accepted.**

**In an endeavour to widen our tax base we have written to the Registrar of Companies requesting for a list of all registered companies, both existing and dissolved, so that an analysis is done on whether they are registered for tax purposes. The list has been obtained and is currently being analysed. It is noted that some of the Registrar's records are manual and difficult to obtain. The organization will continue liaising with the office of the Registrar to obtain additional information for the purposes of updating the ZIMRA database.**

**The organization is carrying out visits to shopping centres (door to door checks) in addition to the street mapping exercise. This process enables the identification of taxpayers not in the data base who are then registered. The organization has an annual target to register additional 10% of the active clients.**

**Reconciliation of assessments is in progress and will be completed by end of 3<sup>rd</sup> quarter 2015. Assessments done in 2014 include prior year assessments.**

## **2.1.3 Outstanding Income taxes**

### **Finding**

Tax revenue amounting to US\$21 166 009 dating back to assessments raised in 2012 was outstanding as at December 31, 2014 and included in the outstanding revenue return. Tax revenue collectible amounting to US\$999 258 536 as at December 31, 2014 was older than 365 days.

A further analysis per tax head revealed the following increase in outstanding revenue.

<b>Revenue Head</b>	<b>2013 Amount (US\$)</b>	<b>2014 Amount (US\$)</b>	<b>Percentage increase</b>
Capital gains tax	13,021,390	31,504,876	142%
Income tax companies	65,358,601	257,872,608	295%
Pay As You Earn (PAYE)	179,307,588	574,003,209	220%
Presumptive tax	1,932,435	4,373,185	126%
VAT	223,757,642	459,960,860	106%
Withholding tax on tenders	8,788,557	46,598,993	430%

Included in the outstanding revenue is US\$449 686 223 in respect of outstanding amounts from public entities as at December 31, 2014. The following table has details of public entities that owed the Authority substantial amounts.

<b>Business Partner Number</b>	<b>Name of public entity</b>	<b>Amount (US\$)</b>
200002584	City of Harare	127 888 962
200001143	Air Zimbabwe (Pvt) Ltd	86,101,639
200003096	National Railways of Zimbabwe	54 775 303
200005246	Wankie Colliery Company	32 907 394
200012053	Reserve Bank Of Zimbabwe	23 822 556
200012733	Zimbabwe Broadcasting Corporation	23 467 007
200010034	Zimbabwe National Water Authority	21 446 947
200011622	Zimbabwe Power Company	15 919 193
200002301	Chitungwiza Municipality	12 445 948
200001977	Zimbabwe Iron Steel Company	7 086 162
200019701	Zimbabwe Electricity Transmission & Distribution Company	6 431 486
200005056	Municipality of Marondera	5 862 702
200004531	Net One (Pvt) Ltd	3 752 533
200005196	City of Mutare	2 468 361
Other public entities		25 310 030
<b>Total</b>		<b>449 686 223</b>

### **Risk/Implication**

This casts doubt on the timeous recoverability of outstanding revenue.

### **Recommendation**

The Authority should ensure that it collects outstanding amounts both those that have been long outstanding and those unearthed through audits.

## Management response

The observation is noted. Efforts to recover the outstanding amounts are being undertaken and various debt recovery measures employed such as continuous engagement with clients, agreement of settlement terms, and appointment of agents; and recommendation of write off for irrecoverable debts.

Management notes that as recovery measures are effected, caution will be taken to avoid recoveries that will result in closure of companies.

### 2.1.4 Tax audits

#### Finding

More revenue was being collected after audits by the Authority implying that ZIMRA needs to review staff rationalization towards the audits taking into account the increase in fraud cases. In particular, the Small to Medium Enterprises (SMEs) category increased and are still in infancy in terms of compliance. Only 17 % was audited out of 38 900 active clients.

A total of 6 554 audit cases were completed against a target of 9 441 in 2014 and US\$105 849 733 was collected as shown in the table below:

	<b>Region 1 (US\$)</b>	<b>Region 2 (US\$)</b>	<b>Region 3 (US\$)</b>	<b>Total (US\$)</b>
Opening balance	261	92	198	551
New Cases	1852	3203	2011	7066
Completed	1802	3203	1549	6554
Carried forward	311	92	660	1063
Collections	80 966 687	16 319 194	27 166 030	105 849 733

#### Risk/Implication

Areas requiring forensic investigations may not be identified on time.

Strategic issues covering areas of leakages that may not be identified and communicated to Treasury on time.

#### Recommendation

The Authority should intensify tax audit efforts in order to reduce the risk of revenue leakages.

## Management response

The observation is noted. Efforts to recover the outstanding debts are being undertaken and various debt recovery measures employed such as continuous engagement with clients, agreement of settlement terms, and appointment of agents; and recommendation of write off for irrecoverable debts.

Management notes that as recovery measures are effected, caution will be taken to avoid recoveries that will result in closure of companies.

## 2.2 CUSTOMS AND EXCISE

### 2.2.1 Removal In Transit (RIT) and Removal In Bond (RIB)

#### Finding

Consignments and travellers passing through the country to other destinations within the region register their consignments as Removal in Transit implying that their items are not dutiable and expected to acquit these registration at the port of exit. Registration of commercial traffic in transit is accepted upon registration of a bond through an insurer which the Authority can call in case of failure to acquit the RIT entry by the agent.

I observed that Removal In Transit entries (RITs) which originated at the Beitbridge Station between 2011 and 2013, amounting to \$18 million had not been acquitted as at April 06, 2015. In addition RITs amounting to \$19 million originated from the same station during 2014, had also not been acquitted as at December 31, 2014. The total Removal In Transit not yet acquitted for as at December 31 2014 were in excess of US\$42 million

The amounts for 2013 RITs were 50% of the total RITs, implying that the amounts were now doubtful given the fact that entries amounting to \$565 599 were due for cancellation while transactions amounting to \$14.5 million were lodged by clearing agents who had since closed business without acquitting the RITs and their insurers who would have guaranteed the clearing agent consignment had also closed business.

Extracts from Beitbridge RITs register are as follows:

Destinati on	Reg date	D number	BP number	Reference	Amount (US\$)	Date of departure	Status
ZWCH	1/17/2012	2411	200069702	SK02_1	22,589	2/5/2012	Agent Closed business
ZWCH	1/20/2012	2616	200069702	SK06_1	8,388	2/5/2012	
ZWCH	1/22/2012	3702	200069702	SK09_1	127,817	2/4/2012	
ZWCH	2/25/2012	10481	200069702	SK38_2	27,460	3/4/2012	
ZWCH	4/7/2012	18351	200069702	SK50_1	45,960	5/5/2012	
ZWCH	10/6/2012	56313	200069702	SK12_1	37,468	10/9/2012	
ZWCH	10/6/2012	56430	200069702	SK20_1	24,193	10/9/2012	

Destination	Reg date	D number	BP number	Reference	Amount (US\$)	Date of departure	Status
ZWCH	10/6/2012	56432	200069702	SK21_1	91,300	10/9/2012	
ZWCH	10/6/2012	56433	200069702	SK21_2	91,300	10/9/2012	
ZWCH	10/6/2012	56450	200069702	SK22_1	18,057	10/9/2012	
ZWCH	10/6/2012	56462	200069702	SK26_1	17,699	10/9/2012	
ZWCH	10/6/2012	56472	200069702	SK29_1	10,289	10/9/2012	Agent Closed
ZWCH	10/6/2012	56491	200069702	SK31_1	25,181	10/9/2012	
ZWCH	10/6/2012	56536	200069702	SK34_1	14,742	10/9/2012	
ZWCH	7/14/2011	36388	200093728	BFRT067	7,846	10/24/2011	Altetics Ent T/A Blue Freight Closed
ZWCH	7/22/2011	38109	200093728	BFRT071	7,846	12/22/2011	
ZWCH	8/21/2011	44504	200093728	BFRT086	5,744	10/24/2011	
ZWCH	10/1/2011	53590	200093728	BFRT105	375,360	10/24/2011	
ZWCH	11/11/2011	61051	200093728	BFRT130_1	42,977	11/15/2011	
ZWCH	11/20/2011	62556	200093728	BFRT136_1	4,959	11/20/2011	
ZWCH	11/21/2011	62687	200093728	BFRT135_1	6,432	11/21/2011	
ZWVF	11/23/2011	62854	200093728	BFRT138_1	15,060	11/23/2011	
ZWCH	12/7/2011	65646	200093728	BFRT149_1	134,816	12/18/2011	
ZWCH	12/21/2011	68512	200093728	BFRT153_1	38,299	1/7/2012	
ZWCH	12/21/2011	68555	200093728	BFRT157_1	38,299	12/21/2011	
ZWCH	1/15/2012	1978	200093728	BFRT158_1	38,299	1/31/2012	
ZWCH	1/18/2012	2442	200093728	2BFRT02_1	43,770	2/4/2012	
ZWCH	10/6/2012	56302	200093728	2BFRT05_1	43,770	10/9/2012	
ZWCH	10/6/2012	56303	200093728	2BFRT06_1	133,876	10/9/2012	

### Outstanding Removal In Bond (RIB) - Fuel and Beer

I also noted that Mutare had RIBs amounting to US\$866 391 outstanding since 2010 as shown in the table below:

Bill of entry No.	Date	Customs duty (US\$)	NOCZIM Levy (US\$)	Carbon Tax (US\$)	Excise duty	Total
C310	08/Feb/10	\$3,416	\$598	\$278	\$0.00	\$4,292
C311	08/Feb/10	\$108,734	\$44,581	\$21,744	\$0.00	\$175,063
C416	26/Oct/10	\$101,919	\$41,787	\$20,384	\$0.00	\$164,089

Bill of entry No.	Date	Customs duty (US\$)	NOCZIM Levy (US\$)	Carbon Tax (US\$)	Excise duty	Total
C44	28/Jan/11	\$59,128	\$24,242	\$11,826	\$0.00	\$95,196
C65	03/Jan/10	\$34,614	\$6,057	\$2,812	\$0.00	\$43,484
C66	03/Jan/10	\$37,948	\$6,641	\$3,083	\$0.00	\$47,673
C67	03/Jan/10	\$177,144	\$31,000	\$14,393	\$0.00	\$222,537
C63	01/Mar/10	-	-	-	\$11,313	\$11,313
C64	01/Mar/10	-	-	-	\$27,104	\$27,104
		<b>\$522,905</b>	<b>\$154,907</b>	<b>\$74,523</b>	<b>\$38,417</b>	<b>\$790,752</b>

C97	29/Mar/11	-	-	-	\$39,138	\$39,138
C481	28/Dec/10	-	-	-	\$36,501	\$36,501
<b>Total</b>		-	-	-	<b>\$75,639</b>	<b>\$75,639</b>
<b>Grand total</b>			-	-	<b>\$75,639</b>	<b>\$866 391</b>

The Authority was still being owed pure petroleum debt for the period of 2010 and 2011 amounting to \$471,937 made up as follows: Excise duty - \$318,655; Carbon Tax - \$96,500 and NOCZIM Levy - \$46,402.

### **Risk/Implication**

Possible revenue leakages through lodging of false RIT declarations.

Possible drop in domestic tax revenue as a result of an upset of the domestic pricing balance as these goods will be priced cheaper as compared to those that would have gone through the formal importation process.

### **Recommendation**

The Authority should consider the following;

- Introduce a computerised tracking system.
- As soon as the three day lapse, duty immediately called from the guarantor.
- Continuous screening of clearing agents and guarantor.
- Unmask the real importers such that when the agent and the guarantor fails the importer pays duty, this makes the importers to transact with reputable agents.

### **Management response**

**Observations noted. Some outstanding transactions are a result of systems challenges whereby entries could not be cancelled, duplications due to system generating more than one transit document against one bill of entry e.g. BP No 200069702, SK21\_1 and SK21 \_2 each with an amount of \$91 300 and some of the outstanding RITs**

changed status from acquitted to active during data migration from Asycuda++ to Asycuda World e.g. D2939.

Efforts to acquit the outstanding RITs has been made as evidenced by the reduction of potential revenue at stake for 2013 from \$30 million at 31 December 2013 to \$22 million at 31 December 2014 leaving the current potential debt at \$18 million.

Follow up efforts are underway on closed agents and insurance companies to establish their operational status in a bid to recover the potential revenue. The Authority has also stopped accepting bond from insurance companies for agents with outstanding obligations.

To improve transit cargo management, the Authority is working on the introduction of electronic cargo tracking system based on GPS technology. SADC and COMESA regional transit guarantee bond systems are also being developed.

Reintroduction of temporary deposit will be viewed as a trade barrier and increase the cost of doing business and also violates exchange control where refunds exceed the currency export exchange control limit.

The Authority renews clearing agents' licences annually where vetting is done and those with outstanding obligations are not renewed. Also where an agent has been found in breach of the licencing conditions, they are immediately suspended.

The recommendation to call the bond upon the lapsing of the three working days cannot be implemented as there are various mitigating factors that contribute to the delayed exit.

For Mutare consumption entries, the client has submitted a payment plan for liquidation of the debt within 6 months starting April 2015. First instalment of \$240 000 was paid on the 15<sup>th</sup> April 2015.

Efforts are being made to locate the client has since closed operations. The last follow up was done on the 22<sup>nd</sup> April 2015.

## **2.2.2 Limitation of scope: rental income and potential duty**

### **Finding**

After the fire disaster which destroyed the Beitbridge main State warehouse on November 27, 2014, the rummage sales records and state warehouse registers for January to November 2014 were burnt. The State warehouse records had no regular back up. The latest backup of October 2014 could not be relied upon as data for different State warehouses was consolidated into one report and not split for easy of tracing from each warehouse to the consolidated data. As a result I was unable to conclude on the necessary rental income adjustment and potential duty in respect of items that were in the state warehouse at the time of the fire.



**Risk/Implication**

Absence of backups could be a sign of an ineffective risk management policy.

**Recommendation**

The backup should be developed and designed such that it mirrors the exact records maintained in the individual state warehouse.

**Management response**

**The observation is noted. The Authority has back up system for warehoused goods which is updated on a monthly basis. The back-up information was used to quantify the goods burnt in the Beitbridge warehouse. It was also used to seek authority to write-off potential duty at stake and for adjustment of the debt schedule.**

**The steps taken to ensure that the disaster recovery plans cover all forms of risk has already commenced. The Authority is working on introducing a local back-up on a daily position and offsite, computerizing the management of state warehouses which would automatically have the data being stored on the server where there is automatic backup to the off site location.**

**Auditor's comment**

**There was no regular backup. The soft copies of the registers availed did not show a split between various State warehouses within Beitbridge.**

**2.2.3 Enterprise Risk Management (ERM)****Finding**

The Enterprise Risk Management grid was not reviewed after the fire incident. It was necessary to review the ERM since the risk of fire was not in the original ERM grid in 2013 for all border posts when the ERM was developed.

**Risk/Implication**

New risks may emerge and if not recorded on the ERM grid, they may subsequently be left unattended.

Financial and property loss.

**Recommendation**

Review of the ERM grid should be a continuous process.

## Management response

The ERM register is updated monthly, however it is agreed that a comprehensive review is necessary to fully capture the extent and nature of the risks based on the experiences.

### 2.2.4 Rummage sale proceeds

#### Finding

The contractor (BP number 200003313), for auctioning goods held was not performing as per contract to remit proceeds once the sale has been completed on behalf of the Authority. For instance, the proceeds for the Mutare Inland rummage sale made on March 20, 2014 which amounted to \$13,301 was not remitted. My further enquiry also revealed that rummage sale proceeds for the 9<sup>th</sup> of January, 2014 amounting to \$37,736 were also not remitted, more than a year after the auctions had been done.

Forbes Border Post rummage sale proceeds were also not remitted to ZIMRA. However, no follow ups were done except a letter that was written on April 1, 2014 to the Auctioneers. The table below is an illustration of Forbes border post rummage sales:

Date of sale	Date amount due	Number of days for delay	Amount due (US\$)	Interest at 10% per annum (US\$)	Total amount due (US\$)
08.01.14	17.01.14	447	48 025	5 881	53 907
20.03.14	28.03.14	377	45 214	4 670	49 884

Auctioneers submitted the Masvingo Station rummage sale proceeds late to ZIMRA. Rummage sale proceeds for May 2014 which amounted to US\$15, 238 were only remitted to ZIMRA in December 2014 through garnish orders. US\$15,100 was recovered through garnish orders.

The auctioneer's net proceeds for the rummage sales for stations indicated in the table below were not remitted:

Station	Amount (US\$)
Chirundu	80,442
Kariba	15,763
Nyamapanda	473
Harare Port	9,674
<b>Totals</b>	<b>106,352</b>

#### Risk/Implication

Timeous recovery of the amount may be doubtful.

The State may continue to be deprived of the most needed revenue.

### **Recommendation**

The outstanding rummage sale proceeds from KM Auctioneers must be recovered. In future there must be an auctioneer's bond as surety.

### **Management response**

**The recovery from KM auctioneers debt is being pursued; garnish orders have been placed with the various banks. The auctioneer's contract to conduct business with ZIMRA was not renewed to mitigate against further losses. The Authority will write to SPB informing them of non-compliance to contractual obligation.**

## **2.2.5 Bill of entry examination and release orders**

### **Finding**

Section 60 of the Customs and Excise Act require goods in transit to be secured before they are released from customs control. In addition, Customs departmental standing instructions stipulate that a transit control document (T1) should be generated once a removal in transit (RIT) bill of entry has been assessed. However, I noted that RIT entries were at times released without a T1 generated at Chirundu station. The table below refers;

<b>Road report number</b>	<b>Reference number</b>	<b>Bill of entry number</b>	<b>Duty at stake in US\$</b>	<b>Reason</b>	<b>Date of departure from Chirundu border post</b>	<b>Date T1 was generated</b>
2720	GCM1379	S23865	50 844	No T1	01/10/2014	10/10/2014
2878	SC3519/14	S23999	55 439	No T1	01/10/2014	08/10/2014
<b>Potential Prejudice</b>			<b>US\$106 283</b>			

### **Risk/Implication**

Detection of documents not properly cleared may not be done on time.

Non-compliance with the standing instructions on electronic bill of entry examination and on bill of entry release.

### **Recommendation**

Commercial Office standing instructions should be enforced.

Supporting documents must be attached to the bills of entry retained for record keeping.

## Management response

The delay in generating T1 of the two cited cases was as a result of Asycuda World systems challenge which was later resolved and T1s subsequently resolved.

### 2.2.6 Motor vehicle change of ownership

#### Finding

Some of the motor vehicle change of ownership documents that I examined at Masvingo had insufficient supporting documents such as seller's national identity; seller's proof of residence, the buyer's proof of residence, attached. Below is a table with further details of this anomaly;

Ref number	Registration date	Amount (US\$)	Details of anomaly
532164N	11/3/2014	150	Copy of seller's national identity document, seller's proof of residence and receipt not attached.
AAC9547	11/20/2014	38	Copy of sellers national identity document and proof of residence not attached
ACA6701	12/1/2014	400	Copy of seller's national identity document, seller's proof of residence and receipt not attached.
ACZ0833	12/29/2014	300	Copy of seller's national identity document, seller's proof of residence and receipt not attached.
592-768M	12/30/2014	90	Copy of seller's national identity document and proof of residence not attached.
AAH8048	12/1/2014	100	Copy of sellers national identity document and proof of residence not attached
391343X	12/1/2014	15	Buyers proof of residence not readable
556-853Z	11/11/2014	125	Sellers proof of residence not attached

#### Risk/Implication

The Authority may inappropriately facilitate change of ownership of stolen vehicles which may be difficult to detect in the absence of these key documents.

Non-compliance with the standing instructions on motor vehicle change of ownership.

#### Recommendation

Standing instructions on motor vehicle change of ownership should be enforced.

Supporting documents must be attached to the motor vehicle change of ownership form and retained for record keeping.

#### **Management response**

**Observation noted. Officers have been reminded to adhere to the standing instructions regarding supporting documents.**

**Work is underway to activate the attached document page on the change of ownership Asycuda declaration to facilitate electronic upload of supporting documents.**

### **2.2.7 Registering of clearing agents and renewal of licenses**

#### **Finding**

I observed that a number of clearing agents ceased operating before paying outstanding debts owed to the Authority. There was no evidence to support that active follow ups subsequent to their inactivity were being made to ensure that the agents/individuals were genuinely no longer in business or trading. I noted a trend in entries relating to clearing agents that would have closed business. For example in Beitbridge, \$14 million relates to such.

#### **Risk/Implication**

A possibility exists where agents cease current operations after accumulating huge debts to the Authority and then reopen new business or work hand in hand with other existing clearing agents.

#### **Recommendation**

The Authority should develop and implement a rigorous system of vetting and registering clearing agents. This should also be accompanied by a comprehensive policy that regulates the Authority's relationship with clearing agents.

The Authority should also consider blacklisting clearing agents that would have accumulated huge debts and informally closed shop.

#### **Management response**

**Observation noted. The Authority will pursue current legal provisions which allow the piercing of the corporate veil and taking the Clearing Agents to court.**

**Where it becomes necessary the Authority will carry out investigations with the aim of recovering the amounts and prosecuting the culprits.**

### **3 PROCUREMENT OF GOODS AND SERVICES**

#### **3.1 Performance contract**

##### **Finding**

I observed that the contractor who was awarded tender to effect repairs to the residential properties in Beitbridge town was experiencing operational capacity challenges as evidenced by the contractor's failure to secure scaffolds and make necessary repairs to broken windows on high rise buildings.

##### **Risk/ Implication**

In my view the service provider failed to meet the contractual obligations and hence the contract may have been awarded to a contractor with no capacity.

##### **Recommendation**

The Authority should invoke the provisions in the agreement for breach of contract.

##### **Management response**

**Observation noted. Broken window panes, management has contracted the local maintenance contractor to repair all the broken window panes in all the Authority's properties. It is, however, true that the maintenance contractor failed to complete the work not only at the Blue Flat because of lack of capacity. Contractor has been given a warning regarding non-performance.**

### **4 INVESTMENT ISSUES**

#### **4.1 Investment in St Lucia Park Training and Conference Centre (Pvt) Ltd**

##### **Finding**

The Authority invested US\$601 779 in the company, St Lucia Park Training and Conference Centre (Private) Limited cumulatively from 2012 (2014:US\$228 597, 2013:US\$200 000, 2012:\$173 182) but the Centre only generated revenue amounting to US\$14 525. An analysis of the performance of St Lucia Park Training and Conference Centre (Pvt) Ltd revealed that there was no key operational staff, there was an interim rather than substantive board and the strategies and budgets assumptions were not based on the capability of the subsidiary given the fact that it had taken more than two years to resuscitate operations.

##### **Risk / Implication**

Possible failure to recover funds invested in the subsidiary.

Wasteful expenditure due to non-effective and non-efficient utilisation of public funds.

### **Recommendation**

Management should have reviewed operations of the subsidiary against the set targets on an ongoing basis rather than to place reliance on provisional donor funds for project commencement.

Management should ensure that budgets are as close to realisable amounts of the organisation capacity as possible.

### **Management response**

#### **Observation noted**

**The payment of US\$601 779 was for administrative costs incurred during the three years the company was making engagements to start operations. The envisaged core business of Training and Conferencing was largely predicated on financial support from Treasury which unfortunately did not materialise due to the current funding challenges hence the decision to seek support through a Public Private Partnership (PPP) arrangement and not donor funding. This PPP is taking time to be finalised hence the decision by the Board to put the company into dormancy until this comes into fruition.**

**The budgets based on the identified strategic business units (SBU's) were realisable until the Kariba Border post was condemned resulting in ZIMRA staff relocating to the Most High Hotel which had been earmarked as the flagship SBU for St Lucia Park in the absence of the Darwendale Training Centre.**

## **5 PROGRESS IN IMPLEMENTATION OF PRIOR YEAR RECOMMENDATIONS**

I reviewed the progress made towards the implementation of prior year recommendations and found that the Authority made some progress and there was room for improvement in respect of the following recommendations;

### **5.1 Land development**

#### **Recommendation**

Management should ensure that the control of the stand is regularized and proper documentation should be on file at all times for items of property, plant and equipment.

The Authority should abide by the council's by laws on stands development within the stipulated timelines.

**Progress made**

**There was no evidence of development on acquired stands**

**5.2 Capital expenditure projects**

**Recommendation**

The Authority should obtain approval for variation of contract from the State Procurement Board before committing additional funds.

All costs associated with tenders should be included in the total cost for the project that will be submitted to State Procurement Board for approval.

**Progress made**

**Pre-implementation costs and professional fees were not included in the total cost for the project submitted to SPB.**

**5.3 Recovery of outstanding revenue**

**Recommendation**

The Authority should intensify their debt recovery processes.

**Progress made**

**Ongoing exercise. The Authority intensified efforts to recover the debts. However, the debt was increasing.**

**5.4 Border post route markings**

**Recommendation**

Management should consider putting route markings and signs at the Border Post.

**Progress made**

**The project was approved but had not taken off.**



## **PUBLIC ENTITIES UNDER THE CATEGORY OF BOARDS**

## **GRAIN MARKETING BOARD (GMB)**

### **Background information**

The Grain Marketing Board was incorporated under statute in Zimbabwe by the Grain Marketing Board Act [Chapter 18:14]. The Board's main activities are buying, storing of grain, manufacture of silo products, managing of the Strategic Grain Reserve and the Input Scheme on behalf of the Government of Zimbabwe.

I have audited the Financial Statements of the Grain Marketing Board of Zimbabwe for the year ended March 31, 2014.

### **Basis for Qualified opinion**

#### **Inadequate controls over sales and receivables recording processes**

Dispatch vouchers were not recorded in a consistent and systematic manner and numerous sequence gaps were noted, as a result I could not place reliance on the accuracy of the disclosed revenue and related receivables amounts of \$38 120 033 and \$70 186 440 respectively. I was therefore, unable to determine the extent of the adjustments necessary given the inconsistencies existing in the recording processes.

### **Qualified opinion**

In my opinion, except for the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Grain Marketing Board as at March 31, 2014 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Emphasis of matter**

Without further qualifying my opinion, I draw attention to note 28 to the financial statements which indicates that the Board made a loss of \$50 996 266 (2013: \$ 1 422 739 profit). This condition, along with other matters, indicates the existence of a material uncertainty which may cast significant doubt on the Board's ability to continue as a going concern. However, the Board does not believe that the issue will have a significant impact on the ability of the business to continue as a going concern as it has recourse to shareholder support.

However, below are other material issues noted during the audit.

## **1. GOVERNANCE ISSUES**

### **1.1. Board of Directors**

#### **Finding**

I observed that the current Board's tenure of office expired on November 2, 2013. In terms of the Grain Marketing Board Act [Chapter 18:14], Section 6 (2), if the Minister does not reappoint the incumbent members or replace them, the current Board members would continue to hold office for a maximum period of six months. Thereafter, they shall cease to be Board members. However, during my audit on August 22, 2014, the board members were still holding their positions in contravention of the requirements of the Grain Marketing Board Act.

I was not availed with any documentation from the Minister authorising the extension of the board's tenure save for a letter dated May 14, 2014 from the Chairman notifying other Board members that their tenure had been extended and that they should continue to serve as board members.

#### **Risk / Implication**

Any resolutions made outside the board's tenure may be null and void

Oversight could be compromised.

#### **Recommendation**

The Board should ensure that written approvals are sought / provided for any extensions to the board's tenure.

#### **Management response**

**Two letters were written to the minister on 09 October 2013 and 16 April 2014 notifying him of the expiry term of the board. The Minister of Agriculture, Mechanisation and Irrigation directed the Board Chairman to prepare and serve letters of reappointment on other Board members advising of continuation in service. The ministry was notified on 08 December 2014 that there is need for written re-appointment of board members for another term.**

### **1.2. Controls over sales and receivables**

#### **Finding**

I noted that input documents which included dispatch vouchers and fiscalised receipts/invoices were not recorded in a consistent and systematic manner in the SAP

system. At least 7 928 instances of sequence gaps in the input source documents were identified. As a result I could not place reliance on the accuracy of the disclosed revenue and related receivables amounts of US\$ 38,120,033 and US\$ 70,186,440 respectively. This anomaly was mostly caused by:

- the absence of cut-off procedures and sequence checks,
- an ineffective batch processing and control system,
- an inadequate use of reconciliations and system reports and
- Inadequate supervision.

### **Risk / Implication**

Misstatement of revenue.

Fraud and errors may go undetected.

### **Recommendation**

The Board should improve its SAP recording and input system by ensuring that there is adequate supervision, consistent approaches to recording information, use of reconciliations and sequence checks to ensure completeness of revenue and receivables accounts.

### **Management response**

**Management notes audit observation. Whilst some of the dispatch vouchers noted were for staff allocations, donations, canteen and promotion which ordinarily do not constitute sales, management is working on the following to correct the situation; At least 20 additional depots are being connected on line to enable real time processing of dispatch vouchers.**

**In the current audit, we will be doing sequence checks using a software tool which management has developed and internal audit and Loss control have been roped in to increase monitoring of dispatch vouchers processing.**

## **1.3. Tax on fringe benefits**

### **Finding**

The Board's employees were not being taxed on fringe benefits as required by the Income Tax Act [Chapter 23:01]. As a result, penalties amounting to \$1 588 372 were levied against the Board by ZIMRA. The benefits that were not taxed were as follows;

Benefits arising on disposal of motor vehicles or other assets to employees at disposal prices that were below the market values.

Free monthly maize allocation to employees benefit.

Management monthly fuel benefit.

### **Risk / Implication**

Financial loss as a result of penalties and fines incurred by the Board for non compliance with tax regulations.

### **Recommendation**

The Board should comply with tax regulations.

### **Management response**

**The Audit finding is noted. However, ZIMRA conducted a similar Audit on GMB in December 2010 in which the Audit did not highlight to management the formula of calculating tax arising from vehicle disposals, Christmas hampers, maize allocation, canteen allocations, fuel, airtime and Board remuneration. Whenever employees purchased vehicles, GMB would involve ZIMRA whereby agreements of sale were availed to ZIMRA who in turn did not highlight to GMB the tax due as later on charged in the 2014 Audit.**

**As far back as 1999, GMB has always taxed Board remuneration at a rate of 20% withholding tax in terms of Income Tax Act, [Chapter 23:06]. Notwithstanding this ZIMRA, during the 2014 Audit applied a tax of rate 45% on Board remuneration, skyrocketing the penalties and interests charged.**

**Furthermore, the heavy penalties and interests were also as a result of GMB's delay to remit income tax due because of the financial challenges the organisation was experiencing.**

**In future, GMB will conduct Tax health checks using tax experts to look for the level of compliance to avoid penalties.**

## **2. REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1. Credit control system**

#### **Finding**

Some customers were given goods on credit beyond their approved limits. Listed below are some of the customers where a significant variance of the credit and approved limit were noted;

<b>Account number</b>	<b>Approved limit US\$</b>	<b>Amount owing US\$</b>
9000628	150 000	1 043 295
900635	50 000	166 567
6000688	20 000	58 609

The Board was trading with customers who had outstanding amounts to GMB that were above 91 days regardless of the Board's policy which states that all receivables should be settled within 30 days. Listed below are some of the customers who had unsettled balances that exceeded 91 days;

<b>Account number</b>	<b>Debt above 91 days US\$</b>	<b>Total balance US\$</b>
5000001	119 105	224 185
9000635	1 176 742	1 278 515
6000638	58 609	58 609

This could be a sign that the credit control system in place was not fully functional and effective.

### **Risk / Implication**

Financial loss due to default by the customers who are given credit above their limits.

The Board's resources could be tied up in trade receivables thereby affecting the liquidity position of the Board.

### **Recommendation**

The Board should ensure that customers are given credit which falls within their approved limits. This also entails ensuring that the SAP system does not permit the processing of transactions above the credit limit.

### **Management response**

**SAP system is no longer permitting transactions above credit limit. Management has enforced the processing of sales orders through SAP.**

## **2.2. Interest on customer accounts**

### **Finding**

The policy states that interest should be charged on accounts that are over 30 days. I noted that all overdue receivables accounts were not being charged interest. Interest was only calculated when the debtor was handed over to the legal department. Below is a list of five (5) customers with high balances that were 91 days and over:

<b>Customer</b>	<b>30-60 Days US \$</b>	<b>31-90 Days US \$</b>	<b>91 Days &amp; over US \$</b>
1	27 711	27 404	1 176 742
2	-	-	1 043 295
3	(161 933)	400 070	400 887
4	35 267	18 044	119 105
5	25 402	45 035	63 153

### **Risk / Implication**

Financial losses for not charging interest on accounts above 30 days.

### **Recommendation**

The Board should charge interest on all overdue accounts. The computation of interest could also be incorporated into the SAP system.

### **Management response.**

**Interest will be charged on overdue debts starting 01 December 2014.**

## **3. PROGRESS IN IMPLEMENTATION OF PRIOR YEAR RECOMMENDATIONS**

I reviewed the progress made towards the implementation of prior year recommendations and found that the Board made some progress and there was room for improvement in respect of the following recommendations;

### **3.1. Outstanding revenue**

#### **Recommendation**

Management should continue to engage Ministry of Finance for the outstanding amounts.

#### **Progress made**

**As at the end of the reporting period, The Government owed the Board US\$48,673,341 (2012: US\$ 27 951 773).**

## **HEALTH SERVICE BOARD (HSB) 2014**

### **Background information**

The Health Service Board was established in terms of the Health Service Act [Chapter 15:16]. Its core functions include providing administration and the conditions of service to medical staff working in Public Health Institutions; providing for the transfer of persons engaged in public health service delivery from the Public Service to the Health Service and to provide for matters connected with or incidental to the foregoing.

I have audited the financial statements of Health Services Board for the year ended December 31, 2014.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Health Service Board as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

However, below are material issues noted during the audit.

## **1. GOVERNANCE ISSUES**

### **1.1 Fuel allocation**

#### **Finding**

According to the Health Service Board Act [Chapter 15: 16] section 13, the conditions of service are fixed by the Board in consultation with the Minister and with the concurrence of the Minister responsible for Finance if the conditions result in an increase in expenditure chargeable to the Consolidated Revenue Fund. I however, noted that the Board approved fuel allocation to its members without the concurrence of the Minister of Finance. In addition, the benefit was not spelt out in their personal contracts. These payments were not subjected to pay as you earn (PAYE) as provided for in the Income Tax Act [23:06].

Fuel amounting to 2 950 litres was being allocated on a monthly basis to the board.

#### **Risk/Implication**

Financial loss due to unauthorised benefits, penalties and fines for non-compliance with the Income Tax Act [Chapter 23:06]



## **Recommendation**

The Board should seek all the necessary approvals when making payments which are outside employment contracts.

## **Management response**

**Observation noted. Board is normally guided by guidelines from the Ministry of Health and Child Care and similar Institutions like Public Service Commission. The requisite information and authority will be attended to.**

### **1.2 Vehicle hire for Board members**

#### **Finding**

The Board hired vehicles from CMED for its board members for the period under review. According to the terms and conditions stipulated in the service level agreement between the Board and CMED, the Board was to pay for the hiring services; all repairs and regular servicing were to be done by CMED (Private) Limited. However, I noted that all vehicles hired from CMED (Private) Limited were being repaired and serviced at private garages. As a result, the Board incurred additional unbudgeted servicing costs of \$6 998, during the year.

#### **Risk/Implication**

Financial loss due to unbudgeted expenditure.

## **Recommendation**

All vehicles hired from CMED should be serviced and repaired by CMED (Private) Limited as per the terms and conditions of the service level agreement.

## **Management response**

**All hired vehicles from CMED are to be serviced and repaired by CMED. However during the period in question CMED was impounding vehicles for Board Members for non-payment of bills and this seriously affected the operations and movement of the Board Members. The Health Service Board had to send vehicles for minor servicing to private garages and made payments to avoid the embarrassment the Board Members were facing from CMED**

### **1.3 Vehicle hire expenditure**

#### **Finding**

The Board hired vehicles for its management from CMED (Private) Limited and incurred a total expenditure of \$440 756, during the year under review .The amount used to pay for hiring services could have been used to purchase condition of service vehicles for management.

#### **Risk/Implication**

Service delivery may be compromised due to inadequate funding for operations emanating from wasteful expenditure.

#### **Recommendation**

The Board should consider acquiring vehicles and reduce hiring costs.

#### **Management response**

**The Health Service Board has always considered value for money in car hiring as indicated by various correspondences and representation made to Treasury on car hiring. This issue is with Treasury, all submissions and arguments for value for money have been put to them. Ultimately the final solution is just to purchase Personal Issue Vehicles for the affected members to reduce the huge CMED costs which will then go a long way in improving operational issues as the funds will be utilized for operational expenditure.**

## **PUBLIC ENTITIES UNDER THE CATEGORY OF COMMISSIONS**

## **ANTI-CORRUPTION COMMISSION OF ZIMBABWE 2010**

### **Background information**

The Anti-Corruption Commission of Zimbabwe is a corporate body established by an Act of Parliament known as the Anti-Corruption Commission Act [Chapter 9:22] and became operational in 2006. The mandate of the Commission is to combat corruption, economic crimes, abuse of power and improprieties in Zimbabwe through public education, prevention and prosecution after thorough investigation.

I have audited the Financial Statements of the Anti-Corruption Commission of Zimbabwe for the year ended December 31, 2010.

### **Basis for Qualified opinion**

#### **(i) Housing facility not fully accounted for**

The Commission did not fully account for, in its financial records, funds and assets related to a housing facility that was part of a \$5 500 000 Memorandum of Understanding capacity enhancement and retention scheme. In addition, the Commission did not provide documentation on how the housing facility was utilised.

#### **(ii) Accuracy of payment in respect of acquisition of an office building**

I could not verify the accuracy of the prepayment made by the Commission in relation to the acquisition of a building in Mt. Pleasant valued at \$1 680 000. The relevant documentation was being held by the courts pending a litigation case against the Secretariat. An enquiry with the estate agent revealed that the cost of the building was \$1 200 000 contrary to the \$1 680 000 disclosed in the financial statements. The Commission may therefore have been prejudiced of \$480 000.

#### **(iii) Cash and cash equivalents**

I could not satisfy myself on the accuracy of the reported bank balance as some transactions were not posted to the cash books. In addition, there was no petty cash book to account for the transactions that had occurred during the year and the statement of cash flows had an imbalance of (\$20 000). I was unable to verify through alternative means, the accuracy and validity of the disclosed cash on hand balance. I was also unable to determine the extent of the adjustments necessary to correct this account area.

#### **(iv) Non-compliance with IAS 24 – Related parties**

The Commission did not comply with the requirements of IAS 24 as they did not disclose related party information such as the housing facility and acquisition of the building which was registered in the name of the directors.

## **Qualified Opinion**

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Anti-Corruption Commission as at December 31, 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## **Emphasis of Matter**

Without further qualifying my opinion, I draw your attention to the period that has elapsed between the statement of financial position date and the date of issue of my report. Although the Zimbabwean economy was considered to be stable, these financial statements may not be relevant to the current decision needs of users.

However, below are other material issues noted during the audit.

### **1. GOVERNANCE ISSUES**

#### **1.1. Acquisition of Office Building**

##### **Finding**

The Commission made a prepayment for the purchase of an office building in Mt Pleasant in December 2010. However, the following irregularities were noted on the procurement of this building;

The building was not registered in the Anti-Corruption Commission name at the time of conclusion of this report. This property was owned by ISOTRON Enterprises and the Commission used a shelf company through which they executed the purchase of the property. According to the Secretariat the Commission did not want to inherit the trade and business of the former company. The Secretariat then acquired the Property Mortgage Company without the consent of the Commissioners. The General Managers of the Commission appointed themselves as the directors of this Property Mortgage Company. These General Managers are employees of the Commission and the General Managers should not own Mortgage Company on behalf of the Commission.

There was also no resolution as to their appointment as directors of the Property Mortgage Company. Efforts to find the relationship between ISOTRON Enterprises (Pvt) Ltd Company and Anti-Corruption Commission were fruitless as the Chief Executive Officer of the Commission was on suspension, however, a memorandum written by him showed that ISOTRON was wholly owned by Property Mortgage Company (PMC) which is a wholly owned subsidiary of Anti-Corruption Commission.

There was no proper documentation of the due process of identifying the building. From discussions carried out with management the building in question was not even among the buildings that were identified as suitable for use as an administration building. There was also no evidence to show that proper State Procurement Board Procedures were followed in acquiring this building.

The Secretariat opened a new bank account to facilitate transfer of funds from the Ministry of Home Affairs for the purchase of this building without the knowledge and authority of the Commissioners. I was not availed with correspondence to the parent Ministry informing them of this new bank account. The Ministry transferred US\$1 700 000 on December 24, 2010 for capital expenditure to the Anti-Corruption Commission which the Commission then deposited into this new account on December 30, 2010. The signatories to this bank account were the same General Managers who were owners of the Property Mortgage Company.

Audit could not be availed with price on offer by the seller, however, a revaluation report from Public Works was availed to show the market value of the building as US\$1 680 000. The Commission then adopted this value as the cost of the building and payment was made on December 31, 2010 through Perpetual Properties a Real Estate Agency. A visit to Perpetual Properties revealed that the building was purchased for US\$1 200 000. The owners of Perpetual Properties said they had been instructed by the Commission's Chief Executive Officer to pay US\$1 200 000, to the owner of the building. The remaining funds, amounting to US\$480 000, according to the owners of Perpetual Properties were distributed to certain individuals through instructions from the Commission's Chief Executive Officer.

The Commission purchased the building on December 31, 2010 according to the payment voucher and proof of transfer (RTGS) before signing the agreement of sale documents. The agreement was then signed twenty seven days later, on January 27, 2011.

Minutes of the Board meetings revealed that the Board was still discussing issues to do with acquisition of office accommodation yet the Secretariat had already purchased office buildings. The Secretariat did not disclose to the Commission the amount of US\$1 700 000 received on December 30, 2010 from the Ministry of Home Affairs for the acquisition of the building until July 6, 2011.

### **Risk/Implication**

Financial loss due to possible fraudulent disposal of the property as the Commission has no title to the building.

Misstatement of financial statements resulting from incompleteness of transactions.

Weak governance may result in irregularities as identified above that may cause further losses.

## **Recommendation**

The Commission should ensure the Mt Pleasant building is registered in the name of the Commission.

The Commission should investigate what happened to \$480 000 over and above the cost of the building of \$1 200 000 with a view to recover this amount.

## **Management response**

**The Commission agrees with the observations and recommendations and would like to highlight that the issue is before the courts and awaiting finalization. The Commission will ensure in future transactions of such magnitude and nature are done through the appropriate structures and authorities. During the period under review the Treasury disbursement of the building purchase was disclosed in the accounts. The sale transaction was done during the shutdown period and offices were shut down.**

### **1.2. RBZ facility**

#### **Finding**

The Commission's Secretariat signed a US \$5.5 million Memorandum of agreement with the Reserve Bank of Zimbabwe for capacity enhancement and retention of skills as follows;

- Housing facility
- 56 Motor Vehicles
- Computers and other office support amounting to US\$150 000.

The housing facility and any funds/ assets received, in particular, houses for the Chief Executive Officer, General Manager Investigations and General Manager Prevention and Corporate Governance, were not disclosed in the financial statements as at December 31, 2010.

#### **Risk/Implication**

Misstatement of financial position of the Commission.

Service delivery may be compromised as resources may not have been used for their intended purposes.

## **Recommendation**

The Commission should ensure that all resources are properly accounted for.

## Management response

The Commission was not privy to the said Memorandum of Agreement. The Commission will ensure that investigations will be done on the issue and the law will take its course as the case is at the courts. In future the Commission will ensure that all donations and assistance (financial and or / material) will be accepted through the normal processes and procedures. The Commission accounts only for disclosed resources which are acknowledged.

### 1.3. Cash and bank balances

#### Finding

I could not place reliance on the cash balances as the Commission was not maintaining a petty cash book yet the bank statements were showing large amounts of withdrawals and there were some payment vouchers for cash payments made. The petty cash certificate was not availed for my inspection so as to verify the cash on hand balance as reported in the annual financial statements. On enquiry as to how the cash withdrawn was expended, the accountant submitted some cash acquittals that he had computed which had some transactions amounting to US\$6 093 that could not be traced to the respective ledger accounts.

The reasonability of these expenditures could not be relied on as cash which had been withdrawn in the month of February would be expended until the month of November as shown on the acquittals availed, yet there were other withdrawals in the months in between.

Furthermore, I could not verify the authorization of all the cash withdrawals which were made from the ZB bank as the Commission could not avail any duplicate copies of withdrawal slips showing that the withdrawals made were authorised. Also, these transactions could not be traced to the cashbook as they were not posted. The table below shows some of the withdrawals:

Date	Description	Amount (\$)
19.02.2010	Cash Withdrawal	25,000
23.03.2010	Cash Withdrawal	11,000
08.04.2010	Cash Withdrawal	11,388
18.05.2010	Cash Withdrawal	12,836
22.07.2010	Cash Withdrawal	20,158
06.09.2010	Cash Withdrawal	17,960
20.10.2010	Cash Withdrawal	17,000
14.12.2010	Cash Withdrawal	14,923



**Risk/Implication**

Concealment of fraudulent activities

Errors resulting from incomplete records may not be detected

Misstatement of financial statements

**Recommendation**

Management should address the irregularities in the cash system.

The petty cash book should be maintained and bank reconciliation statements prepared regularly.

**Management response**

**The Commission agrees with the observation and recommendations. The Commission will ensure a petty cashbook will be maintained by the Accounting Assistant from January 2014 recording all cash transactions within the period the expenditure is incurred. All transactions from ZB Bank were authorized as Commissioners were signatories to the account.**

**1.4. Funding / Budget support****Finding**

The Commission's mandate is to combat corruption, economic crimes, abuse of power and other improprieties in Zimbabwe through public education, prevention, investigation and prosecution. I noted that the Commission was unable to carry out all these activities and the explanations given was that, they had not been able to adequately service their vehicles and provide enough fuel for investigation department to carry out provincial visits for further investigations.

I also noted that there were some disbursements made from Treasury to the Anti-Corruption Commission through the Ministry of Home Affairs as evidenced by the correspondence ref A/26/1/14 dated September 21, 2010 for US\$ 7 797 and October 14, 2010 for US\$ 7 797. There was no evidence of receipt of these funds by the Commission. On enquiry, the General Manager Finance highlighted that the Commission did not receive these disbursements and effort to follow up with the Ministry of Home Affairs on these funds did not yield any results.

**Risk/Implication**

The Commission may not be able to achieve its mandate.

The unaccounted remittance may have been misappropriated.

### **Recommendation**

There is need to adequately fund the Commission's investigation department.

There is need for Commission to follow up on the amounts remitted by Treasury through the parent Ministry.

### **Management response**

**The Commission agrees with the observations and recommendations. The Commission will from 2014 ensure that all funds disbursed by Treasury are supported by disbursement confirmations from Treasury and are to be receipted before posting into the books of accounts. However, the Commission has been maintaining a schedule of all Treasury Disbursements drawn against the allocated budget for the respective year**

## **1.5. Computerized system**

### **Finding**

The Commission is not computerized in all its operations such as the accounting and financial management, case management, docket review and investigation processes. These operations are wide, complex and involve large volumes of data. Some manual records could not be retrieved upon audit request such as inventory schedules because they had been misplaced and there was no back up. Furthermore, transaction tracing is much easier in a computerized system when the number of transactions is voluminous.

### **Risk/Implication**

Financial statements may be materially misstated.

The Commission may experience operational inefficiencies in case management, docket review and investigation processes

### **Recommendation**

The Commission should consider putting in place a computerized system for case management system, docket review, management of reports and their security and an accounting software package which takes into account all finance and administration issues.

### **Management response**

**The Commission agrees with the observation and recommendation. The Commission installed Pastel for the accounting system in 2013 which will be used starting in 2014. As for the Case Management System the funds required for the installation and maintenance of such a system are not available as Treasury is unable to adequately provide such funding. The Commission has already done the ground work for the Case Management System and awaiting funding from Treasury.**

## **2. EMPLOYMENT ISSUES**

### **2.1. Employment contracts**

#### **Finding**

Staff members of the Commission had no employment contracts in their personal files. Through enquiry with some members of staff stationed at the head office, it was confirmed that they had not signed work contracts since joining the Commission. According to Section 14 (1) of the Anti-Corruption Commission Act [Chapter 9:22], the Commission is required to employ Secretariat staff and set up their terms and conditions of service as it deem necessary for the furtherance of its mandate.

#### **Risk/Implication**

Financial loss resulting from litigations should disputes arise.

#### **Recommendation**

The Commissioners should comply with the relevant provisions of the Act and set out the terms and conditions of service of the Secretariat.

### **Management response**

**The Commission agrees with the observation and recommendations. The Commission only signed contracts with four General Managers and the rest of the staff are still to have contracts signed with the Commission.**

### **2.2 Performance appraisal system**

#### **Finding**

The Commission had no performance appraisal system in place. According to best practice, the performance of key management and staff should be assessed/appraised. These have the purpose of monitoring planned progress and facilitate timely interventions. On enquiry, management highlighted that staff is appraised orally on completion of their probation period.

**Risk/Implication**

Employee performance and training needs may not be identified and addressed timeously.

Promotions and re-grading of employees may be done without proper assessment.

**Recommendation**

The Commission should consider putting a performance appraisal system in place.

**Management response**

**The Commission agrees with the observation and recommendation and has since adopted the Results Based Management (RBM) Framework. Training on the RBM is ongoing and staff appraisal will be based on it.**

## **SECURITIES AND EXCHANGE COMMISSION OF ZIMBABWE AND THE INVESTOR PROTECTION FUND**

### **Background information**

The Securities and Exchange Commission of Zimbabwe was enacted in terms of the Securities Act [Chapter 24:25]. The Commission started operating on September 1, 2008 when the first commissioners were appointed. It is the regulatory body for securities and capital markets in Zimbabwe.

The Securities Amendment Act 2013 as promulgated on 29 August 2013 established, in terms of section 86B, the Investor Protection Fund (IPF) as a separate legal entity with its own board to administer the Fund. The assets and liabilities of the Fund, previously held by the Securities and Exchange Commission of Zimbabwe, were transferred on 1 January 2014, to the separately established Investor Protection Fund. The Fund was established for the purpose of providing compensation to investors for losses suffered as a direct result of a licensed contributor being unable to meet its liabilities through insolvency, malpractice or other cause.

I have audited the financial statements of Securities Commission of Zimbabwe and Investor Protection Fund for the year ended December 31, 2014.

### **Opinion on the Commission's financial statements**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Securities and Exchange Commission of Zimbabwe as at December 31, 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Opinion on the Fund's financial statements**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Investor Protection Fund at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Emphasis of matter**

I draw attention to note 22 of the financial statements which describes the tax status of the Fund established in terms of the Securities Amendment Act of 2013. As at 31 December 2014, the Fund had not confirmed with the Ministry of Finance and the Zimbabwe Revenue Authority as regards tax exemption of the Fund so established. The potential tax exposure amounts to US\$149 489. My opinion is not qualified in respect of this matter.

However, below are other material issues noted during the audit;

## **1. GOVERNANCE ISSUES**

### **1.1 Tax on Commissioners' benefits**

#### **Finding**

In terms of section 73 of the Income Tax Act [Chapter23:06] as read together with 13<sup>th</sup> schedule of the same act; where a director receives other payments over and above the director's fees from the corporate body of which he is a director, the fees and other amounts received will be treated as employment income and will be subjected to employees tax

I noted that after the 2014 ZIMRA audit was completed, ZIMRA stipulated that the Commissioners were supposed to be taxed at the highest tax bracket of PAYE, however regardless of this directive from ZIMRA, the Commissioners resolved that they would not deduct PAYE but instead, the Commission would withhold 20% of the fees paid to the Commissioners for remittance to ZIMRA as withholding tax. ZIMRA authorities informed the Commission that the Commissioners would have the option to pay 20% withholding tax only if they were remunerated as non-executive Commissioners (one amount) unlike the current situation where their remuneration was split as that of executive Commissioners. There was an additional tax liability of \$ 503 288 charged during the year under review.

#### **Risk/Implication**

Financial loss due to penalties and fines.

#### **Recommendation**

Management should comply with the Income Tax Act [Chapter 23:06].

#### **Management response**

**In addition to writing a letter the Commission engaged the Ministry in several meetings discussing the lumping up of fees. The issue seemed straight forward at the time but the response took a long time, only coming in on 18 February 2015. Meanwhile in 2015 Commissioners are having PAYE deducted on their fees.**

### **1.2 Commissioners**

#### **Finding**

I noted that the Commission had five (5) Commissioners against a prescribed minimum of seven (7) as stipulated by the amended Securities and Exchange Act. Furthermore I noted that one of the existing 5 Commissioners did not attend any of the meetings held in the 2014 financial year. The member also had not attended any meeting at all since being appointed.

### **Risk/Implication**

The active Commissioners may be overwhelmed with tasks that the Securities Exchange Act stipulates that should be handled by not less than seven Commissioners.

### **Recommendation**

Application and follow up should be made to the Minister for the appointment of three additional Commissioners to enable the Commission to adhere to the Securities Exchange Act.

### **Management response**

**The Commission stopped paying this Commissioner in March 2014 due to his failure to attend any of the Commission's board meetings since appointment. Further to this, the Commission has written several times to the Ministry requesting for them to appoint additional Commissioners. Indications from meetings with the Ministry are that they are still looking for candidates. The Commission will continue following up on the issue.**

## **1.3 Legal representation**

### **Finding**

There was no legal counsel appointed by The Investor Protection Fund to handle its legal cases or any claims instituted against it. Prior to the establishment of the new Fund, the prior Fund was under the responsibility of SECZ therefore its legal cases were handled by the SECZ legal counsel. Following the implementation of the Securities Amendment Act, there was no corresponding appointment of lawyers for the new Fund. Although there were no formal claims instituted against IPF during the year under review, there is a possibility that claims could be made in future. As such there is need for IPF to appoint legal counsel, in light of claims that may be potentially made against it in future.

### **Risk/Implication**

Financial loss as matters requiring legal expertise may not be handled properly.

### **Recommendation**

A legal counsel should be appointed to advise the Board of Directors on matters to do with compliance with relevant laws and regulations.

### **Management response**

**The Administrators will make a proposal to the Board so as to have the legal counsel appointed.**

**PUBLIC ENTITIES UNDER THE CATEGORY OF COMPANIES,  
CORPORATIONS AND OTHER**



## **MARANGE RESOURCES (PRIVATE) LIMITED**

### **Background information**

Marange Resources (Private) Limited (Marange Resources) is a company which is 100% owned by Zimbabwe Mining Development Corporation (ZMDC). The company was incorporated as Blockwood Mining (Private) Limited in November 2005 before changing name to Marange Resources in November 2007. The Company conducted mining activities in the Chiadzwa area using special mining grants issued to ZMDC by the Ministry of Mines and Mining Development.

I have audited the financial statements of Marange Resources (Private) Limited for the year ended December 31, 2014.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Marange Resources (Private) Limited as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Emphasis of matter**

Without qualifying my opinion I draw attention to the following matters:

#### **i. Going concern**

As explained in Note 29 of the financial statements, the Company incurred a net loss of US\$ 1 492 755 (2013: US\$ 30 464 985) for the year ended December 31, 2014. As at that date, the Company's current liabilities exceeded its current assets by US\$ 74 749 172 (2013: US\$ 73 920 980). The Company's total liabilities exceeded total assets by US\$ 54 789 290 (2013: US\$ 53 296 505). As disclosed more fully in Note 9.1 to the financial statements, the total assets exclude the value of the mineral reserves. Exploration and evaluation of the mineral resources has been initiated with the involvement of external consultants. These conditions along with other matters disclosed in Note 29 indicate the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern.

#### **ii. Uncertain outcome of a lawsuit**

As outlined in Note 28 to the financial statements, which outlines the uncertainty related to the outcome of the lawsuit filed against the Company by Core Mining and Mineral Resources (Private) Limited, the ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

### **iii. Investment in joint ventures**

Marange Resources (Private) Limited entered into a joint venture agreement in which it contractually agreed to share control over the operating and economic activities of the joint venture company, Mbada Diamonds (Private) Limited in the Chiadzwa area.

International Financial Reporting Standard 11 [Joint arrangements] requires a venturer to recognise its interests in jointly controlled entities using the equity method in its consolidated financial statements. Marange Resources (Private) Limited is a wholly owned subsidiary of the Zimbabwe Mining Development Corporation (ZMDC) and is allowed not to present consolidated financial statements in accordance with IFRS 11 and IFRS 10[Consolidated financial statements].

In its separate financial statements, the company is required to account for its interests in jointly controlled entities in accordance with IAS 27. The standard requires investments in jointly controlled entities to be accounted for either at cost or in accordance with International Accounting Standard 39 [Financial Instruments – Recognition and Measurement]. Marange Resources (Private) Limited has not accounted for the investment in the joint venture company in its separate financial statements as at 31 December 2014. The joint venture operation is being accounted for and has been recognised in the financial statements of ZMDC as described in Note 30 to the financial statements.

### **iv. Possible merger of diamond mining companies**

I draw attention to Note 29 to the financial statements which indicates that Ministry of Mines and Mining Development made public announcements in February 2014 on the possible consolidation of the diamond mining companies operating in Chiadzwa into two companies. The effect this may have on the ability of the company to continue operating as a going concern cannot presently be determined.

#### **Other matter**

##### **Probe into the affairs of the company**

As explained in Note 31 to the financial statements, the Minister of Mines and Mining Development appointed a team to carry out an investigation into the affairs of the company. The executive and senior management of the company were sent on leave to pave way for the investigation to be conducted. The results of the investigation are still pending and we were unable to determine whether there may be additional issues which may require adjustments to the results of operations for the year ended December 31, 2014.

However, below are other material issues noted during the audit.

## **1. GOVERNANCE ISSUES**

### **1.1. Board**

#### **Finding**

The company was operating without a substantive board of Directors as the previous board was dismissed in December 2013. The permanent secretary for the Ministry of Mines and Mining Development was representing the board.

#### **Risk/Implication**

Ineffective oversight over the entity's operations, financial reporting and internal control over financial reporting.

#### **Recommendation**

The shareholders of the company should consider appointing a substantive board.

#### **Management response**

**Management awaits direction from the Shareholder on the matter.**

### **1.2. Creditors reconciliations**

#### **Finding**

There were long outstanding reconciling items on creditor's reconciliations. The table below shows a few examples:

<b>Name of Creditor</b>	<b>Date of reconciliation</b>	<b>Auditor comments</b>
Adiunctus Enterprises	30 November 2014	Reconciliation has been outstanding on items dating back to 2011 amounting US\$ 38 096.
Authentic Group of Companies	30 November 2014	Reconciliation has been outstanding on items dating back to the year 2013 amounting to US\$ 400 694.
Bell PTA (Private) Limited	30 November 2014	Reconciliation has been outstanding on items dating back to the year 2012 amounting to US\$ 30 092.
High Performance Lubes	30 November 2014	Reconciliation has been outstanding on items dating back to the year 2012 amounting to US\$ 19 532.
Drilling Resources T/A KW Blasting	30 November 2014	Reconciliation has been outstanding on items dating back to the year 2012 amounting US\$ 20 422.

### **Risk/Implication**

Possible understatement of liabilities.

### **Recommendation**

Reconciling items should be investigated and resolved in a timely manner.

### **Management response**

The main source of disputes on the accounts relates to goods or services suppliers claim to have delivered for which they are failing to provide proof and also transactions that were not explicitly covered by contracts or would have been done through verbal means with no supporting purchase orders.

Management has been engaging all disputed accounts to agree on balances albeit with limited success on certain accounts. We have agreed balances with Fawcett Security, Bell PTA, True Trade and Quality Tyres, among others. However, we are still facing difficulties in engaging creditors such as Adiunctus, Authentic and other small creditors as they are tying the reconciliation process to payment issues.

Management will continue with the current engagement efforts and where these are not successful, the company may have to defend the position through legal means.

## **1.3. Interest on creditor accounts**

### **Finding**

The company was not paying its creditors on time and was charged US\$ 1 637 030 as interest on overdue accounts by the suppliers listed below:

<b>Name of Creditor</b>	<b>Amount Owed US\$</b>	<b>Interest Charged US\$</b>	<b>Total Amount Owed US\$</b>
Health Harvest	19 809	365	20 174
Lenny's Electrical	-	1 425	1 425
Amtec Motors	6 853	1 766	8 629
ZESA	121 440	2 610	124 050
Bell PTA (Pvt) Ltd	23 095	4 195	27 290
Ecclesia (Pvt) Ltd	22 289	4 260	26 550
Rushworks Engineering (Pvt) Ltd	82 164	6 968	89 132
Metso Minerals Zimbabwe (Pvt) Ltd	31 361	8 072	39 433
Adiunctus Enterprises	154 436	9 676	165 113
Fawcett Security (Pvt) Ltd	14 699	13 378	28 078

<b>Name of Creditor</b>	<b>Amount Owed US\$</b>	<b>Interest Charged US\$</b>	<b>Total Amount Owed US\$</b>
Radiation Authority of Zimbabwe	80 000	33 255	115 040
ZINWA	955 540	120 144	1 075 684
Sakunda Energy (Pvt) Ltd	1 469 545	157 060	1626 605
Authentic Group of Companies	77 233	394 868	472 102
Shinecode International (Pvt) Ltd	2 555 476	848 971	3 404 448
<b>TOTAL</b>	<b>5 619 985</b>	<b>1 637 030</b>	<b>7 257 016</b>

The interests on the overdue accounts was not recognized in the financial statements as a liability, but were disclosed as contingent liabilities as management argued that there was no contractual agreement with the suppliers towards the payment of these interest charges.

From my review of the payments made to suppliers during the year, I noted that management was paying some of the suppliers with the exception of Health Harvest, Lenny's Electrical, and Adiunctus Enterprises.

### **Risk/Implication**

Financial losses due to interest charges on late payment.

Understatement of liabilities.

### **Recommendation**

Management should consider engaging with the suppliers to negotiate for lower interest rates/ charges.

Management should also consider giving first priority of payments to suppliers that charge higher interest rates than the others to reduce the expense.

### **Management response**

**As a mitigatory measure, the company is engaging creditors on the reduction of interest amounts at the payment time.**

## **2. EMPLOYMENT ISSUES**

### **2.1. Special leave**

#### **Finding**

In February 2014, seven (7) of the company's senior management were sent on special leave to pave way for an investigation instituted by the government. As at December 31, 2014 and subsequent to the year end the results of the investigation were still pending and

management was still on leave. Full salaries were being paid to these managers and as at December 31, 2014, a total of US\$ 1 166 472 in gross earnings had been recognised in respect of salaries and wages relating to management on special leave.

### **Risk/Implication**

Financial losses due to payment of salaries to non-productive employees.

### **Recommendation**

Management should consult the Ministry of Mines and Mining Development regarding the status of the investigation and the action to be taken thereof.

### **Management response**

**Recommendations have been made to the principal and management awaits direction from the Ministry of Mines and Mining Development on the conclusion of the matter.**

## **2.2. Repairs and maintenance allowance**

### **Finding**

Repairs and maintenance allowances were paid to management for using their private vehicles for work purposes. The allowances were meant to cover for fuel, wear and tear and motor vehicle service expenses incurred by an employee on his/her personal vehicle. The cumulative allowance paid to an average of nine (9) managers who did not have company vehicles during the year was US\$ 349 397. Of these allowances US\$ 83 352 was paid outside the payroll from January 2014 to April 2014. During the year the company purchased motor vehicles for other managers at a cost of US\$ 49 000 per vehicle. Therefore, the repairs and maintenance allowance paid during the year was equivalent to the purchase price of seven motor vehicles.

### **Risk/Implication**

Financial losses to the company as payment of repairs and maintenance allowances may become expensive in the long run.

### **Recommendation**

Management should consider purchasing company motor vehicles and consider payment arrangements such as hire purchase.

## **Management response**

**Efforts to acquire the vehicles on a financing scheme were fruitless as all prospective car dealers wanted cash upfront before they could deliver the vehicles. We also pursued the financing schemes with banks but our requests were turned down due to a weak balance sheet. Meanwhile, the repairs and maintenance liability will be accruing to the employees.**

**Management has made a decision to acquire the vehicles in phases in line with the cash generating capacity of the company. Necessary approvals have already been obtained on some of the vehicles and are now being held by funding constraints.**

### **3. PROGRESS IN IMPLEMENTATION OF PRIOR YEAR RECOMMENDATIONS**

I reviewed the progress made towards the implementation of prior year recommendations and found that the company made some progress and there was room for improvement in respect of the following recommendations;

#### **3.1. Board composition and sub committees**

##### **Recommendation**

Best practice guidelines may need to be considered in structuring the new board of directors of the company:

##### **Progress made**

**The company was operating without a substantive board of Directors as the previous board was dismissed in December 2013.**

#### **3.2. Custody of the company assets**

##### **Recommendation**

Management should consider recovering the motor vehicles. In the case that the management fails to recover the vehicles, they should consider impairing the vehicles in the company's financial records.

##### **Progress made**

**The issue has been escalated to the principal, Ministry of Mines and Mining Development**

### 3.3. Statutory obligations

#### **Recommendation**

Management should consider coming up with a payment plan to meet the company's obligations.

#### **Progress made**

**This remained a challenge due to weak cash generation. However, payment plans and stakeholder engagement remain key until there is a significant cash flow improvement.**

### 3.4. Litigations

#### **Recommendation**

In future, management should consider engaging the bankers and/or suppliers in discussing a payment plan which they should adhere to in the event that they have failed to meet the initial arrangements. This will help avoid unnecessary litigation claims, which may result in increased financial losses and bad publicity for the company.

#### **Progress made**

**The company was engaging its creditors and agreeing payment plans. This has been key in deterring catastrophic actions from creditors and averting execution of writs against company assets.**

### 3.5. Mining rights

#### **Recommendation**

Management should follow-up the parent company as to the renewal of the special prospecting rights.

#### **Progress made**

**This was tied to the on-going consolidation of the diamond mines**



## **NATIONAL RAILWAYS OF ZIMBABWE (NRZ)**

### **Background information**

The National Railways of Zimbabwe (NRZ) is a designated corporate body operating in terms of the Railways Act [Chapter13:09]. NRZ is the prime mover of local, import/export and transit traffic carrying freight and passengers by rail.

I have audited the financial statements of National Railways of Zimbabwe for the year ended December 31, 2014.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of National Railways of Zimbabwe as at December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Emphasis of matter**

Without qualifying my opinion, I draw your attention to the fact that National Railways of Zimbabwe is in a net current liability position of US\$ 131 131 446. The National Railways also incurred a net loss of US\$ 31 607 218 (2013: US\$ 49 103 769) contributing to a cumulative loss of US\$ 235 544 295. This cumulative loss and net current liability position, along with other matters as set forth in Note 27 indicate the existence of a material uncertainty that may cast significant doubt over the National Railways' ability to continue as a going concern.

## **1. GOVERNANCE ISSUES**

### **1.1. Policies and procedures manuals**

#### **Finding**

I noted that the entity had policies and procedures manuals for different departments which were published decades ago. Updates to policies and procedures contained in these manuals had been made over the years as evidenced in board meeting minutes and memorandums. However, all these changes had not been documented in single comprehensive manuals. Over the years, the business processes of the entity have significantly changed and are no longer consistent with some of the policies and procedures in the original manuals. This has been heightened by the implementation of the SAP ERP system by the organisation and the implementation of the Work Study recommendations conducted by Deloitte (South Africa). The table below shows examples of the original manuals and their original publishing dates:

<b>Manual Title</b>	<b>Date of publishing</b>
Expenditure accounting manual books 2	1 August 1973
Financial accounting manual S.A. Cloete	1 September 1974
Manual capital expenditure procedures	1 May 1970
Revenue accounting manual	1 September 1975
Stations instruction book	1 September 1954
Rail tariff book	1 July 1996

### **Risk/Implication**

Inconsistencies in executing administration, financial reporting and operational procedures leading to a weak control environment.

### **Recommendation**

Management should ensure complete and updated policies and procedures manuals are compiled.

Updated policies and procedures should be communicated to all relevant personnel.

### **Management response**

**Observations noted. Instructions are issued continuously to update existing manuals. A register of all manuals will be maintained.**

## **1.2. Bank reconciliation statements**

### **Finding**

Bank reconciliation statements were not prepared on a monthly basis for the period under review. I noted that no bank reconciliation statements were prepared for the organisation's 22 accounts held with 4 banks.

### **Risk/Implication**

Fraud and errors may go undetected.

Misstatement of cash and bank balance in the financial statements.

### **Recommendation**

Management should ensure bank reconciliation statements are prepared monthly and reviewed on a timely basis.

## **Management response**

**Observation noted.** The organisation is still experiencing some challenges in obtaining all the necessary information from the bank statements to facilitate receipting and updating of customers' accounts. This is also made worse by the failure of the customers to submit proof of payments when they make payments. The banks are continuously being engaged to improve on the situation. The backlog clearances in SAP affected the clearances of bank reconciliations.

### **1.3. Assessment of investment property performance**

#### **Finding**

I noted that the entity had no ready listing of its investment properties and that there was no assessment of investment property performance. Management did not have information on rental income per investment property and occupancy percentage per property.

#### **Risk/Implication**

Reduced profitability as investment property performance may not be optimised

Fraud from diverted property rentals may go undetected.

#### **Recommendation**

Information on real estate property including unoccupied property should be filed and kept readily on hand.

An assessment of investment property performance should be conducted on a timely basis.

## **Management response**

**Management will implement a system which will assist in identifying unoccupied properties.**

**Agreed. Real Estate Management package is being sourced to facilitate investment assessment.**

### **1.4. SAP implementation**

#### **Finding**

NRZ had not addressed challenges faced in implementing SAP in a timely manner as evidenced by the following;

Accumulation of backlogs dating back to February 2014 noted during the interim audit in January 2015.

The Finance department personnel were informed about technical challenges more than IT department personnel.

There were no current documented plans to address the 2015 accumulating backlogs.

### **Risk/Implication**

Errors may not be resolved in a timely manner.

Pressure to clear backlog may result in the processing of inaccurate data.

It may prove costly to address implementation challenges later rather than earlier.

### **Recommendation**

Management should perform a post implementation review for SAP.

A clear strategy towards addressing accumulating 2015 backlogs should be documented and effectively communicated to all relevant personnel.

### **Management response**

**IT personnel will be sent for training.**

**A post implementation review for SAP will be undertaken.**

## **1.5. Strategic plan**

### **Finding**

NRZ prepared a strategic plan in alignment with the ZIMASSET. It however, faced significant challenges in attaining the set targets. An analysis of the set targets against actual performance is indicated in the table below;

<b>Performance measure</b>	<b>Target</b>	<b>Actual Achieved</b>	<b>Variance</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Turnover	6 506 000	3 355 000	(3 151 000)
Tonnage moved	438 000	293 680	(144 320)
	<b>%</b>	<b>%</b>	<b>%</b>
Gross profit margin	47	58	11
Net profit/ (Loss)	3	(21)	(24)

Performance measure	Target	Actual Achieved	Variance
	<b>Number</b>	<b>Number</b>	<b>Number</b>
Vehicle availability	40	34	(6)
Trailer availability	50	24	(26)
Trailer refurbishment	12	6	(6)

### **Risk/Implication**

Decisions may be made based on unrealistic strategic goals.

### **Recommendation**

Management should take into consideration the status of its key stakeholders in setting strategic goals.

### **Management response**

**Indeed, in coming up with the strategic plan (using RBM), customers are one of the key stakeholders that are analysed in terms of needs, problems and characteristics. Due to unforeseen economic events such as: sudden fall in ferrochrome prices and plant breakdowns, the organisation has been performing below target.**

## **2. PROGRESS IN IMPLEMENTATION OF PRIOR YEAR RECOMMENDATIONS**

I reviewed the progress made towards the implementation of prior recommendations and found that the National Railways made some progress and there was room for improvement in respect of the following recommendation:

### **2.1. Internal controls**

#### **Recommendation**

All reconciling items should be investigated and resolved on a monthly basis. Management should consider engaging banks to provide full details of transactions for more effective control. Management should also encourage greater internal communication between departments in order to record transactions accurately.

#### **Progress made**

**Bank reconciliation statements were not being prepared.**

## **PETROTRADE (PRIVATE) LIMITED**

### **Background information**

The Company is incorporated in Zimbabwe and engages in the importation, distribution and retail of petroleum products in Zimbabwe.

I have carried out an interim audit of the financial statements for Petrotrade (Private) Limited for the 9 months ended September 31, 2014.

Below are material issues noted during the interim audit.

### **1. GOVERNANCE ISSUES**

#### **1.1. Declaration of interest register**

##### **Finding**

The Company had no register to record Board members as well as members of senior management's interests. It was not evident whether board members declared their interests at Board meetings.

##### **Risk/Implication**

Related party transactions may not be identified for disclosure in the financial statements.

Transactions with related parties may expose the Company to high risk of financial loss as a result of conflict of interest.

##### **Recommendation**

The Company should maintain a declaration of interest register which records inter alia management's interest in companies and organisations.

The Company Secretary should review the register for completeness and should request members to declare their interests at all Board meetings.

##### **Management response**

**Noted. A register to declare Board members' and top management's interests will be put in place.**

## **2. PROGRESS IN IMPLEMENTATION OF PRIOR YEAR RECOMMENDATIONS**

I reviewed the progress made towards the implementation of prior year recommendations and found that the company made some progress and there was room for improvement in respect of the following recommendations;

### **2.1. Chief Executive Officer**

#### **Recommendation**

A substantive CEO should be appointed sooner rather than later.

#### **Progress made**

**A substantive CEO has not yet been appointed.**

### **2.2. Internal control**

#### **Recommendation**

Management should ensure that all Driveway sheets are sequentially pre-numbered and are used in sequence and are reviewed by the site supervisors who should sign them as evidence of review.

#### **Progress made**

**During the period under review some driveway sheets used at Karoi and Rusape Service Stations did not bear evidence of review by the site supervisors.**

### **2.3. Duty free certificates**

#### **Recommendation**

Duty free certificates should be presented to NOIC at the earliest opportunity.

#### **Progress made**

**Recommendation not implemented.**

## **POWERTEL COMMUNICATIONS (PRIVATE) LIMITED**

### **Background information**

PowerTel Communications (Private) Ltd is a wholly owned subsidiary of ZESA Holdings incorporated under the Companies Act [Chapter 24:03], and is licensed with a Class A Internet Access Provider license for operation in Zimbabwe

I have audited the financial statements for PowerTel Communications (Private) Limited for the year ended December 31, 2014.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of PowerTel Communications (Private) Limited as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### **Emphasis of matter**

Without qualifying my opinion, I draw attention to Note 28 in the financial statements which indicates that the Company incurred a net loss of US\$ 1 157 185 (2013: US\$ 164 588) during the year ended December 31, 2014, and, as of that date, the Company's current liabilities exceeded its current assets by US\$ 9 121 211 (2013: US\$ 4 336 335). These conditions, along with other matters set forth in Note 28, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

However, below are other material issues noted during the audit.

## **1. GOVERNANCE ISSUES**

### **1.1. Policies and procedures manual**

#### **Finding**

The Company's policies and procedures manual had not been updated since 2010. Between 2010 and 2014, were key changes in the Company's operations which include the implementation of a new billing system and the implementation of an electricity vending system. The Company had not incorporated the working instructions of these new systems into its policies and procedures manual.



### **Risk/Implication**

With the ever changing business environment key aspects may not be factored in, resulting in control deficiencies.

Control deficiencies may result in inconsistent execution of duties.

### **Recommendation**

Policies and procedures manuals should be updated regularly to ensure that organisational and operational changes are incorporated.

### **Management response**

**The point raised has been well noted. The procedures manual will be periodically updated with new developments in the operations of the organisation as is seen fit.**

## **1.2. Related party balances**

### **Finding**

The net liability position of related parties balances for Powertel was US\$ 3 762 513. This comprised of receivables of US\$ 1 187 400 and payables of US\$ 4 949 913, with the majority of payables relating to management fees owed to ZESA Holdings as shown below:

<b>Related party</b>	<b>Receivables US\$</b>	<b>Payables US\$</b>
Zimbabwe Electricity Transmission and Distribution Company	997 493	153 809
ZESA Holdings	36 359	4 542 917
ZESA Enterprises	53 759	253 022
Zimbabwe Power Company	99 789	165

These significant amounts were affecting the company's working capital position.

### **Risk/Implication**

Liquidity constraints may affect the Company's ability to operate as a going concern.

### **Recommendation**

Management should consider assessing its liabilities due to related parties to ensure that the working capital position of the Company is effectively managed.

## **Management response**

**The recommendation has been noted. Set off arrangements will be entered into for the management of this exposure.**

**Management will prepare a payment plan for payment of the balance that has not been covered by the set-off; which payment plan will be presented to ZESA Holdings for adoption.**

**A proposal to increase payments as business grows will be included in the payment plan proposal.**

**A further proposal for debt relief will be made to the parent company so as to release cash into working capital requirements.**

## **2. PROCUREMENT OF GOODS AND SERVICES**

### **2.1. Cancellation of Tenders**

#### **Finding**

During the year, certain tenders awarded to the winning bidders had to be cancelled as a result of the winning bidder failing to meet the contractual requirements. The table below shows examples of tenders awarded and their outcomes.

<b>Contract deliverables not met</b>			
<b>Contract date</b>	<b>Key contract details.</b>	<b>Contract Value US\$</b>	<b>Reason</b>
6-Jan-14	Tender number INF/PWT/41/2013	229 250	Supplier failed to deliver.
28-Jan-14	Tender number INF/PWT/35/2013	70 150	Supplier failed to deliver.
23-Mar-14	Tender number INF/PWT/26/2013	237 500	CPES failed to connect.

#### **Risk/Implication**

Unreliable suppliers may affect the Company's operations.

#### **Recommendation**

Management should establish more stringent tendering guidelines that ensure that suppliers are able to meet the Company's supply requirements.

## Management response

The suppliers stated above that failed to deliver cited the failure to secure project financing from the market as the reason for failing to meet the contract obligations. For companies that supplied CPEs which failed to connect, PowerTel sought and was granted approval by the State Procurement Board to buy specific market accepted brands of handsets and other CPEs with guaranteed performance for commercial requirements using an approved list.

Going forward, there is need for a revision of the Request for Proposal (RFP) document's financial qualification requirements. More stringent requirements will be included in the RFPs over and above the already existing ones to ensure that companies awarded the tenders have the financial capacity to supply the requirements.

### 3. INVESTMENTS

#### 3.1. Finalisation of key projects

##### Finding

An analysis of the capital work in progress showed that there were projects that were taking too long to complete. An extract is provided below:

Asset No.	Date	Value US\$	Years
130585	08.11.2011	226 128	3
130935	31.12.2011	76 122	3
130685	26.01.2012	46 143	2
130649	31.12.2011	33 010	3
130661	31.12.2011	33468	3
130692	01.12.2011	25 986	3
130633	28.12.2011	25 315	3
130684	26.01.2012	14 791	2
130683	26.01.2012	14 379	2
130682	26.01.2012	12 202	2
		<b>507 544</b>	

##### Risk/Implication

Loss of potential revenue as a result of idle and incomplete revenue generating assets.  
Reduced cash in-flows.

### **Recommendation**

Management should employ a more efficient project monitoring system which enables the Company to monitor progress being made on key projects.

### **Management response**

**Work on projects has been shelved pending the availing of the required equipment from the customers.**

## **4. PROGRESS IN IMPLEMENTATION OF PRIOR YEAR RECOMMENDATIONS**

I reviewed the progress made towards the implementation of prior year recommendations and found that the company made some progress and there was room for improvement in respect of the following recommendation;

### **4.1. Debtors' days**

#### **Recommendation**

Debtors should be frequently monitored on a timely basis to ensure that amounts are recovered within a reasonable time frame.

Management should negotiate settlement plans with customers and monitor compliance where such plans have been agreed.

#### **Progress made**

**Management has stepped up efforts to collect from defaulting clients with regular client visits being carried out. Disconnection of service for perennial defaulters is also being carried out to push for collections.**

**However, the Company's gross trade receivables increased significantly by 93% from US\$ 4 338 089 in 2013 to US\$ 8 390 606 as at year end 2014. Of this amount, US\$ 4 028 601 had been outstanding for more than 150 days which represents 48 % of total trade debtors.**

## **ZESA ENTERPRISES (PRIVATE) LIMITED (ZENT)**

### **Background information**

ZESA Enterprises (Private) Limited, is incorporated under the Companies Act [Chapter 24:03] and the Electricity Act [Chapter 13:19] and is 100% owned by ZESA Holdings. It is mainly involved in the manufacture and repair of power and distribution transformers and line material; design, construction and commissioning of high voltage substations, power lines, civil and mechanical works; provision of transport logistics; supply and distribution of high quality hardware, domestic and industrial electrical equipment; provision of information technology and support services.

I have audited the financial statements for ZESA Enterprises (Private) Limited for the year ended December 31, 2014.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of ZESA Enterprises (Private) Limited as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Emphasis of matter**

Without qualifying my opinion, I draw attention to note 27 to the financial statements, which indicates that the Company incurred a loss before tax for the year ended December 31, 2014 of US\$ 7 086 452 (2013: US\$ 5 237 664) and as at that date the current liabilities exceeded current assets by US\$ 16 552 540 (2013: US\$ 9 032 629). This along with other matters indicates the existence of material uncertainty which may cast significant doubt on the Company's ability to service its short term obligations.

However, below are other material issues noted during the audit.

## **1. GOVERNANCE ISSUES**

### **1.1. Sustainability of service delivery**

#### **Finding**

The Company incurred an operating loss of US\$ 7 086 452 for the year ended December, 31 2014 (2013: US\$ 3 894 751). This represented a 78% increase in losses (US\$ 4 061 955). This followed a 16% increase in operating losses in the 2013 financial year compared to 2012 indicating a trend of continuously increasing losses. Similarly, there was a trend of revenues dropping since 2011. For the year ended 31 December 2014 revenue was US\$ 19 221 858 (2013: US\$ 24 207 988).

Furthermore, the Company was facing a liquidity crisis as its net working capital position worsened compared to the prior year. For the year ended December 31, 2014, the company had a negative working capital position of US\$ 16 552 540 (2013: US\$ 9 032 629).

The Company also did not pay some of its statutory obligations for the period under review. The total unpaid obligations to statutory bodies amounted to US\$ 7,393 974 as at December 31, 2014.

### **Risk/Implication**

The company may not be able to meet its liabilities as they fall due leading to both commercial and technical insolvency and thus be unable to operate as a going concern.

### **Recommendation**

Management should reassess the ability of the Company to continue operating as a going concern.

### **Management response**

**The current financial performance and position highlights the following issues which can be summarized as follows:**

- **Low performance with regards to sales orders, production and efficiencies with high dependency on a single customer**
- **Inappropriate cost structures (manpower and overhead) which affect business competitiveness**
- **Legacy matters that give rise to costs that need to be revisited and resolved.**

## **1.2. Funding**

### **Finding**

During the period under review, ZENT received two major orders that it could not execute due to working capital constraints. The details of the orders are indicated below;

On July 10, 2014, the Manufacturing Division received an order for 1 980 transformers from ZETDC. The total value of the order was US\$ 15 537 109. However, due to inadequate working capital, only 156 transformers had been manufactured by year end.

The Projects Division had pending works worth US\$ 7,5 million on the Afreximbank projects for which funding from ZETDC had not been availed. The bonded warehouse under ZENT currently houses equipment for these projects, for which duties and taxes must be paid by ZETDC for the work on these projects to begin.

## **Risk/Implication**

The Company's ability to continue as a going concern may be affected.

## **Recommendation**

Management should engage its customer ZETDC through the ZESA Holding board, and negotiate that it liquidates its debts worth US\$ 15 million so as to avail working capital to sustain the company.

Management should explore other avenues to raise much needed working capital such as, order financing arrangements with financial institutions for third party customers.

## **Management response**

**Liquidity remains a challenge as indicated. Matters of group inter-payments have been continually raised and the ZESA Holdings management and board is fully aware.**

**Initiatives to raise funds from banks have been undertaken and a report on progress to the ZENT Board has been tabled. Given the related party relationships, banks are not willing to fund ZESA subsidiary orders given that the same banks are already exposed to ZESA subsidiaries through direct dealings.**

**The solution is to get external business and then engage the banks on order financing and ultimately the funding can only be structured on bankable sales orders.**

### **1.3. Project contracts**

#### **Finding**

Some of the ZENT projects did not have contracts and the purchase orders were being used to recognise revenue. The table below shows examples of such projects:

<b>Project</b>	<b>Amount</b>	<b>US\$</b>
Pomona Access Road		58 365
Parkroad		74 806
ZNA Mbalabala		69 240
Supply and Installation of 2MVA 11/0.4Kv Transformer and LV cables		73 805
Construction of 33/11Kv 2 x 20MVA Sub		2 306 124
Construction of 33/6.6Kv substation		140 975
Supply & Installation & Commissioning of 33Kv Circuit breakers		161 057
<b>Total</b>		<b>2 884 372</b>

### **Risk/Implication**

Possible financial loss emanating from disputes with customers.

### **Recommendation**

Management should ensure that all projects are supported by contracts detailing the specific performance terms.

### **Management response**

Steps have been taken to ensure that all projects have formal contracts in place. The practice for some of the projects has been to consider that the contract is constituted by the offer to the client, the order from the client and the minutes of the pre-implementation meeting.

The projects below do have sales orders in place. For smaller projects under US\$ 200 000, contracts are usually not necessary given the fact that it is not convenient to split the projects into milestones.

For internal business ZENT has service level agreements with general conditions of service. ZENT has also developed commercial terms and conditions for all contracts. ZENT will however ensure that projects above the \$200 000 threshold will have contracts in place to give clear billable milestones.

## **1.4. Statutory obligations**

### **Finding**

The Company was not paying NSSA and PAYE. The tables below show amounts owing for NSSA and PAYE:

#### **NSSA**

<b>Month</b>	<b>Amount owed (WCIF) US\$</b>	<b>Amount paid US\$</b>	<b>Amount outstanding US\$</b>
Opening balance at the beginning of the year	(117 328)		
January	(4 360)	-	(4 360)
February	(4 528)	5 000	472
March	(4 639)	-	(4 639)
April	(4 925)	-	(4 925)
May	(5 071)	-	(5 071)
June	(5 092)	-	(5 092)
July	(5 098)	-	(5 098)
August	(5 141)	-	(5 141)



<b>Month</b>	<b>Amount owed (WCIF) US\$</b>	<b>Amount paid US\$</b>	<b>Amount outstanding US\$</b>
September	(6 703)	-	(6 703)
October	(5 405)	-	(5 405)
November	(5 547)	-	(5 547)
December	(5 175)	-	(5 175)
<b>Total</b>	<b>(179 010)</b>	<b>5 000</b>	

<b>PAYE</b>			
<b>Month</b>	<b>Amount owed US\$</b>	<b>Amount paid US\$</b>	<b>Amount outstanding US\$</b>
Balance at the beginning of the year	<b>(564 261)</b>		
January	(109 379)	110 000	621
February	(89 706)	-	(89 706)
March	(91 093)	150 000	58 907
April	(91 531)	-	(91 531)
May	(109 278)	-	(109 278)
June	(94 847)	600 097	505 250
July	(98 322)	109 278	10 956
August	(98 088)	-	(98 088)
September	(155 482)	-	(155 482)
October	(103 336)	100 000	(3 336)
November	(137 874)	-	(137 874)
December	(107 135)	227 619	120 484
<b>Penalty</b>	<b>(331 201)</b>	-	<b>(331 201)</b>
<b>Total</b>	<b>(2 181 533)</b>	<b>(1 296 994)</b>	<b>(884 839)</b>

### **Risk/Implication**

Financial loss due to fines and penalties for non-compliance.

### **Recommendation**

Management should negotiate payment plans with ZIMRA to avoid penalties and interest for non-compliance.

### **Management response**

**ZENT has been facing financial constraints that affected the payment of critical obligations including statutory remittances. Payment plans are in place to mitigate the risk of litigation and these will be constantly reviewed.**

### 1.5. Motoring benefit.

#### Finding

ZESA Enterprises under declared PAYE on the motoring benefit. It used the rates which were applicable in 2013 instead of the 2014 rates. The table below shows the deemed benefit which was not declared for the whole year:

Type of vehicle	Engine capacity	Deemed benefit as per return US\$	Correct deemed benefit US\$	Variance US\$	Deemed benefit not declared US\$
Mazda B1800	1 800	200	400	200	2 400
Mitsubish L200	2 000	200	400	200	2 400
BT50 Double Cab	2 500	300	600	300	3 600
BT50 Double Cab	2 500	300	600	300	3 600
BT50 Double Cab	2 500	300	600	300	3 600
Mitsubishi L200	2 000	200	400	200	2 400
BT50 Double Cab	2 500	300	600	300	3 600
BT50 Double Cab	2 500	300	600	300	3 600
BT50 Double Cab	2 500	300	600	300	3 600
Mitsubishi Lancer	1 300	150	300	150	1 800
BT50 Double Cab	2 500	300	600	300	3 600
					<b>34 200</b>

#### Risk/Implication

Financial losses due to penalties and interest imposed for under declaring PAYE.

#### Recommendation

Management should ensure that correct rates are used for the motoring benefits.

#### Management response

**ZENT will ensure all tax changes in legislation and rates are implemented on the given effective dates. Issues had already been picked up by management and had been listed for the tax amnesty.**

## 1.6. Board fees and allowances

### Finding

The entity paid its board member allowances other than sitting fees. These allowances included electricity, retainer fees and monthly fuel as shown in the table below:

Month	Electricity US\$	Sitting fees US\$	Retainer fees US\$	Monthly fuel US\$	Sitting fuel US\$	Travelling reimbursement US\$	Total US\$
January	30	-	-	2 064	435	-	2 529
February	-	-	-	-	-	-	-
March	-	-	-	-	-	-	-
April	-	-	-	-	-	-	-
May	-	-	-	-	-	-	-
June (old board)	2 750	-	4 033	-	-	-	6 783
June	-	-	-	2 102	-	568	2 670
July	-	-	-	2 102	-	-	2 102
August	99	-	-	2 102	-	-	2 201
September	774	13 900	6 100	2 102	3 244	1 722	27 843
October	2 926	-	-	2 174	-	520	5 620
November	965	6 450	6 100	2 178	527	520	16 740
December	965	-	-	2 131	-	-	3 096
<b>Total</b>	<b>8 508</b>		<b>20 350</b>	<b>16 233</b>	<b>16 958</b>	<b>4 206</b>	<b>3 330</b>

In terms of the 13th Schedule to the Income Tax Act (Chapter 23.06) directors' fees paid to non-executive directors did not constitute remuneration if no other amounts constituting remuneration have been paid or become payable to the board members.

The monthly allocation of fuel, retainer fees and electricity are benefits which are being offered in terms of Section 8(1) (f) of the Income Tax Act.

As such the sitting fees paid to the board members constitute remuneration since they are being paid together with the monthly allocation of fuel, electricity and retainer fees. The sitting fees, allocation of fuel and retainer fees are subject to PAYE at a rate applicable to the total fees and allowances received rather than the 20% withholding tax.

### Risk/Implication

Financial losses due to penalties and interest for under declaring PAYE.

## **Recommendation**

Management should ensure that other allowances paid to directors are taxed appropriately.

## **Management response**

**Board Fee taxes were being deducted on a withholding tax basis instead of treating board members as employees and taxing them on a PAYE basis. The matter was agreed at ZESA Holdings level after liaison with Tax Consultants. Issues had already been actioned by management and had been listed for the tax amnesty.**

## **2. PROGRESS IN IMPLEMENTATION OF PRIOR YEAR RECOMMENDATIONS**

I reviewed the progress made towards the implementation of prior year recommendations and found that the company made some progress and there was room for improvement in respect of the following recommendation;

### **2.1. Inventory holding days**

#### **Recommendation**

The Company should identify and analyse the reasons for the increase in the number of days stocks are held.

#### **Progress made**

**There was low production in 2014 which saw little inventory movement. With significant orders received, ZETDC 1 980 transformers and REA orders, the inventory holdings days should decline as stock is utilized in production.**

### **2.2. TechPro investment initiative**

#### **Recommendation**

Management should strive to implement set capital projects in order to reap maximum benefits from committed capital.

#### **Progress made**

**The initiative failed to kick off in 2014 but there was communication with TechPro to negotiate the extension of the license term. ZESA Holdings pledged to fund the Project to the tune of \$1.5million. Steps have been taken to get Government condonation of the project through the Parent Ministry under the guidance of State Enterprise Restructuring Agency (SERA).**

## **ZIMBABWE ACADEMIC AND RESEARCH NETWORK (ZARNet) (PRIVATE) LIMITED: 2011- 2013**

### **Background information**

The Zimbabwe Academic and Research Network (Private) Limited was established in 1999 under the Scientific and Technological Research Act of 1986, mainly to promote information age literacy and nation building through the provision of efficient connectivity and reliable inter-linkages between various academic, educational, scientific, and other institutions nationally, regionally, and internationally through wide area networks and internet.

I have audited the financial statements of the Zimbabwe Academic and Research Network for the years ended December 31, 2011, 2012 and 2013.

### **Opinion on the financial statements for the year ended December 31, 2011**

In my opinion, the financial statements present fairly, in all material respect, the financial position of the Zimbabwe Academic and Research Network (Private) Limited as at December 31, 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Opinion on the financial statements for the year ended December 31, 2012**

In my opinion, the financial statements present fairly, in all material respect, the financial position of the Zimbabwe Academic and Research Network (Private) Limited as at December 31, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Opinion on the financial statements for the year ended December 31, 2013**

In my opinion, the financial statements present fairly, in all material respect, the financial position of the Zimbabwe Academic and Research Network (Private) Limited as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

However, below are other material issues noted during the audit.

## **1 GOVERNANCE ISSUES**

### **1.1 Board attendance register**

#### **Finding**

The Company had no attendance register for board and committee meetings for the years 2012 and 2013. Attendance registers play an important role of keeping a record of

attendance to board and committee meetings by members. The attendance registers should then be the basis upon which sitting allowances are paid.

**Risk/Implication**

Financial loss through payments for services not rendered.

**Recommendation**

The board and committee meetings attendance register should be put in place. The register should have a column where each committee member signs as proof that he/she has attended the meeting.

**Management response**

**Signing of the board attendance register is done prior to the meeting and as such these attendance registers are available for inspection.**

**Auditor's comment**

**What was availed were for the year ended December 31, 2011 and no such records for the other years.**

**1.2 Declaration of interests**

**Finding**

There was no evidence that Board members declared business interests for most of the Board meetings that they attended. I also observed that there were no formal procedures to declare business interests for the company's key management staff.

**Risk/Implication**

Conflict of interest may impair objectivity.

**Recommendation**

Board members should declare their business interest in all meetings and should be recorded in the register.

The company should consider putting in place formal procedures for declaration of business interests by its key management staff.

**Management response**

**The observation has been noted on key management staff which shall be put in place.**

### **1.3 Board committees**

#### **Finding**

The board operated with one committee namely, the human resources committee. Best practice recommends the board to form committees to look into different issues thereby enhancing fulfilment of its mandate. Committees such as the audit and risk assessment committee, and finance committee were not in place.

#### **Risk/Implication**

The board may be overwhelmed and may fail to adequately address other areas of strategic importance.

#### **Recommendation**

The board should consider establishing key committees to look into different issues affecting the company.

#### **Management response**

**Observation noted.**

### **1.4 Withholding tax for board members**

#### **Finding**

There was no evidence that withholding tax was charged on Board fees and allowances paid for the period under review.

#### **Risk/Implication**

Financial loss through payment of fines and penalties for non-compliance with statutory requirements of withholding tax on board fees.

#### **Recommendation**

All board fees and allowances should be subjected to withholding tax which should be remitted to the revenue authority.

#### **Management response**

**The observation has been noted and corrective action will be taken.**

## 1.5 Going concern

### Finding

The Company incurred losses of \$115 142 in 2011, \$113 897 in 2012 and \$288 900 in 2013 thereby resulting in negative reserves of \$204 678 as at December 31, 2013. Long outstanding debtors stood at US\$ 186 811.

The table below shows how the liquidity position of ZARNet worsened since 2011 as measured by the current ratio during the three (3) years under review. Generally, the company should aim to maintain a current ratio of at least 2:1 to ensure that the value of its current assets cover at least the amount of its short term obligations.

Ratio Analysis	2013	2012	2011
Current Ratio	0.27:1	0.33:1	0.40:1

The Company was also exposed to stiff competition from well-established and heavily capitalized competitors. From the above, the going concern of the company appears to be severely threatened.

### Risk/Implication

Poor cash inflows have impacted negatively on the operational effectiveness of the Company hence, the Company might fail to fulfil its mandate in the not too distant future.

### Recommendation

The Company should continue to follow up on long outstanding debts.

The shareholder should also consider recapitalizing the company so that it can stand up to the challenge posed by competitors.

### Management response

**The observation has been noted and Government Ministries, departments and parastatals have been engaged in order to liquidate their debt.**

## 1.6 Tax on fringe benefits

### Finding

I noted that the following allowances which include housing allowance, gardener allowance, technical allowance, professional allowance, transport allowance paid to staff members were not being included in gross income for taxation in line with the Income Tax Act[Chapter 23:06].



**Risk/Implication**

Financial loss through penalties being charged for non-compliance.

**Recommendation**

All allowances should be taxed as per the Income Tax Act[Chapter 23:06].

**Management response**

**The observation has been noted and the Revenue Authority has been engaged to that effect.**

**1.7 Statutory deductions****Finding**

The Company has statutory deduction arrears in respect of PAYE and AIDS levy as detailed in the table below:

<b>Year</b>	<b>PAYE US\$</b>	<b>AIDS LEVY US\$</b>	<b>TOTAL US\$</b>
<b>2011</b>	66 498	1853	<b>68 351</b>
<b>2012</b>	107 387	3079	<b>110 466</b>
<b>2013</b>	153 503	4463	<b>157966</b>
<b>TOTAL</b>	<b>327 388</b>	<b>9395</b>	<b>336 783</b>

**Risk/Implication**

Financial loss due to fines and penalties for non-remittance of statutory deductions.

**Recommendation**

The Company should consider remitting statutory deductions to the Revenue Authority on time.

**Management response**

**Noted and relevant statutory bodies have been engaged.**

## **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1 Trade and other receivables**

#### **Finding**

The Company's trade receivables for the year ended December 31, 2011, 2012 and 2013 consisted of amounts that were in excess of 120 days. For instance as at December 31, 2012 the debtors figure was \$130 256 and US\$ 58 370 representing 43.81% of total debts due was in excess of 120 days , while in 2013 \$133 163 representing 71.27% of the total debtors \$186 811 was in excess of 120 days casting doubt on the recovery. The following is a sample of such debtors:

<b>Entity/Debtor</b>	<b>Amount(US\$) in excess of 120 days</b>	<b>Period amount relates to.</b>
Ministry of Regional Integration	13476	2011
Management Training Bureau	1595	2011
Zimbabwe Youth Council	3790	2011
Eagle School	2508	2011
Ministry of Regional Integration	27425	2012
Chogugudza School	4863	2012
Eagle School	2971	2012
Manqe Secondary School	14664	2012
Tsholotsho Secondary School	1848	2012
Ministry of ICT	26 163	2013
St Francis and St Claire	2 412	2013
Afri-global	7 276	2013

#### **Risk/Implication**

Cash tied up in receivables that could be utilized to finance operations.

#### **Recommendation**

Concerted effort should be made to recover all debts.

#### **Management response**

The observation has been noted all account receivables have been engaged in order for them to pay up.

### **3 EMPLOYEMENT ISSUES**

#### **3.1 CEO benefits/allowances**

##### **Finding**

The Chief Executive Officer was receiving a monthly housing allowance of US\$500 and US\$ 800 rental amount for his residence. However, this was not in line with his contract which provided for a housing allowance.

##### **Risk/Implication**

Possible double dipping and payment of unapproved allowance.

##### **Recommendation**

The Chief Executive should be paid the accommodation benefit in line with the contract.

##### **Management response**

**The CEO's contract was availed to the audit team and all benefits are above Board.**

##### **Auditor comments**

**The contracts stipulates the following "ZARNet shall provide an appropriate company house. In the event that an appropriate company house is not available, a housing allowance shall be allocated and the limit shall be determined by the Board".**

## **ZIMBABWE MINING DEVELOPMENT CORPORATION (ZMDC) AND ITS SUBSIDIARIES 2013**

### **Background information**

Zimbabwe Mining Development Corporation is wholly owned by the Government of Zimbabwe. The main business of the Corporation and its subsidiaries, which are incorporated in Zimbabwe, is that of minerals extraction and sales.

I have audited the Group financial statements for the Zimbabwe Mining Development Corporation for the year ended December 31, 2013.

### **Basis for Adverse Opinion**

- (i) Non compliance with International Accounting Standard 28 (IAS 28), Investments in Associates and Joint Ventures and International Financial Reporting Standard 11 (IFRS 11), Joint Arrangements and International Financial Reporting Standard 10 (IFRS 10), Group Financial Statements**

The group financial statements do not include all the Corporation's subsidiary; Shabanie and Mashava Mines (Private) Limited in which it holds a shareholding of 76%, 40% shareholding in Todal Mining (Private) Limited, 50% shareholding in Gye Nyame (Private) Limited (joint ventures) and ShinZim Platinum Company (Private) Limited, 20% shareholdings in Global Platinum Resources (Private) Limited and Rushchrome Mining (Private) Limited (associates). The Corporation's investment in Shabanie and Mashava Mines (Private) Limited has been accounted for at cost, contrary to the requirements of IFRS 10 which requires a parent to consolidate its interest in subsidiaries which it controls. IAS 28 and IFRS 11 require a parent to account for its investments in joint ventures and associates using the equity method in its group financial statements. The financial impact of the non-compliance has not been established due to the unavailability of the relevant financial statements from the entities.

- (ii) Management and resource depletion fee income**

Included in Group revenue is management and resource depletion fee income amounting to US\$3,245,538 from its investment, Anjin Investments (Private) Limited. The Corporation is entitled to 3% of Anjin Investments (Private) Limited's gross revenue earned from sale of diamonds as resource depletion fees. I was unable to obtain sufficient appropriate audit evidence on the completeness and accuracy of the 3% share of revenue as no financial information was availed from Anjin Investments (Private) Limited.

- (iii) Mining rights**

International Accounting Standard 38 (IAS 38), Intangible Assets, requires an entity to recognise its intangible assets, such as mining rights at cost or fair value. The Corporation transferred its mining rights to its joint ventures in consideration for 50% shareholding in

the entities, the value of which has not been included in these Group financial statements. The joint ventures in question are Mbada Diamonds (Private) Limited and Diamond Mining Corporation (Private) Limited. The failure to recognize mining rights constitutes a departure from International Financial Reporting Standards. The effect of non-compliance has not been established.

**(iv) Valuation of investment in joint venture**

The Corporation's investment in Jinan Mining (Private) Limited, a joint venture accounted for by the equity method, is carried at US\$105,145,290 in the statement of financial position as at 31 December 2013, and the Corporation's share of Jinan Mining (Private) Limited's net loss amounting to US\$28,427,564 is included in the Corporation's income for the year then ended. The joint venture did not carry out a full stock count of physical inventories at year end, thus I was unable to satisfy myself by alternative means concerning the inventory quantities held at 31 December 2013. In addition, Jinan Mining (Private) Limited measured inventory at fair value, contrary to International Accounting Standard 2, Inventories (IAS 2), which requires inventory to be measured at the lower of cost and net realizable value. Supporting documentation which indicates the cost of the inventory purchased could not be availed. I was therefore unable to satisfy myself by alternative means as to the valuation of inventories at year end.

**(v) Non-compliance with International Accounting Standard 37: Provisions, contingent liabilities and contingent assets**

Mineral Development (Private) Limited, a 100% owned subsidiary, did not incorporate in its financial statements a provision for environmental rehabilitation costs. This constitutes a departure from International Financial Reporting Standards which require that the company should make a provision for the rehabilitation of the environment after it ceases its operations. There were no alternative procedures I could perform to enable us to reliably estimate the amount of the provision that should be included in the financial statements. Had the provision been determined, it would have increased provisions and administration expenses by a material amount.

**(vi) Going concern status of a significant joint venture**

Mbada Diamonds, a joint venture, posted a loss of US\$ 49,651,489 and (2012: profit US\$56,015,647) and its current liabilities exceeded its current assets by US\$ 89,916,504 (2012: US\$57,383,887). Management did not present a clear turnaround plan on how the company would be able to raise funding to pay its liabilities as they fall due and bring the joint venture to profitability. These events indicate a material uncertainty that may cast significant doubt on the joint venture's ability to continue as a going concern and therefore the joint venture may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements and notes thereto do not disclose this fact.

## **Adverse opinion**

In my opinion, because of the significance of the matters described in Basis for Adverse Opinion paragraphs (i) to (vi) above, the Group financial statements do not give a true and fair view of the financial position of Zimbabwe Mining Development Corporation and its subsidiaries as at 31 December 2013, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

## **Emphasis of matter**

Without further modifying my opinion, I draw attention to Note 37 to the group financial statements which describes the going concern uncertainty for the Group. The Group incurred a loss before tax of US\$ 26,961,718 for the year ended 31 December 2013, (2012: profit of US\$73,838,610) and its current liabilities exceeded its current assets by US\$ 127,967,264 (2012: US\$57,929,465) as at that date. These conditions along with other matters as set forth under Note 37 to the Group financial statements indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Group to continue operating as a going concern.

However, below are other material issues noted during the audit.

### **1. GOVERNANCE ISSUES.**

#### **1.1 Funding of subsidiaries**

##### **Finding**

The Corporation funded non-producing subsidiaries in 2013, despite the fact that there were no clear turnaround strategies on how the companies were going to start production and how the invested funds were going to be recovered. The table below shows the funds invested in dormant subsidiaries:

<b>Company</b>	<b>Funding in 2013 (US\$)</b>	<b>Cumulative funding (US\$)</b>
SMM Holdings	5,204,058	16,748,293
Mining Development (Private) Limited	1,405,400	6,281,869
Sandawana Mines (Private) Limited	935,889	7,140,344
Golden Kopje (Private) Limited	15,819	15,819

##### **Risk/Implication**

Allocation of scarce financial resources to recurrent expenditure at the expense of capitalisation of other projects with high returns.

## **Recommendation**

The Corporation should consider allocating resources to subsidiaries based on clear fundable business plans.

## **Management response**

**The Corporation, through the new Mining Development Board, is looking for investors, to partner with in forming joint ventures, to exploit resources at SMM Holdings, Mhangura Copper Mines, Kamativi Mine, Lomagundi Smelting Mine, Sandawana Mines and Golden Kopje. Mining Development is going to retreat dumps and the required capital outlay is estimated at US\$500,000 which will be sourced from the local banks. It is anticipated that the Mining Development project will be profitable.**

## **1.2 Payment of dividends**

### **Finding**

The Corporation paid dividends to the Ministry of Mines and Mining Development without performing an analysis of whether the funds could have been invested in its subsidiaries and whether resources were available to meet statutory obligations and taxes that needed to be settled, which is in contravention of the ZMDC Act [Chapter 21:08] section 33 which states that where in a financial year the revenues of the Corporation are more than sufficient to meet the expenditure of the Corporation properly chargeable to revenue in that year; and to enable the Corporation to make provision for any taxes, duties or rates for which it is liable; and to permit the redemption on due date of the Corporation's debentures and other loan capital; and to enable the Corporation to make such appropriations to its general reserve in terms of section thirty as necessary or desirable; the Corporation shall pay out of the surplus such dividends to its shareholders as the Board may determine in relation to that year.

Payment of the dividends to the Ministry of Mines and Mining Development before settling obligations and consideration of available investment opportunities was also in contravention of the ZMDC Finance and Investment Policies and Procedural Manual section 12.1 which states that the dividend policy depends on the following three things; amount of internally retained and generated funds which lead to dividend distribution if all possible investments have been financed; investment opportunities available to the corporation and settlement of obligations.

### **Risk/Implication**

Weak internal control environment due to non compliance with the ZMDC Finance and Investment Policies and Procedural Manual and the ZMDC Act [Chapter 21:08].

Payment of dividends when the Corporation is failing to meet statutory payments results in penalties and interest from the tax authorities.

### **Recommendation**

Resources should be appropriately allocated with priority being given to paying statutory obligations.

The Corporation should comply with the requirements of the ZMDC Act [Chapter 21:08] and ZMDC Finance and Investment Policies and Procedural Manual.

### **Management response**

**The dividend payments to the Ministry of Mines and Mining Development were approved by the then Mining Development Board Chairman and were made as advance payments to facilitate the business of the Government.**

## **1.3 Renewal of mining claims and special grants**

### **Finding**

The Corporation had over seven thousand (7 000) claims most of which expired in 2013 and were not renewed, in contravention of the Mines and Minerals Act (Chapter 21:05) which states that mining claim licenses should be renewed when expired. The special grants for the diamond mining joint ventures expired on December 31, 2013 and were also not renewed. The following are examples of mining claims and special grants which expired and had not been renewed as at year end:-

<b>MINE</b>	<b>CLAIMS</b>	<b>EXPIRED</b>
Jena Mines (Private) Limited	Jena mining lease	08.07.2013
Kimberworth Investments (Private) Limited	Sabi mining lease	16.07.2013
Sandawana Mines (Private) Limited	Sandawana mining lease	16.11.2013
Marange Resources (Private) Limited	R.A No.1518 Mining	03.10.2013

### **Risk/Implication**

Non Compliance with the Mines and Minerals Act (Chapter 21:05) as the Corporation and its subsidiaries are mining on unlicensed claims.

The mining claims and special grants may be allocated to other applicants, negatively affecting the companies' operations.



## **Recommendation**

All mining claim licenses and special grants should be renewed on expiry and in case of cash flow challenges the Corporation must engage the Ministry of Mines and Mining Development to agree on a payment plan.

## **Management response**

**The mining claims and special grants were not renewed due to cash flow constraints faced by the Corporation. Management will engage the Ministry of Mines and Mining Development to agree on a payment plan.**

### **1.4 Share certificates for investments**

#### **Finding**

The Corporation had no share certificates for its investments in Anjin (Private) Limited, Jinan (Private) Limited, Gye Nyame (Private) Limited, Diamond Mining Corporation and Global Platinum Resources (Private) Limited.

#### **Risk/Implication**

Ownership of investments may be difficult to prove in case of legal disputes.

#### **Recommendation**

The Corporation should obtain share certificates from the subsidiaries and joint ventures.

#### **Management response**

**The legal department is working on the issue of share certificates for the various entities.**

### **1.5 Loan agreements**

#### **Finding**

The Corporation breached the terms of loan and overdraft facilities obtained from CBZ Bank Limited and Allied Bank Limited respectively during the year as follows:

The Allied Bank Limited overdraft's expiry date was 30 September 2013 but the Corporation did not repay the facility on the due date and did not rollover the facility. The overdraft was accruing interest at penalty rate of 36% per annum on any amounts outstanding after the expiry date. The outstanding balance was US\$1,023,880 at year end.

The Corporation renegotiated a CBZ Bank Limited loan amount of US\$4,000,000 but only US\$350,000 was repaid during the year in contravention of the loan agreement which states that the repayments (capital and interest) should be repaid on a monthly basis failure which it attracts penalties at a default rate of 36% per annum on the outstanding amount. The outstanding loan balance was US\$3,666,667 at year end.

The Corporation exceeded the CBZ Bank Limited overdraft facility limit of US\$666,667. The overdraft balance at year end was US\$1,412,818.

### **Risk/Implication**

Interest and penalties are charged by the banks on breach of loan and overdraft agreements.

Low credit rating leading to inability to secure long term funding from financial institutions.

### **Recommendation**

The Corporation should honour the terms and conditions of the loan and overdraft agreements and in cases of cash flow challenges should engage the banks to renegotiate the terms and agree on a repayment plan.

### **Management response**

**The Corporation borrowed US\$4 million in 2012 from CBZ Bank Limited to pay SMM Holdings expenses which were mainly salaries, electricity, legal fees, administrator expenses and pumping equipment. No capital expenditure was made. The diamond sector revenues dwindled in 2013 to an extent that the Corporation could not service its debts. However, we will renegotiate loan and overdraft facilities with both CBZ Bank Limited and Allied Bank Limited.**

## **1.6 Utilisation of assets**

### **Finding**

The Corporation had six (6) houses meant to be used by senior management as housing benefit. According to the Corporation's Human Resource Policy, all staff is entitled to housing loans, hence the houses are no longer necessary. The houses are being leased by staff that benefited from housing loans. The table below shows how the houses were utilised in 2013.

<b>House</b>	<b>Location</b>	<b>Occupied by</b>	<b>Paying rentals</b>
1	Mt Pleasant, Harare	Not occupied-	N/A
2	Glen Lorne, Harare	Former Chief Operating Officer	No
3	Greendale, Harare	Tenant	Yes
4	Eastlea, Harare	Tenant	Yes
5	Borrowdale, Harare	Mining Promotion Corporation Offices	N/A
6	Greenside, Mutare	Guest House	N/A

### **Risk/Implication**

Loss of investments opportunities by keeping houses that have no benefit to the Corporation.

### **Recommendation**

The Corporation should consider disposing some of the houses to fund its critical projects.

### **Management response**

**We will consider the Auditors recommendation. Employees in company accommodation will be charged market rentals as from August 2014**

## **1.7 Compliance with joint venture agreements**

### **Finding**

The Corporation signed joint venture agreements for mining of diamonds on its concessions in Marange, however joint venture partners did not fulfill their funding obligations as agreed in the joint venture agreements. The joint ventures have completed the project implementation phase and are on the production phase. The agreed investments are not likely to be injected as the companies were now selling diamonds and declaring dividends to shareholders. This resulted in undercapitalization in some of the joint venture mines. I could not obtain the amount invested by Anjin Investments (Private) Limited to date. The table below shows the amounts invested by the joint venture partners up to 31 December 2013:

<b>Joint venture</b>	<b>Agreed amount (US\$)</b>	<b>Amount invested (US\$)</b>	<b>Variance (US\$)</b>
Mbada Diamonds (Private) Limited	100,000,000	47,914,009	52,085,991
Jinan (Private) Limited	200,000,000	134,853,491	65,146,509
Diamond Mining Corporation (Private) Limited	100,000,000	40,971,654	59,028,346

**Risk/Implication**

Undercapitalisation of the mines.

Non compliance with the joint venture agreements.

**Recommendation**

The Corporation should consider engaging the joint venture partners to honour the terms and conditions of the joint venture agreements.

**Management response**

**The Board will engage the JV companies to resolve this issue promptly.**

**1.8 Gratuity payments****Finding**

The Chairman of the Mining Development Board retired from the Mining Development Board on June 30, 2013 and was paid US\$ 261 000 as gratuity for his three and half years service on the board which is in contravention of the best principles of corporate governance which state that non-executive directors shall not receive excessive payments on contract termination.

The gratuity payment was also not taxed in contravention of the Income Tax Act [Chapter 23:06] 13th schedule which states that any amount paid or payable to any person by way of gratuity constitutes gross income and should be treated as gross income and taxed under the Pay As You Earn 'PAYE' system.

**Risk/Implication**

Non compliance with the best principles of corporate governance which may result in weak internal controls and loss of assets.

Non compliance with Income Tax Act [Chapter 23:06] may result in penalties and interest.

**Recommendation**

The Corporation should consider a remuneration policy which is in line with Corporate Governance Practices.

The Corporation should comply with the Income Tax Act [Chapter 23:06].

## Management response

The Corporation will adhere to the best principles of Corporate Governance and comply with the Income Tax Act [Chapter 23:06]. The Corporation will remit the PAYE on the gratuity in July 2014.

## Auditors' comment

By paying the PAYE in 2014 the Corporation utilises its resources, of which it should have withheld the PAYE through the system.

### 1.9 Payment of Board fees

#### Finding

The approved schedule of Marange Resources (Private) Limited directors' remuneration signed by the representative of the shareholder, Zimbabwe Mining Development Corporation (ZMDC), indicates that non-executive directors of the company were entitled to the following remuneration.

Remuneration	Position	Amount (US\$)
Board fees	Board chairperson	700
	Member	650
Sitting fees	Board chairperson	345
	Deputy chairperson	330
	Member	316
Sitting fees (sub committees)	Chairperson	331
	Member	285

In addition to the approved remuneration, non-executive directors were given 2,940 litres of fuel (cumulative), holiday allowances of US\$27,450 each, and US\$758,000 was paid as extra security to non-executive directors and the CEO contrary best principles of corporate governance which state that directors' remuneration should be approved by shareholders.

The payments were also not taxed in contravention of the Income Tax Act [Chapter 23:06] 13th schedule which states that any amount paid or payable to any person by way of gratuity constitutes gross income and should be treated as gross income and taxed under the Pay As You Earn 'PAYE' system.

#### Risk/Implication

Non-compliance with the best principles of corporate governance which may result in weak internal controls and loss of assets.

Non-compliance with Income Tax Act [Chapter 23:06] may result in penalties and interest.

### **Recommendation**

The Company should consider a remuneration policy which is in line with Corporate Governance Practices.

The company should comply with the Income Tax Act [Chapter 23:06].

### **Management response**

**This was a result of weak Corporate Governance framework and control environment. Management will seek shareholder guidance and approval when confronted with requests or directives of this nature from Board members in future.**

## **1.10 Approval of foreign trips**

### **Finding**

There was no evidence of cabinet approval on the management's foreign trips in contravention of section 13.11.2 of the ZMDC Finance and Investment Policies and Procedures Manual which states that all foreign trips should have cabinet authority. Other than the memorandums authorizing the disbursements, there was no breakdown of how the total travel and subsistence allowance was determined.

### **Risk/Implication**

Weak internal control environment due to non-compliance with the ZMDC Finance and Investment Policies and Procedures Manual.

Misappropriation of funds.

### **Recommendation**

Management should fully comply with the ZMDC Finance and Investment Policies and Procedures Manual so as to safeguard the Corporation's assets.

### **Management response**

**The Cabinet authorities are there in the General Manager's Office which we do not have access to at the moment due to the Ministry of Mines and Mining Development investigations taking place.**

## 1.11 Payment of statutory obligations and salaries

### Finding

The Corporation was not remitting employee and employer contributions to pension funds as shown in the table below:

<b>Statutory obligation</b>	<b>Details</b>	<b>Balance at year end (US\$)</b>
Mining Industry Pension Fund (MIPF)	Not remitted throughout the year	718,494
ZMDC Group Pension Fund	Not remitted throughout the year	222,351
NSSA	Not remitted timeously	84,068

The Corporation did not remit PAYE timeously during the year contrary to the requirements of the Income Tax Act which states that PAYE should be remitted on or before the 10th day of the subsequent month. The amount outstanding at year end was US\$622,563 and the penalties and interest charged were US\$3,396,737.

The Corporation had taxable income at 31 December 2012 and income tax payable of US\$5,252,415 which was not paid during the year.

The Corporation did not remit VAT timeously during the year contrary to the requirements of section 28(1) of the VAT Act which states that VAT should be remitted on or before the 25th day of the subsequent month. The table below shows the possible penalties and interest arising from delays in payments of VAT.

<b>Month</b>	<b>Date paid</b>	<b>Due date</b>	<b>No of days due</b>	<b>Possible penalty @ 100% (US\$)</b>
June	Not paid	25-07-13	22	309,710.77
July	Not paid	25-08-13	128	296,351.92
August	16-08-13	25-09-13	97	177,786.57
September	Not paid	25-10-13	67	214,553.41
October	Not paid	25-11-13	36	166,006.08
November	Not paid	25-12-13	6	124,345.07
<b>Total</b>				<b>1,288,753.82</b>

Marange Resources (Private) Limited had long outstanding statutory obligations. The table below shows the amounts outstanding at year end.

<b>Statutory obligation</b>	<b>Amount (US\$)</b>
Royalties (MMCZ)	11,466,846
Depletion fees (ZMDC)	2,504,615
Pension contributions (MIPF)	1,162,674

<b>Statutory obligation</b>	<b>Amount (US\$)</b>
MMCZ commission	758,270
PAYE (ZIMRA)	167,892
NSSA	141,365

Sandawana Mines (Private) Limited was not paying MIPF contributions from April 2013 and its employees had not been paid from September 2013 to the date of this report; February 24, 2015. MIPF informed retired employees that they would only receive their pensions up to the period when the mine last paid contributions. Therefore, the mine would have to pay the pensions directly to employees for the period that it stopped making contributions.

### **Risk/Implication**

Contravention of the Pensions and Provident Fund Act [Chapter 24:09] (Amendment) Regulations, 2006 (No 13) section 13 para (c), which states that the employer shall pay to the fund administrator the employer and employee contribution, within fourteen (14) days from the end of the calendar month failure which the employer is liable to pay the outstanding contributions together with interest not exceeding the Reserve Bank of Zimbabwe unsecured ongoing prime rate.

Prejudice to employees as the return on pension funds will be low due to reduction in funds available for investment.

Employees may fail to receive compensation from NSSA due to non-remittance of contributions by the company.

Penalties and interest may be charged by the respective regulatory authorities.

Non-payment of salaries may cause employee dissatisfaction and result in skills flight.

### **Recommendation**

Management should come up with a payment plan for salary arrears

Statutory deductions and payments should be remitted or paid on time. In the event of cash flow challenges, management should engage the respective regulatory authorities to agree on a payment plan.

### **Management response**

**The Corporation was facing financial challenges and as soon as the position improves, it will honour its obligations. NSSA obligations are now being settled, A provisional payment plan has been submitted to ZIMRA and we await the response.**



**This was a result of cash flow challenges at Marange Resources (Private) Limited. Management has engaged the respective authorities and agreed on payment plans.**

**Sandawana Mines (Private) Limited has been relying on funding from Head Office for its operations. This includes salaries and all other statutory payments. ZMDC is facing cash flow problems. The issue of outstanding salaries has also been of major concern to management and will continue to receive attention. The mine can only come up with payment plans if it has the means of generating its own finances. Making payment plans when unsure of the cash flows will only result in problems with the creditors and/or employees.**

## **1.12 VAT registration**

### **Finding**

Kusena Diamonds (Private) Limited was not registered for VAT despite its diamond sales for the year exceeding the US\$60,000 annual threshold required for registration by the VAT Act [Chapter 23.12].

### **Risk/Implication**

Non compliance with the VAT Act [Chapter 23.12] resulting in potential financial loss through penalties and interest levied by ZIMRA.

Financial loss through unclaimed input tax on purchases from registered vendors.

### **Recommendation**

The company should register for VAT as required by the VAT Act.

### **Management response**

**All orders for Kusena were being done under ZMDC VAT number. Delivery was done at Kusena in Chiadzwa. This was done to claim VAT from purchases done by ZMDC on behalf of Kusena and retain some cash from VAT input. As the mine graduates from a project to a mine, the necessary registration will be done.**

## **1.13 Use of mine ambulance**

### **Finding**

Sabi Gold Mines (Private) Limited was operating without a pool vehicle and was using the mine ambulance as a pool vehicle.

**Risk/Implication**

Employees' health may be compromised if an emergency arises while the ambulance is away from the premises.

**Recommendation**

The mine should use alternative vehicles as pool vehicles.

**Management response**

**Acknowledged. This will be stopped forthwith. The HODs' vehicles will be used.**

**1.14 Board and Management minutes****Finding**

The minutes of all Kusena Diamonds (Private) Limited board and management meetings held during the year were not being maintained in a minute book and were not signed as evidence of approval.

**Risk/Implication**

Resolutions and decisions made may not be enforceable as there is no basis for approval.

Non compliance with the Companies Act [Chapter 24:03] which requires the maintenance of approved minutes in a minute register.

**Recommendation**

Minute books should be properly maintained and all minutes should be signed by the Chairman as evidence of approval.

**Management response**

**The Chairman resigned before the minutes could be approved and signed. We will ensure that all minutes are approved and availed for audit verification in the third quarter.**

**1.15 Sabi Gold Mines (Private) Limited's performance****Finding**

Monthly gold production at Sabi Gold Mines (Private) Limited for the year was consistently below budget resulting in adverse production variances. This was as a result

of frequent breakdowns of critical mining equipment such as crushers, conveyors and pumps. The following are some of the key production statistics:

<b>Description</b>	<b>Budget production (kg)</b>	<b>Actual production (kg)</b>	<b>Variance (kg)</b>	<b>%</b>
Gold production(kg)	290	179.76	(110.24)	(38%)
Ore milled (tonnes)	116,307	82,055	(34,352)	(11%)

### **Risk/Implication**

Inability to meet production targets may result in loss of potential income.

High repair and replacement costs which further strains the cash flows of the mine.

Frequent plant breakdowns reduce the gold recovery rate.

### **Recommendation**

The mine should acquire new plant and equipment to improve production efficiency.

Efforts should be made to ensure that the capital expenditure budget is funded and an implementation program rolled out to ensure that key capital equipment is acquired in phases.

### **Management response**

**The Mining Development Board and Head office executive management are looking at strategies of improving efficiencies, reducing costs and looking for financiers to address capital challenges.**

## **1.16 Compliance with the Environmental Management Act (EMA) [Chapter 20:27]**

### **Finding**

Marange Resources (Private) Limited did not have an Environmental Impact Assessment (EIA) certificate because it did not carry out an EIA (a planning tool used to identify, predict, and assess potential impacts (positive and negative) that may arise from planned projects and come up with ways to minimize negative impacts and enhance positive ones) in contravention of the EMA Act which states that all companies shall plan and submit an EIA to the Environmental Management Agency.

### **Risk/Implication**

Non compliance with EMA Act.

Penalties and interest may be charged by Environmental Management Agency.

### **Recommendation**

The company should perform an Environmental Impact Assessment study in accordance with the EMA Act.

### **Management response**

**EIA certification is in progress, but has slightly been delayed by funding issues. This will be addressed before end of year.**

## **2. PROCUREMENT OF GOODS AND SERVICES**

### **2.1 Supporting documentation for expenditure**

#### **Finding**

The Corporation incurred various expenses (mainly travelling expenses) recognised in the Corporate Social Responsibility general ledger account amounting to US\$3,163,091 most of which were supported by Memos only approved by the General Manager and the Finance and Investment Committee Chairman. There was no breakdown of how the funds were spent or acknowledgement of receipt from the beneficiaries. The following are examples of such expenditure:

<b>Expenditure</b>	<b>Date</b>	<b>Amount (US\$)</b>	<b>Supporting documents</b>	<b>Approved by</b>
Marange share ownership donation	05.07.13	200,000	Memo	General Manager and Finance and Investment Committee Chairman
Kimberly Inter sessionary meeting on 4-7 June 2013	30.05.13	195,000	Memo	General Manager and Finance and Investment Committee Chairman
Diamond mining conference in Angola & Turkey	13.06.13	165,000	Memo	General Manager and Finance and Investment Committee Chairman
Diamond expenses for Israel & China- Dewe L	08.03.13	100,000	Memo	General Manager and Finance and Investment Committee Chairman
Marange community trust donation	20.06.13	50,000	Memo	General Manager and Finance and Investment Committee Chairman

#### **Risk/Implication**

The validity of expenditure cannot be verified due to inadequate supporting documentation.

## **Recommendation**

All transactions should have adequate supporting documentation and filed appropriately as required by the ZMDC Finance and Investment Policies and Procedures Manual.

## **Management response**

**The approvals for payment were authorised by the General Manager, Chairman of Investment and Finance Committee or the Chairman of the previous Mining Development Board. Cash was disbursed to the Chairman of the board or the General Manager who would distribute it to the concerned parties. There were no invoices to support the expenditure except the approved memorandums. We will adhere to the recommendations.**

## **2.2 Outstanding creditors**

### **Finding**

Sabi Gold Mines (Private) Limited had a number of significant balances of long outstanding creditors noted from the creditors' age analysis. The mine had been issued with summons for US\$1,043,499 and more creditors were expected to follow suit. This has caused the following negative effects on production:

Most reputable suppliers had refused to supply critical mining consumables thereby negatively affecting mine production efficiency.

Failure to secure consumables had resulted in continuous recycling of spares compromising efficiency of equipment and safety of the staff working with the machines.

### **Risk/Implication**

Bad publicity from lawsuits tarnishes the image of the mine and results in poor credit rating by suppliers and financiers.

Failure to secure consumables from suppliers results in production inefficiencies and consequently failure to meet budgeted revenues.

Avoiding reputable suppliers who now refuse to supply on credit may result in procurement of poor quality consumables from non-reputable suppliers.

Property and equipment may be attached and disposed off to settle the debts.

The safety of employees may be compromised.

## **Recommendation**

Requisitions for funds to settle obligations and to acquire good quality spares should be prioritized and responded to promptly by management.

Senior mine management should engage creditors and agree on a payment plan to avoid high interest rates, lawsuits and attachment of mine assets.

## **Management response**

**This has been brought to the attention of the Mining Development Board and they are looking into it.**

### **2.3 Deduction of withholding taxes**

#### **Finding**

Jena Mines (Private) Limited was not deducting and remitting 10% withholding taxes for all payments to suppliers without tax clearance certificates. The mine was charged US\$95,735 by ZIMRA for not deducting withholding taxes and a penalty of US\$75,349, thus incurring unnecessary expenses.

#### **Risk/Implication**

Financial losses through penalties and interest charged by ZIMRA.

#### **Recommendation**

The company should deduct 10% of all payments made to suppliers without valid tax clearance certificates and remit it to ZIMRA on time.

#### **Management response**

**A register of tax clearances is now being maintained to ensure that non compliant suppliers have their 10% withholding tax deducted.**

## **3. EMPLOYMENT ISSUES**

### **3.1 Staff compliment**

#### **Finding**

The Corporation's organisational structure had 108 positions and the actual staff number on the payroll was 133. 50 of the 133 Corporation's staff members were seconded to subsidiaries and joint ventures and were paid monthly salaries by the Corporation. The

following are examples of employees whose positions were not on the Corporation's organisational structure but were paid by the Corporation.

Employee	Seconded to	Position on secondment
1	Jinan Investments	Deputy General Manager
2	Jinan Investments	Finance Manager
3	Jinan Investments	Audit Manager
4	Kimberworth Investments	Mine Manager
5	Mining Promotions Corporation	Consulting Geologist

### **Risk/Implication**

Financial losses caused by excessive payroll costs.

### **Recommendation**

The Corporation should consider reviewing the staff numbers in relation to its organisational structure and performance.

### **Management response**

**A decision has been made for the seconded employees to be paid salaries by the employing units from August 2014.**

## **3.2 Outstanding staff advances**

### **Finding**

The following staff members did not confirm their staff advance balances, but could not provide the correct balances as they have been outstanding for long periods. The balances were not accruing interest and were not being recovered through the payroll:

Staff debtor	Balance per ledger (US\$)	Balance confirmed (US\$)
Chiparo T	15,163	Nil
Watungwa O	14,922	Nil
Zishumba C	2,797	Nil

### **Risk/Implication**

Unaccounted for advances, may be construed as soft loans which do not attract interest. These loans may have tax implications as they are supposed to be charged interest at 6% per annum.

Misappropriation of funds.

### **Recommendation**

The Corporation should send statements of staff debts on a monthly basis and deduct advances not acquitted, through the payroll.

### **Management response**

**Noted. Management will remind employees of their debts and recover from their monthly salaries forthwith.**

## **3.3 Employee contracts**

### **Finding**

All employee contracts at Kusena Diamonds (Private) Limited did not specify the rate of pay of the employees. Therefore I could not verify whether employees were being remunerated at the correct rates of pay.

### **Risk/Implication**

Employees may be remunerated using incorrect rates of pay.

Lack of a reference point in the event of disputes with employees.

### **Recommendation**

Employee contracts should include the rate of pay and actual grade of the employee.

### **Management response**

**The contracts were generated at the mine and sent to ZMDC-Head office for Human Resources authorization and input of salary rates, which are not available at the mine.**

**The employee files will be updated accordingly.**

## **3.4 Compliance with Pneumoconiosis Act [Chapter 15:08]**

### **Finding**

Marange Resources (Private) Limited had 425 employees and Kusena Diamonds (Private) Limited had at least 5 employees without initial and periodical Pneumoconiosis certificates as required by the Pneumoconiosis Act which states that no person shall employ a worker in a dusty occupation unless the employee is a holder of a current certificate and also an



employer shall keep a record of the particulars of the certificate relating to such workers and shall retain possession as long as the worker remains in his employ.

### **Risk/Implication**

Non compliance with Pneumoconiosis Act.

Employees diagnosed with pneumoconiosis will not receive compensation from NSSA.

### **Recommendation**

The company should ensure that employees working in areas prone to pneumoconiosis go for health checks as required by the Pneumoconiosis Act.

### **Management response**

**Due to financial constraints, the company was unable to send the employees for pneumoconiosis medical examination.**

**Medical reviews and examinations will be prioritised to comply with the Pneumoconiosis Act. This will be addressed before end of year.**

## **4. PROGRESS IN IMPLEMENTATION OF PRIOR RECOMMENDATIONS**

I reviewed the progress made towards the implementation of prior year recommendations and found that the company made some progress and there was room for improvement in respect of the following recommendations;

### **4.1 Capitalisation of mining subsidiaries**

#### **Recommendation**

Turnaround business plans for all the subsidiaries should be drawn up and implemented immediately to stop the financial losses.

#### **Progress made**

**The loss position of the Corporation's subsidiaries and joint ventures worsened during the year and the companies still had negative working capital, thus the going concern assumption of the subsidiaries and joint ventures remain doubtful.**

## **4.2 Remittance of statutory deductions**

### **Recommendation**

All statutory deductions must be remitted timeously. In case of financial challenges a representative can negotiate with respective authorities and agree on method of payment so as to avoid penalties.

### **Progress made**

**Statutory deductions were not remitted timeously during the year.**

## **4.3 Kusena Diamonds (Private) Limited joint venture agreement**

### **Recommendation**

A formal agreement that clearly indicates parties to the joint arrangement, responsibilities of each party should be drafted and signed by all the parties.

### **Progress made**

**No joint venture agreement was availed for audit verification.**

## **PUBLIC ENTITIES UNDER THE CATEGORY OF COUNCILS**

## **NATIONAL AIDS COUNCIL (NAC) 2013**

### **Background information**

The National AIDS Council (NAC) is an organisation set out in terms of the National AIDS Council Act [Chapter 15:14] of 1999. Its functions are to provide for measures to combat the spread of the Human Immuno-Deficiency Virus and the Acquired Immune-Deficiency Syndrome and the promotion, co-ordination and implementation of programmes and measures to limit or prevent their spread; and to provide for matters connected with or incidental to the foregoing.

I have audited the financial statements of the National AIDS Council for the year ended December 31, 2013.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the National AIDS Council, as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

However, below are material issues that were noted during the audit.

## **1. GOVERNANCE ISSUES**

### **1.1 Receipt of drugs by implementing partners**

The National AIDS Council procures drugs from suppliers and are received and distributed by NatPharm on behalf of the Council. I was not able to confirm the receipt of the following drugs from NatPharm at the Chinhoyi Provincial Hospital. The NatPharm invoice indicated that the drugs were delivered but there was no documentary evidence in the hospital records to confirm that they were actually received.

<b>DATE</b>	<b>QUOTE NUMBER</b>	<b>DRUGS</b>	<b>QUANTITY</b>
21.08.2013	CR0003943	Lamuvidine 30g+ zidovidine 60	112 boxes
21.08.2013	CR0003943	Zidovu 60+Lamuv 30+ Nevirapine	3027 Boxes
21.08.2013	CR0003943	Fluconazoel 200mg tablets	447 Boxes
21.08.2013	CR0003943	Tenofovirirdisoproxl fumerate/L/a	4244 Boxes

**Risk/Implication**

Drugs procured may have been diverted hence prejudicing the bona fide beneficiaries.

**Recommendation**

The hospital should consider investigating such issues and take appropriate action.

**Management response**

**Investigations will be instituted.**

**1.2 Dispensed drugs by implementing partners****Finding**

The Mutare General Hospital pharmacy received 100 boxes of 60 units of a drug called Alluvia 100mg/25mg on February 27, 2012 whose expiry date was March 31, 2012. The drug was dispensed to the Family Child Health department of the hospital on February 28, 2012 (10 boxes), 04 April 2012 (6 boxes) and May 08, 2012 (4 boxes) respectively. On May 8, the remaining 80 boxes of 60 boxes were declared no longer suitable for human treatment and hence were transferred to the expired drugs store, notwithstanding the fact that on two occasions the drug had been dispensed in their expired state. There was no evidence to support that the Hospital Pharmacy sought authority from Medical Laboratory and Clinical Council to distribute drugs that had past their expiry date.

**Risk/ Implication**

The health of patients may be compromised through consumption of expired drugs.

**Recommendation**

Hospitals should obtain authorization from the Medical Laboratory and Clinical Council to dispense expired drugs to patients.

NAC should also develop some mechanisms and systems to monitor some critical activities undertaken by implementing partners such as these hospital pharmacies.

**Management response**

**Observation noted. The personnel currently in this section have no idea how that happened since they had not yet been appointed at the hospital at the time the expired drugs were dispensed.**

### 1.3 Inventory records of implementing partners

#### Finding

An examination of the stock cards revealed that at Rusape General Hospital, most of the time a physical count of drugs in the pharmacy store room was conducted, there was always a variance between the stock card balance and the physical count balance. I observed that the variances were mainly attributable to non-checking for arithmetical accuracy of running balances by a senior official as well as some drug issues and returns that were not being updated on the stock cards. The sample below serves as an example.

Date	Medication	Physical count	Stock card balance	Variance
26/04/13	Tenolam	8835	8885	250
30/07/13	AZT Tablets	69	54	15
26/08/13	Tenolam + Efavirency	354	273	51
28/06/13	Tenolam + Efavirency	2464	2052	412
28/06/13	Atazanavir/Ritonavir	245	240	5
27/08/13	Atazanavir/Ritonavir	65	69	4
14/10/13	Avocomb Baby	5255	5250	5
18/12/13	Avocomb Baby	3685	3697	12
28/06/13	Avocomb Peads	4393	1528	2865
18/09/13	Caviro	1879	1892	13
04/04/13	Avocomb Paeds	2148	2228	81
30/07/13	Fluconazole	189	183	6
28/06/13	Fluconazole	294	271	23
17/09/13	Kaletra Paeds	496	490	6
26/04/13	Caviro	1846	1832	14
28/06/13	Caviro	1824	1734	90
26/06/13	Combivir 150/300mg	95	52	43
18/09/13	Kaletra Syrup	1402	1265	137

#### Risk/Implication

Drugs may be misappropriated without trace.

#### Recommendation

There is a need for accurate recording of physical quantities on the stock cards.

#### Management response

**Observation noted. The institution is going to implement the audit recommendation with immediate effect.**

## **1.4 CD 4 Count Machines**

### **Finding**

The ideal operating room temperature of the laboratory should be maintained at between 18°C to 24°C. I however, noted that the main laboratory at Rusape General Hospital, in which the CD 4 count machine was housed had no air conditioner. Consequently, the machine was sometimes switched off to avoid overheating. Under normal circumstances the machine was not supposed to be switched off, as it should operate 24 hours a day and 365 days a year. The uninterrupted power supply (UPS) assembly supporting the CD 4 count machine and its accessories were no longer capable of sustaining power to complete tests that would be in progress in the event of longer periods of power outages because it was overloaded with other electronic gadgets.

### **Risk/Implication**

Production of CD 4 count results may take longer due to repeat processes caused by power outages.

### **Recommendation**

There is need to procure a new uninterrupted power supply system and an air conditioner to avoid the machine shutting down in the middle of a process.

### **Management response**

**The issue of an air conditioner and UPS was brought to the attention of the hospital management and nothing has materialized to date.**

## **1.5 Early infant diagnosis**

### **Finding**

The HIV test results for children under the age of 2 years at Marondera General Hospital and Gwanda Provincial Hospital were taking an average of three (3) months to be released. The diagnosis procedure was centralised and being done at the National Reference Laboratory at Harare Hospital.

### **Risk/ Implication**

Intended purpose of testing infants is compromised as they may be waiting for longer periods for the results, before they could commence treatment.

## **Recommendation**

There is need to decentralize the facility so that results can be released early.

There is also need for them to increase the diagnostic facilities.

## **Management response**

**As the machines to test children under 2 years increase the diagnosis would be decentralized as of now we are still operating under acute shortages of the facility in the country.**

### **1.6 Drug stock outs**

#### **Finding**

Mpilo hospital was hit by drug stock outs for periods of up to one year. Patients were not getting anything when the drugs were out of stock. Furthermore, patients were being asked to buy some of the drugs such as nevirapine syrup for children. The following is a sample of drugs that were out of stock up to the time of audit on August 8, 2014.

<b>Drug</b>	<b>Remarks: Out of stock</b>
Lopinavir/Ritonavir 100mg/25mg	Since 23.06.2013
Nevirapine solution 10mg	Since 06.12.2013 Patients buying on their own
Efavirenz 50mg	08.11.2013 substituting

#### **Risk/ Implication**

Stock outs affect service delivery and direct impact on livelihood of those that rely on the drugs.

## **Recommendation**

The Council's staff at provincial and district level should effectively monitor the operations of implementing partners and ensure that stock outs are avoided.

## **Management response**

**The request for the drugs was made to NatPharm but they did not supply the drugs resulting in them out of stock for a long time.**



## **1.7 Development of office stand**

### **Finding**

National AIDS Council had an undeveloped office stand in Mashonaland West Province with an estimated market value of US\$62 201. The office stand was purchased on the 29<sup>th</sup> of September 2005. Audit however noted that there were no developments on the stand at the time of audit in 2013.

### **Risk/Implication**

Financial loss as the stand may be repossessed by the local authority.

### **Recommendation**

The Council should budget and set aside funds towards the development of the office stand.

### **Management response**

**Observation noted. The organization will look into the matter.**

## **NATIONAL ARTS COUNCIL OF ZIMBABWE (NACZ) 2013**

### **Background information**

The National Arts Council of Zimbabwe (NACZ) was established in terms of the National Arts Council of Zimbabwe Act [Chapter 25:07]. The main function of the Council is to foster, develop and improve the knowledge, understanding and practice of the arts and their presentation, performance, execution and the exhibition of the same to the public.

I have audited the financial statements for National Arts Council of Zimbabwe (NACZ) for the year ended December 31, 2013.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Arts Council of Zimbabwe as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

However, below are material issues noted during the audit.

## **1 GOVERNANCE ISSUES**

### **1.1 Sustainability of Service**

#### **Finding**

An analysis of the financial statements for the year ended December 31, 2013 revealed that the National Arts Council of Zimbabwe's current liabilities of US\$210 675 exceeded current assets of US\$27 310 by US \$183 364 (2012: US\$ 71 341).

The Council also incurred a net loss amounting to US\$ 146 280 for the year ended December 31, 2013 (2012: US\$80 045) resulting in negative capital and reserves of US\$32 244 in 2013.

#### **Risk/Implication**

These conditions may indicate the existence of a material uncertainty that casts doubt about the Council's ability to continue to offer sustainable service delivery.

#### **Recommendation**

The Council should come up with sustainable revenue growth strategies and cost cutting measures to ensure profitability.

## Management response

Formal promotion activities are declining over the years due to economic challenges being faced by the Country leading to low revenue generation for the Council. Reduced income levels adversely affect service delivery and the quality of Development and Promotion Programmes run by the Council.

The Council has recommended for the renewal of all the enabling instruments in order for them to meet the demands of the current operating environment and thereby addressing the revenue growth strategies.

Effort is also being made to contain avoidable costs in our operations. The bulk of our liabilities are fixed costs made up of rentals and statutory costs which are unavoidable. We are hopeful that the situation will improve when Government is able to release adequate funds to meet the fixed costs.

## 2 EMPLOYMENT ISSUES

### 2.1 Salary grants from Treasury

#### Finding

The Council requested for salary grants for 52 staff members when the Council had 43 staff members in post. The request forms were prepared by the Assistant Director (Finance and Administration) and were not authorized by the Director. Below is a table with details of the salary grants requested and received:

Date as per request	Amount requested and released by Treasury (US\$)	Staff as per Request form	Staff in post as per Bellina payroll
July 2013	33 334	52	43
August 2013	33 334	52	43
September 2013	33 134	52	43
October 2013	33 134	52	43
November 2013	59 438	52	43
December 2013	34 634	52	43

**Risk/Implication**

The excess requests deprived government of the opportunity to utilize funds where they were most needed.

The grant requested for salaries may be used to meet other expenditure it is not intended for.

**Recommendation**

Management should ensure that appropriate salary amounts are requested from the Treasury.

Students on attachment should be clearly indicated on the request forms.

**Management response**

**The difference was a result of terminations over the last period which we could not afford to declare vacant as they would then be affected by the freeze of posts. The amount requested was then used to pay student interns at Head Office and Provincial Offices who were engaged as relief workers for the vacant posts. The Council is not a contributing institution to the Zimbabwe Manpower Development Fund and therefore does not benefit for the purpose of paying students on attachment.**

## **ZIMBABWE NATIONAL FAMILY PLANNING COUNCIL (ZNFPC)**

### **Background information**

The Zimbabwe National Family Planning Council is an organization registered in Zimbabwe under Zimbabwe National Family Planning Council Act [Chapter 15:11]. The objectives of the Council are; to provide subsidized contraception to the nation, to provide teaching and training aides in family planning to members of the community, to provide family planning awareness to the community, to provide safe and effective family planning services to the community using a wide range of techniques and technologies.

I have audited the financial statements of the Zimbabwe National Family Planning Council for the year ended December 31, 2014.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Zimbabwe National Family Planning Council as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

However, below are material issues noted during the audit.

## **1 GOVERNANCE ISSUES**

### **1.1 Board composition**

#### **Finding**

Two board members, the Chairperson and Vice Chairperson's tenure of office expired on June 30, 2014. I however, observed that the two continued to attend board and committee meetings despite their terms of office having expired in contravention of section 8 (1) of the ZNFPC Act [Chapter 15:11]. I was not availed with the documentation showing extension of their term of office.

#### **Risk/ Implication**

Non-compliance with the provisions of the Council's Act.

Resolutions made in such meetings may not be binding.

#### **Recommendation**

Management should pursue the issue with the Parent Ministry to ensure that the board chairperson and vice chairperson's appointments are regularized.

## **Management response**

**Noted; The Minister of Health & Child Care is working on the reconstitution of the ZNPFC Board.**

### **1.2 Information Technology (IT) Steering Committee**

#### **Finding**

The Information Technology (IT) Steering Committee was not active and last sat in 2011. As a result the IT department was working without an operational plan that supports the business requirements of the Council. Furthermore, the Council experienced loss of data due to hardware and software permanent failure (damage of IT equipment) during the year under review.

#### **Risk/ Implication**

IT operations may fail to contribute to the achievement of the Council's IT strategic objectives.

#### **Recommendation**

The IT Steering Committee should sit more often so as to effectively contribute to the achievement of the Council's IT strategic objectives.

## **Management response**

**The IT steering committee is a creation of the approved IT policy of the Council. This policy has not been operationalized yet due to issues to do with software and hardware that have to be addressed first before the policy can be implemented with ease. Addressing the outstanding issues has not been easy due to financial constraints. The IT Steering committee will henceforth be active once the IT policy document becomes operational.**

**An IT Annual work plan derived from the overall strategy of Council, in my opinion, suffices for this purpose at the current level of operations.**

#### **Auditor's comment**

**It is important for the Council to have a functional IT Steering Committee which oversees IT related investment, the implementation of IT strategic plan in line with best practice and the alignment of IT operations with the Council's business objectives.**

**Since the IT policy was approved by the board it should be implemented by the Council and its implementation and enforcement need not depend on the availability of hardware and software.**

### **1.3 Sustainability of service**

#### **Finding**

The ability of the Council to continue operating for the foreseeable was doubtful. The Council has made losses for the past three years (2014: US\$ 1 909 421; 2013: US \$1,596,349; 2012: US\$1,954,391). An analysis of the costs revealed that the operating expenditure increased by 52% from US \$2 723 537 in 2013 to US \$4 145 811 in 2014. Payroll costs also increased by 12 % from US\$5 846 997 in 2013 to US\$6 527 528 in 2014.

#### **Risk/ Implication**

Service delivery may be compromised if the losses are not harnessed.

#### **Recommendation**

The Council should look for ways to generate revenue as a way to supplement the revenue grant and also consider cost containment measures.

#### **Management response**

**Marketing of our conference rooms, catering and accommodation facilities etc. commenced in 2014 after securing a licence to operate the facility from City of Harare. This was done with a view to increase generation of revenue for the Council.**

**The 2015 ZITF exhibition was funded by IPPF and we continue lure other donor partners to follow suit.**

**Council managed to appeal for the allocation of the capital grant in 2015 and US\$200 000 was allocated. We continue to advocate for the disbursement of the operations grant through MOHCC. This is a continuous process whose fulfilment is subject to availability of cash resources in Government.**

**Continuous quarterly reviews of the tariffs for services being offered by Council clinics.**

## **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1 Trade receivables**

#### **Finding**

The Council's receivables amounting to US\$ 10 213 573 were long outstanding as it had been accumulating since 2009. These receivables constituted 88% of the total trade receivables of US\$ 11 565 652.

#### **Risk/ Implication**

Cash may be tied up in receivables which could have been used to finance operations and to reduce heavy dependency on revenue grant.

#### **Recommendation**

The Council should make concerted efforts to collect the debts.

#### **Management response**

**Council is finding it difficult to get paid by our parent Ministry (MOHCC), which happens to be our major debtor, accounting for over 90% of the outstanding debt (US\$ 11.5 million). However, the MOHCC acknowledges that they owe ZNFPC and will endeavour to pay when the cash flow situation improves in Government.**



## **ZIMBABWE SCHOOL EXAMINATIONS COUNCIL (ZIMSEC) 2013**

### **Background information**

The Council was established in terms of the Zimbabwe School Examinations Council Act [Chapter 25:18] and its core business is to; organize and conduct such examinations for primary and secondary education and award certificates and to review rules and regulations relating to examinations.

I have audited the Financial Statements of the Zimbabwe School Examinations Council for the year ended December 31, 2013.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Zimbabwe School Examinations Council as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

However, below are material issues noted during the audit;

#### **1. GOVERNANCE ISSUES**

##### **1.1. Oversight role by the audit committee**

### **Finding**

During the year under review, I noted that the Audit Committee only held one meeting in August 2013. Although the ZIMSEC Audit Committee terms of reference did not specify the number of meetings to be held per year, best practices recommends Audit Committee meetings to be held at least quarterly.

### **Risk/Implication**

Inadequate oversight role over the internal control systems, financial reporting and risk management.

### **Recommendation**

The Audit Committee should meet at least quarterly.

### **Management response**

**Agreed. Meetings did not comply with governance expectations; this will be improved going forward. Timing of Board appointment also undermines implementation of such considerations in years such as current 2014. The Prof Maphosa chaired Board**

was appointed in July 2010 until August 2013. The years 2011-2012 are the only full years that they could have had full sittings. This dynamic will affect 2014 and full attendance for every year will be affected in the same manner.

## 2. REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

### 2.1. Government grant and subsidies

#### Finding

I noted that the government grants and subsidies were not received in full. The following schedule outlines the amount budgeted and what was received in respective years for Grade 7 examinations.

Year	Budget Allocation (US\$)	Amount Released (US\$)	Outstanding amount from Ministry of Finance and Economic Development (US\$)
2010	1 529 679	874 161	655 518
2011	1 800 000	500 000	1 300 000
2012	1 750 000	900 000	850 000
2013	*	*	2 126 480
<b>Total</b>			<b>4 931 998</b>

\*In the year 2013, the Council made a request to the Ministry of Finance and Economic Development, through its parent Ministry, for the grant amounting to US\$2 126 480 to cater for the grade seven Examinations administration, but the funds were not availed.

Furthermore, Government subsidies for Ordinary and Advanced level examinations of US\$1 and US\$2 per entry respectively were not also received as detailed in the table below:

Year	Level	Entries	Outstanding amount from Ministry of Finance and Economic Development (US\$)
2013	June Ordinary level	188 167	188 167
2013	June Advanced Level	7 083	14 166
2013	Nov Ordinary Level	1 505 820	1 505 820
2013	Nov Advanced Level	119 328	238 656
<b>Total</b>			<b>1 946 809</b>

The total amount due from the Ministry of Finance and Economic Development was US\$ 6 878 807 as at December 31, 2013.

**Risk/Implication**

The financial gap accumulated over time may widen and compromise the delivery of quality examinations administration.

**Recommendation**

The Council should continue to engage the parent Ministry to improve the Council's cash flows.

**Management response**

**Observation noted and Council's efforts in engaging the ministry have not yet yielded the desired outcome.**

# **PUBLIC ENTITIES UNDER THE CATEGORY OF FINANCIAL INSTITUTIONS**

## **INFRASTRUCTURE DEVELOPMENT BANK OF ZIMBABWE (IDBZ)**

### **Background information**

The Infrastructure Development Bank of Zimbabwe (IDBZ) is a development financial institution which is incorporated and domiciled in Zimbabwe under the IDBZ Act [Chapter 24:14]. IDBZ and its subsidiaries, (together the “Group”) are primarily involved in mobilizing and providing finance for infrastructure development activities and management of infrastructure development projects.

I have audited the financial statements of the Infrastructure Development Bank of Zimbabwe (IDBZ) for the year ended December 31, 2014.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Infrastructure Development Bank of Zimbabwe as at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

However, below are material issues noted during the audit.

#### **1. GOVERNANCE ISSUES**

##### **1.1. Loan security**

### **Finding**

I noted instances where securities held by the bank as collateral for loans issued, had been sold at amounts below the recorded fair value of the securities. The following examples were noted:

<b>Collateral</b>	<b>Recorded fair value (US\$)</b>	<b>Amount realized (US\$)</b>	<b>Variance (US\$)</b>
Residential property	40 000	16 654	23 346
Mining equipment	130 000	430	129 570

### **Risk/Implication**

The Bank incurs financial losses if it does not regularly assess the reasonability of fair values assigned to collateral provided against prevailing market conditions.

### **Recommendation**

The Bank should regularly assess the reasonability of fair values assigned to collateral provided against prevailing market conditions

### **Management response**

**These are litigation cases which go as far back as pre-dollarization period of 2009 when property values were over-valued and the US\$ prices only started correcting after 2011. Naturally customers under litigation do not co-operate when it comes to collateral enhancement.**

## **1.2. Adjustments after court judgements**

### **Finding**

I observed that there were differences between loan balances recorded as receivable in the bank's accounts for certain debtors in comparison to amounts stipulated by court judgments. The following examples were noted:

<b>Debtor</b>	<b>Judgment order (US\$)</b>	<b>Ledger (US\$)</b>	<b>Variance (US\$)</b>
Client 1	37 141	107 511	(70 370)
Client 2	322 698	371 812	(49 114)
Client 3	365 298	481 157	(115 859)

### **Risk/Implication**

There is risk of loan balances receivable in the financial statements being overstated and not reflecting a true and fair position of the amounts recoverable after court judgments. Management decisions on actions to be taken may therefore be based on incorrect information.

### **Recommendation**

Management should ensure that adjustments are effected on client accounts on time.

### **Management response**

**These differences are as a result of delays in receiving final judgments from the courts as there is a time difference between the case hearing and delivery date of judgment by the respective judge.**

### 1.3. Security valuation

#### Finding

I noted that there were instances where assets pledged as security by IDBZ clients had not been re-assessed for fair value in more than 3 years. The following examples were identified:

Property	Last valuation date	Security type	Valuation (US\$)
Property 1	24-Sep-09	Residential property	91 000
Property 2	05-Aug-10	Residential property	450 000
Property 3	19-Aug-11	Property (Non-specific)	470 000
Property 4	15-Sep-11	Property (Non-specific)	140 000
Property 5	06-May-10	Property (Factory)	1 350 000
Property 6	02-Dec-09	Residential property	140 000
Property 7	02-Dec-09	Residential property	180 000
Property 8	13-Sep-11	Residential property	480 000
Property 9	16-Nov-09	Residential property	60 000
Property 10	12-Oct-11	Residential property	225 000
Property 11	05-Feb-10	Residential property	470 000

#### Risk/Implication

Due to deterioration in the security over time, the value of the security could have fallen below the recorded book values. This may expose the bank to financial loss through under-secured loan balances. The bank may then incur financial losses as the securities held may not be of adequate value to recover the loans and advances given, in the event that the debtors default.

#### Recommendation

Management should ensure that securities are re-assessed for their fair value on a regular basis such as on a yearly basis or on the renewal of each facility.

#### Management response

**Security is always reviewed on renewal of facilities. However, there is a challenge with all customers placed under litigation as they are unwilling to enhance their collateral to the bank.**

#### **1.4. Document approval**

##### **Finding**

I observed that the Risk Management Committee Terms of Reference and Treasury Back Office Manual were not signed as evidence of being formally approved.

##### **Risk/Implication**

There is a risk that bank personnel may be conducting their tasks based on parameters and information contained in unapproved policies and procedures manuals.

##### **Recommendation**

The documents should be signed off as approved by the Risk Management Committee Chairperson and the IDBZ Chief Executive Officer.

##### **Management response**

**Management will ensure the terms of reference of the Finance & Risk Management Committee and Back office Manual are signed as evidence of their approval.**



## PEOPLE'S OWN SAVINGS BANK (POSB)

### Background information

The People's Own Savings Bank is a corporate body established in terms of section 3 of the People's Own Savings Bank of Zimbabwe Act, [Chapter 24:22] of 1999, to provide savings, banking and financial services in Zimbabwe. The bank accepts deposits that will accumulate interest for the benefit of the depositors and all deposits are government guaranteed.

I have audited the financial statements of the People's Own Savings Bank for the year ended December 31, 2014.

### Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the People's Own Savings Bank as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

However, below are material issues noted during the audit.

#### 1. GOVERNANCE ISSUES

##### 1.1. Board fees and other emoluments

#### Finding

Fees paid to board members should be in line with those approved by Treasury. A review of the fees received by board members during the period under review showed that the rates paid were more than those approved.

The table below contains the details:

PERIOD	Approved	Paid	Excess
	US\$	US\$	US\$
First quarter	1,335	7,790	6,455
Second quarter	1,335	9,877	8,542
Third quarter	1,335	7,930	6,595
Fourth quarter	1,090	6,366	5,276
<b>Grand Total</b>	<b>5,095</b>	<b>31,963</b>	<b>26,868</b>

**Risk/Implication**

Financial loss due to payment of unapproved expenditure.

**Recommendation**

The bank should pay board fees and allowances as per approved rates.

**Management response**

**Noted. This is a legacy which carried on from the Zimbabwean Dollar era where board members were being compensated in the form of fuel coupons. The Ministry of Finance was advised of the need to review board fees in line with industry standards. Despite the several follow ups and communication regarding the same, the Ministry did not respond. The Board took a decision to convert the fuel coupons and data bundles into quarterly board payments in order that the bank complies also with tax regulations. The Ministry of Finance is well appraised of this.**

**1.2. Tax on board fees and allowances****Finding**

The Bank was charged penalties and interests by ZIMRA totalling US\$90 527 for applying the incorrect tax treatment on Board payments from 2009 to 2013.

**Risk/Implication**

Financial losses from tax penalties and interest charges.

**Recommendation**

Management should ensure that the Bank complies with Tax Laws.

**Management response**

**Noted. Management has ensured that this is put down as compliance measure to monitor compliance.**

**1.3. Tax on staff benefits and allowances****Finding**

The Bank paid the following staff benefits outside the payroll as noted from ZIMRA's tax assessment of POSB. The following benefits paid to employees for the period 2009 to 2014 were not processed through the payroll and therefore no PAYE was deducted;

Cell phone and home telephone allowances  
Holiday allowances  
Holiday fuel allowances  
Canteen subsidy  
Staff development re-imbursements  
Security  
Entertainment allowances  
Water and electricity  
Subscriptions  
Motor vehicle disposal benefit

As a result, the Bank was charged penalty and interest totalling US\$524,910 and US\$79,139 respectively for non-compliance with the Income Tax Act.

**Risk/Implication**

Financial losses due to tax penalties and interest charges.

**Recommendation**

Management should ensure that the Bank complies in full with the Income Tax Act.

**Management response**

**Noted. Management has ensured that this is put down as a compliance measure to monitor compliance.**

**2. REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

**2.1. Agency business**

**Finding**

ZIMPOST is an agent of POSB, where POSB has no Branch network. The service level agreement require that either party pays the net position (net deposits/ net withdrawals). I observed that the agent was not settling its due position as and when was required. The agent's account opened on January 1, 2014 with an amount due of US\$6,603,401 and this balance rose by 40% to US\$9,229,001 as at December 31, 2014.

**Risk /Implication**

Exposure to default risk arising from possible failure to recover the amounts due from the agent.

## **Recommendation**

The exposure should be managed to ensure full recovery of the amounts.

## **Management response**

**Noted. Management is actively engaging the agent on the issue of settlement. Further to this, the bank has also engaged government on the matter through the Ministry of Finance and Economic Planning and also the Ministry of ICT, Postal and Courier Services, in order to seek redress. The Reserve Bank of Zimbabwe (RBZ) has also been notified of this issue.**

### **3. PROGRESS TOWARDS IMPLEMENTATION OF PRIOR YEAR RECOMMENDATIONS**

I reviewed the progress made towards the implementation of prior year recommendations and found that the Bank made some progress and there was room for improvement in respect of the following recommendations;

#### **3.1. Funds on placement**

##### **Recommendation**

Follow up should be done with the view of recovering the outstanding amount.

##### **Progress made**

**All subsequent follow ups and/or communication was documented. Metbank failed to honour its obligations and as such legal action was pursued and is currently on going.**

#### **3.2. Agency business**

##### **Recommendation**

The Service level Agreement should be reviewed to include interest charges on all funds outstanding.

Management should engage ZIMPOST to enforce early remittance and resolve the matter of late remittances.

##### **Progress made**

**The issue of penalty interest was addressed though the service level agreement and ZIMPOST are currently being levied 10% interest p.a. on all outstanding settlements. The Bank has taken measures to address the issue of late remittances and currently ZIMPOST has been remitting less than the net deposits. The outstanding balance has**

**continued to grow from \$6,603,401 as at December 31, 2013 to US\$9,229,001 as at December 31, 2014.**

## **SMALL ENTERPRISES DEVELOPMENT CORPORATION (SEDCO) 2013**

### **Background information**

The Small Enterprises Development Corporation was incorporated in Zimbabwe in terms of the Small Enterprises Development Act [Chapter 24:12] as amended. The nature of business of the Corporation is that of providing loan finance to upcoming and existing small to medium scale enterprises and that of property letting and investment activities.

I have audited the financial statements of Small Enterprises Development Corporation for the year ended December 31, 2013.

### **Opinion on the Corporation's financial statements**

In my opinion, the Corporation's financial statements present fairly, in all material respects, the financial position of Small Enterprises Development Corporation as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Basis for Qualified Opinion on the consolidated financial statements**

#### **Incomplete records (Litfold Engineering (Private) Limited)**

Litfold Engineering (Private) Limited had incomplete records due to failure to maintain books of accounts such as the cash book and other relevant ledgers. There was no mechanism to ensure that all receipts and payments were properly recorded and accounted for. As a result I was unable to verify the completeness and accuracy of the figures disclosed in the financial statements.

### **Qualified opinion on the consolidated financial statements**

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph the financial statements present fairly, in all material respects, the financial position of Small Enterprises Development Corporation and its subsidiary as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

However, below are other material issues noted during the audit:

## **1. GOVERNANCE ISSUES**

### **1.1. Maintenance of proper books of accounts.**

#### **Finding**

Litefold Engineering (Private) Limited operated without books of accounts such as ledgers and cash books for the year under review. Only receipts from suppliers were made available, most of which were not attached to payment vouchers. This resulted in a loss of audit trail as I could not establish whether the receipts were authorised and also whether the payments were for Litefold Engineering.

#### **Risk/Implication**

The financial statements of Litefold maybe materially misstated.

#### **Recommendation**

Proper books of accounts should be maintained by the company.

#### **Management response**

**Observation noted. The company has put an Excel based accounting system in place with the assistance of SMEDCO accountant. The company will continue to liaise with SMEDCO finance department to ensure that financial reports are prepared in accordance with financial standards. Receipts are now being attached to the payment vouchers.**

### **1.2. Information Technology (IT) governance**

#### **Finding**

The Corporation had no IT Steering Committee which oversees the functions and operations of the IT department. SEDCO depends on computer based information for its operations and the ability of computer systems to store and process data into useful information is crucial.

#### **Risk/Implication**

IT issues may not be dealt with from a strategic point of view in the absence of a Steering Committee.

#### **Recommendation**

The Corporation should consider coming up with an IT Strategic Committee.

## Management response

**Observation noted. IT reporting at Board level has been incorporated in the Finance Committee.**

## 2. REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

### 2.1. Lease agreements

#### Finding

There were no lease agreements for the Corporation's tenants in the period under review. The following are examples;

<b>Tenant</b>	<b>Location</b>	<b>Comments</b>
1.	Chitungwiza SEDCO Property	No lease agreement in place.
2.	Chitungwiza SEDCO Property	No lease agreement in place.
3.	Chitungwiza SEDCO Property	No lease agreement in place.
4.	Gazaland Property	Lease agreement expired 31 Dec 2010.
5.	Gazaland Property	Lease agreement 31May 2013 entered between SEDCO and Satellite Enterprises on 31 <sup>st</sup> May 2012
6.	Chitungwiza SEDCO Property	No lease agreement in place.
7.	Gazaland Property	Not signed by both parties Lease agreement expired 31 Dec 2012
8.	Gazaland Property	Lease agreement expired August 2013 on 17 August 2012.
9.	Gazaland Property	Lease agreement expired from 1 April 2012-31 <sup>st</sup> March 2013

#### Risk/Implication

Financial loss as there may be no recourse in the event of disputes.

#### Recommendation

The Corporation should ensure that lease agreements are in place and signed by both parties.

## Management response

**Noted. The Corporation is working to regularize the documents. These tenants' lease agreements were prepared by Fairvest Real Estate Agents former property managers**



for SMEDCO. Fairvest Real Estate refused to surrender some tenant's files upon termination of their contract and this resulted in the Corporation delaying the renewal of lease agreements to those affected as they were a number of outstanding issues that need to be verified.

As for Satellite Enterprises (Pvt) Ltd, Ardchem Industries and Ministry of SMECD the lease agreements were not renewed because they are in arrears. The Corporation is continuously engaging them and new leases will only be issued out to pay up tenants. Satellite Enterprises was eventually evicted as a result of non-payment of rentals.

Binding agreements are there in form of payments plans and acknowledgement of debts made by tenants during the negotiation process.

### **3. EMPLOYMENT ISSUES**

#### **3.1. Performance appraisals**

##### **Finding**

There was no evidence to support that performance appraisals were carried out in the period under review.

##### **Risk/Implication**

The Corporation may fail to identify human capital issues that need corrective action.

##### **Recommendation**

The Corporation should implement a performance evaluation process.

##### **Management response**

**Observation noted. The Corporation is in the process of implementing Integrated Results Based Management. Management team is completing Departmental Performance Agreements, Work and Performance Monitoring Plans and Performance Contracts. Performance appraisals will resume second quarter of 2015.**

#### **3.2. Key vacant positions**

##### **Finding**

There were key positions that had been vacant for more than one year. These posts as listed below were being manned by officers in an acting capacity.

<b>Post</b>	<b>Vacant since</b>
Assistant General Manager Finance	8 October 2013
Chief Internal Audit	31 January 2013
Harare Branch Manager	16 August 2013

### **Risk/Implication**

Decision making capacity of officers in acting capacities may be limited to short term decisions and this may result in poor service delivery.

### **Recommendation**

The Corporation should consider filling the above mentioned positions.

### **Management response**

**Interviews for the Assistant General Manager (Finance and Administration) were held in November 2014. After Board approval, government approval will be sought as this is a designated post.**

**Positions for Branch Manager Harare and Chief Internal Auditor among others were frozen by the Board until the Corporation is able to generate revenue and new business as the current situation does not support recruitment of staff due to low level of activity.**

## **4. PROGRESS IN IMPLEMENTATION OF PRIOR YEAR RECOMMENDATIONS**

I reviewed the progress made towards the implementation of prior year recommendations and found that the Corporation made some progress and there was some room for improvement in respect of the following recommendations:

### **4.1. Funds on placement**

#### **Recommendation**

The Corporation should follow up on the amount.

#### **Management response**

**The first meeting with the Master of High Court was held on 28<sup>th</sup> of January 2015 and we have lodged our claim which was provisionally approved. The process should see the Corporation recovering some of the funds that are tied up in the defunct institution.**

## **PUBLIC ENTITIES UNDER THE CATEGORY OF STATE HOSPITALS**

## **INGUTSHENI CENTRAL HOSPITAL 2013**

### **Background information**

Ingutsheni Central Hospital is a body corporate as defined in section 18 read together with the first schedule of the Health Service Act [Chapter15:16]. Its solely a psychiatry health institution established under the provisions of the Mental Health Act [Chapter15:12]. Its operations are sanctioned by the Mental Health Regulations of 1999 and the Zimbabwe Mental Health Policy of 2004.

I have audited the financial statements for Ingutsheni Central Hospital for the year ended December 31, 2013.

### **Basis for Adverse Opinion**

- i. A director's valuation of plant and equipment was not performed in line with **IAS 16-Property, plant and equipment** which requires that a revaluation of property, plant and equipment should include a re-assessment of residual values and useful life and should also be supported by a valuation basis, sufficient and appropriate supporting documentation.
- ii. I could not perform inventory count at December 31, 2013 to ascertain the existence of inventory. Furthermore, an inventory valuation was not prepared at that date to satisfy me of the appropriateness of the valuation of inventory.
- iii. Completeness of creditors could not be ascertained as there was inadequate documentation and the hospital did not perform some creditor reconciliations during the year under review.
- iv. Completeness of income could not be ascertained as the hospital does not have adequate controls to ensure completeness of farm income, donations, sale of gum poles and revenue from the Electroencephalography system (EEG) services.

### **Adverse Opinion**

In my opinion, because of the cumulative significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly the financial position of Ingutsheni Central Hospital as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Emphasis of Matter**

I draw your attention to Note 14, which describes circumstances that are casting significant doubt on the ability of the Hospital to continue operating as a going concern. The hospital incurred a net operating deficit of US\$1 050 320 during the year ended December 31, 2013 and at that date, its current liabilities exceeded its current assets by US\$ 627 457. These

and other circumstances as described in note 14 present circumstances that may cast a significant doubt over the ability of the hospital to continue operating as a going concern.

### **Other Matter**

The Hospital did not comply with the Public Accountants and Auditor's Board (PAAB) of Zimbabwe's guidance on the translation of Zimbabwean Dollar balances into United States Dollars following dollarization which took effect in February 2009. The derived equity has been recognised in 2013.

Ingutsheni Central Hospital does not own the land and buildings that it operates from as all land and buildings is owned by the Ministry of Local Government, Public Works and National Housing. The institution has not recognised a liability with respect to the lease agreement which is not in line with **IAS 17 – Leases**, and the institution does not have a lease agreement with the Ministry of Local Government, Public Works and National Housing.

**IAS 1 – Presentation of Financial Statements** requires that comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. However, as the institution was not audited in the preceding year, and there are significant material misstatements in the current period, the opening balances could not be relied upon.

However, below are other material issues noted during the audit.

## **1. GOVERNANCE ISSUES**

### **1.1. Inventory opening balances**

#### **Finding**

Inventory counts should be conducted at every month end. Inventory journals should then be passed to adjust theoretical inventory to match physical inventory.

I observed that there were no inventory counts done during the year ending December 31, 2012 thereby affecting opening balances for year 2013.

#### **Risk/Implication**

Misstatement of financial statements.

Pilferage of inventory will not be detected.

#### **Recommendation**

It is recommended that the Stores Manager ensures that stock counts are performed at every month end.

### **Management response**

**The Hospital has an asset register that is updated every year. In future stock takes will be conducted.**

## **1.2. Inventory valuations**

### **Finding**

General stores inventory was valued at costs obtained over telephone conversations with suppliers and or using estimates. There was no supporting documentation attached to the inventory valuation.

### **Risk/Implication**

Inventory values may be misstated in the financial statements.

### **Recommendation**

When using supplier valuations, a quotation or supplier invoice must be used and attached to the stock valuations.

Management should ensure that donated inventory only comprise of transport to the extent that those transport costs were incurred by the entity. If no costs were incurred in bringing donations to their present location they should be valued at nil.

### **Management response**

**The exercise of valuation of assets only started in 2013, prior to that no such valuation had been carried out. Please note that the new financial reporting requirement only came into being in the Ministry as at December 31, 2013.**

**Most of the inventory items that are currently in our stores department were procured prior the dollarization of the economy (before 2009) hence the effort to phone around and find the present values of inventory items.**

**In future supporting documentation from relevant suppliers (quotations, price lists) will be made available to ascertain the value of inventory items.**

**As already stated the counting of inventory for year-end financial statements only started in 2013 thus nothing was done in 2012.**

### **1.3. Audit Committee**

#### **Finding**

The Hospital failed to comply with section 84 of the Public Finance Management Act [Chapter 22:19] by not establishing an Audit Committee. An Audit Committee assures that those charged with governance ensure reasonable protection of assets.

#### **Risk/Implication**

Management shall be liable to penalties in terms of section 91(2) 2 as read with section 42 of the Public Finance Management Act [Chapter 22:19].

#### **Recommendation**

It is recommended that those charged with governance ensure that the entity complies with all requirements of the act and establish an Audit Committee.

#### **Management response**

**The Hospital does not have powers to appoint an Audit Committee except for an Audit and Finance committee for the Hospital Management Board.**

### **1.4. Alterations on payment vouchers and requisitions**

#### **Finding**

I noted that alterations were made on requisitions and payment vouchers but were not signed for so as to ensure that they had been authorised.

#### **Risk/Implication**

The expense is susceptible to fraud as one is able to receive cash and make a payment of less than the requested amount and simply cancel the original figure.

#### **Recommendation**

Management should ensure that all vouchers with alterations are cancelled and a new payment voucher signed with the correct details.

#### **Management response**

**The Finance Director has written a circular to emphasise the need for the signature to be done on all figure alterations and cancellations.**

## **2. REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **Finding**

Completeness of income could not be ascertained as the hospital does not have adequate controls to ensure completeness of farm income, donations, sale of gum poles and revenue from the Electroencephalography system (EEG) services.

### **Risk/Implication**

Financial loss due to fraud.

### **Recommendation**

The Hospital should implement internal controls that will ensure that all revenue collected is actually recorded.

### **Management response**

Management is in the process of strengthening revenue control system by implementing the following:

- Farm produce to be sold at the Recreation hall in the presence of an accounting officer who will be receipting. Staff members are no longer allowed to go to the farm and buy from there.
- Electroencephalography (EEG) – Now there is a register in place. The machine records the details of the patients. Reconciliation are now being done weekly.
- Sale of gum trees was a once off project and its no longer a revenue source.



## **PARIRENYATWA GROUP OF HOSPITALS 2013**

### **Background information**

Parirenyatwa Group of hospitals as a central Hospital is a body corporate established in terms section 18 (1) of the Health Service Act, [Chapter 15:16] of 2004. The Hospital consists of Mbuya Nehanda Maternity Hospital, Sekuru Kaguvi Eye Unit, Annex Hospital for the Mentally Disabled and the Main Hospital.

I have audited the financial statements of Parirenyatwa Group of Hospitals for the year ended December 31, 2013. However, the financial statements could not be finalised as the client was carrying out an asset reconciliation/ mapping exercise.

However, below are material issues noted during the audit;

### **1. GOVERNANCE ISSUES**

#### **1.1. Drug expiry and aged analysis reports**

##### **Finding**

The inventory management system did not generate drug expiry and aged analysis reports. The generation of expiry reports would help the Hospital to monitor the expiry of drugs more effectively. The aged analysis reports would help in monitoring the slow moving items in order to come up with correct valuation of inventory.

##### **Risk/Implication**

Expired drugs may be dispensed to patients.  
Misstatement of financial statements.

##### **Recommendation**

The inventory management system should be configured to generate the expiry reports and the aged analysis reports.

##### **Management response**

**Noted. We will engage the pharmacy management information system provider Trifour so that we can come up with ways of implementing your recommendations. However, the manual system which we have been using has also been very reliable and effective as we do physical counts on a month to month basis which enable us to have a clear oversight of expiry dates of essentially all the pharmaceutical stocks.**

## **2. REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1. Receivables**

#### **Finding**

The Hospital had patient receivables that were outstanding since 2012 amounting to US\$1,625,721.

#### **Risk/Implication**

The full amount may not be recovered due to lapse of time.

#### **Recommendation**

The Hospital should make a concerted effort to recover the receivables.

Irrecoverable receivables should be written off.

#### **Management response**

**Noted. Application for write off has been made through the Hospital Board simultaneously with the Treasury concurrence, and execution for the write offs is expected after the 20<sup>th</sup> of December 2014.**

## **3. PROCUREMENT OF GOODS AND SERVICES**

### **3.1. Bulk medical grade oxygen**

#### **Finding**

Bulk Medical Grade Oxygen purchases had insufficient supporting documentation as outlined in the table below;

<b>Date</b>	<b>Invoice</b>	<b>Status</b>	<b>Amount US\$</b>	<b>Remarks</b>
14/02/13	30117	Quotation	4,976	Quotation used as invoice for payment.
15/08/13	823367	Copy	10,680	Copy Fiscal Tax invoice. No payment voucher.
17/01/13	772811	Copy	14,222	Copy Fiscal Tax invoice. No payment voucher.
17/01/13	772811	Copy	14,222	Copy Fiscal Tax invoice. No payment voucher.
25/09/13	744199	Reprint	9,520	Copy delivery note. Copy Second Weight Ticket. No payment voucher. Invoice only.
11/12/13	852437	Invoice	11,231	Copy BOC delivery note. Invoice only.

**Risk/Implication**

There is risk that payments may be duplicated.

**Recommendation**

Payment vouchers should be filled and approved for payment.

**Management response**

**The invoices are maintained separately and reconciled with the part payment vouchers on a monthly basis.**

## **UNITED BULAWAYO HOSPITALS 2013**

### **Background information**

United Bulawayo Hospitals (UBH) is a principal referral centre, which provides high specialist health care for the people in Bulawayo and surrounding areas by promoting health, preventing ill-health, diagnosing and treating disease and injury, and caring for those with long-term illnesses and disabilities. UBH also provides training for nurses, internship for doctors, pharmacists and physiotherapists. The Hospital started operations in 1937. Its operations are sanctioned by the Public Health Act [Chapter 15:09]; Health Services Act [Chapter 15:16]; Medical Services Act [Chapter 15:13]; and the Public Finance Management Act [Chapter 22:19].

I have audited the financial statements for United Bulawayo Hospitals for the year ended December 31, 2013.

### **Basis for Adverse Opinion**

- i. A director's valuation of Property, Plant and Equipment was not performed in line with **IAS 16- Property, Plant and Equipment** which requires that a revaluation of property, plant and equipment should have a valid valuation basis, include a re-assessment of residual values and useful life and have sufficient and appropriate supporting documentation to support the revaluation.
- ii. I could not ascertain the completeness of Property, Plant and Equipment at December 31, 2013 as not all assets were recorded in the accounting records.
- iii. I could not perform an inventory count at December 31, 2013 to independently ascertain the valuation of inventory as at that date. Furthermore, the inventory valuation prepared by management as at that date did not sufficiently satisfy me of the appropriateness of the valuation of that inventory.
- iv. The completeness of creditors could not be ascertained as the hospital did not perform any creditor reconciliations and there were missing supplier invoices.

### **Adverse Opinion**

In my opinion, because of the cumulative significance of the matters discussed in the Basis for Adverse Opinion Paragraph, the financial statements do not present fairly the financial position of United Bulawayo Hospitals as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## **Emphasis of Matter**

I draw your attention to Note 16, which describes circumstances that cast significant doubt on the ability of the Hospital to continue operating as a going concern. The Hospital incurred a net operating deficit of US\$ 5 414 961 during the year ended December 31, 2013 and at that date, its current liabilities exceeded its current assets by US\$ 711 828.

These and other circumstances as described in Note 16 present circumstances that may cast significant doubt over the ability of the Hospital to continue operating as a going concern.

## **Other Matter**

**IAS 1 – Presentation of Financial Statements** requires that comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. However, as the institution was not audited in the preceding year, and there are significant material misstatements in the current period, the opening balances could not be relied on.

The institution did not comply with the Public Accountants and Auditor's Board (PAAB) of Zimbabwe's guidance on the translation of Zimbabwean Dollar balances into United States Dollars following dollarisation which took effect in February 2009. The derived equity has been recognised in 2013.

United Bulawayo Hospitals do not own the land and buildings that it operates from as all land and buildings are owned by the Ministry of Local Government, Public Works and National Housing, however, contrary to the provisions of **IAS 17- Leases**, the institution neither recognised the liability which arises from the lease and nor does it have lease agreements with the Ministry of Local Government, Public Works and National Housing.

However, below are other material issues noted during the audit.

## **1. GOVERNANCE ISSUES**

### **1.1. Revaluation of assets**

#### **Finding**

IAS 16 requires that a director's valuation of Property, Plant and Equipment have a valid valuation basis, include a re-assessment of residual values and useful life and have sufficient and appropriate supporting documentation to support the revaluation

A revaluation of property, plant and equipment was carried out by management but no supporting documentation to support the valuation basis was presented for review during the audit.

**Risk/Implication**

Wrongly computed property, plant and equipment values leading to misstatements in the financial statements

**Recommendation**

Management should ensure that that any revaluation of property, plant and equipment has sufficient and appropriate supporting documentation to support the revaluation.

**Management response**

**It is noted. In future all directors' revaluation of Plant and equipment will be approved by the board of directors. In 2014, buildings and plant were revalued by professional property valuers.**

**1.2. Performance of periodic inventory counts****Finding**

An effective inventory management system includes the performance of inventory counts at periodic intervals as a tool to determine the accuracy of inventory levels in the accounting records and detect any anomalies due to theft, damages or inaccurate recording. Physical inventory counts should be conducted for all departments at monthly intervals and the count results must be reconciled to the theoretical inventory in the system.

I noted that the Surgical Stores department did not perform periodic physical inventory counts.

**Risk/Implication**

Fraud and error within the inventory cycle will be undetected.

Theoretical inventory levels may be misstated as they are not periodically reconciled to the physical inventory.

**Recommendation**

Monthly inventory counts must be performed for each department and reconciled to the theoretical stocks.

### **Management response**

**Management agrees, arrangements have been done to have periodic stock take of inventory in relevant departments, and the process should start end of March 2015.**

## **1.3. Recording of inventory movements in the accounting system**

### **Finding**

All invoices as well as documents for inventory items delivered at stores and documents relating to transfer of inventory to departments for use should be submitted to the accounting department for capturing into the accounting system.

I noted that documentation relating to inventory movements, that is, goods received notes and delivery notes were not submitted to the Accounts Department to update inventory levels in the accounting records.

### **Risk/Implication**

The inventory levels as per the accounting system cannot be relied on as not all movements were captured.

### **Recommendation**

Management should ensure that all documents relating to inventory movements are sent to the Accounts Department on receipt or issue of goods for posting.

### **Management response**

**We acknowledge the observation; we shall improve on the management of our inventory. This will be made easier once the hospital is computerised**

## **1.4. Audit Committee**

### **Finding**

The entity failed to comply with Section 84 of the Public Finance Management Act [Chapter 22:19] by not establishing an Audit Committee which assists those charged with Governance to ensure reasonable protection of assets by exercising utmost care.

There was a lack of oversight of the inventory management system by the Management and by those charged with Governance and in addition there was no Internal Audit in place during the period under review.

**Risk/Implication**

Those charged with Governance shall be liable to penalties levied in terms of section 91(2) as read with section 42 of the Public Finance Management Act [Chapter 22:19]

**Recommendation**

Those charged with Governance should ensure that the entity establishes an Audit Committee which complies with all the relevant requirements of the Act.

**Management response**

**Management agrees with this recommendation. There was no Audit committee in the period concerned. The matter is being addressed by the Hospital Management Board to put in place the Audit Committee.**

**2. REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY****2.1. Debtors ledger currency****Finding**

The debtors' ledger had a running balance made up of amounts owing during the Zimbabwe Dollar Era and debtor balances in the United States Dollar Era.

The balances had been combined in the system as though they were denominated in a single currency.

All amounts disclosed in the entity's accounts should be of the same currency, if different currencies are used it should be indicated as such or converted to the functional currency and the rates of conversion disclosed.

**Risk/Implication**

There is a possible risk of misstatement of financial statements.

**Recommendation**

Management should ensure that debtor balances that were carried over from the Zimbabwe Dollar era should be converted into United States Dollars so as to reflect true and fair balances owed by debtors.

**Management response**

**We agree. We are doing manual separation when extracting Debtors' balances. We refer to US dollar currency which began in 2009 ignoring Zimbabwe dollar era.**



However, we shall seek authority to write off Zimbabwe dollar balances from the system, we are also in the process of adopting a fully-fledged accounting system package in 2015.

### **3. PROCUREMENT OF GOODS AND SERVICES**

#### **3.1. Tenders**

##### **Finding**

The internal tendering regulations of the Hospital required the Tendering Committee to evaluate each competitive tender submitted to them during a meeting and record minutes of the evaluation process. Any tenders for the provision of goods and service amounting to more than US\$ 10 000 must be evaluated through an informal tender process.

Minutes for the Tendering Committee meetings that resulted in the awarding of most of the competitive tenders were not availed to us for review.

There was also a high volume of competitive quotations below the US\$ 10 000 informal tender threshold for the provision of the same goods and services that cumulatively exceeded the threshold.

##### **Risk/Implication**

The flouting of internal tendering regulations creates a high risk of fraud within the procurement cycle.

Tenders may have been intentionally set at below the informal tender threshold.

Tenders may be awarded to unsuitable suppliers leading to financial losses.

##### **Recommendation**

All Tendering Committee deliberations must be documented and filed.

Procurement of goods and services that cumulatively exceed US\$ 10 000 during the financial year must be initiated by an informal tendering process.

##### **Management response**

**Agree. Steps to be taken to ensure that all minutes are filed. Part of the minutes not available were for goods and services procured through Per Best Advantage (PBA).**

**As an Institution, we have two types of tendering systems for procuring goods and services; Competitive Tenders and Informal Tenders.**

However, goods and services procured under the Competitive Tender should have the value between US\$0 to US\$ 10 000.00. Anything above US\$ 10 000.00 to US\$ 300 000.00 must be advertised.

Above all, the Procurement Act is not clear on how many times a fast moving product like latex gloves must be purchased using Competitive Tender while waiting Informal Tender which is done in the period of 30 days, except where authority is granted from State Procurement Board to reduce the 30 days period.

We buy through Competitive Tender because of insufficient resources as Informal Tenders require substantial amount of money which we do not have resulting in us resorting to Competitive Tender.

When we placed an Informal Tender advert, manufacturers do not respond to our advert resulting in us buying directly from them. Some items such as Gas, blood and coal are bought from sole suppliers.

### 3.2. Payment vouchers and requisitions

#### Finding

I observed that RTGS payments were not supported by payment vouchers or requisitions. The following table contains details of RTGSs that were without payment vouchers;

Date	Supplier	Reference	Amount US\$
21/10/13	National Blankets	RTGS	4 999
22/10/13	Zimspinners	RTGS	2 700
22/10/13	Makromed	RTGS	2 608
22/10/13	ATTAlti	RTGS	2 200
22/10/13	Transmed	RTGS	3 220
22/10/13	Blissful	RTGS	3 990
24/10/13	Blerce Trading	RTGS	3 000
24/10/13	Harness	RTGS	3 999
24/10/13	New Avakash	RTGS	2 600
24/10/13	Chemsub	RTGS	2 065
24/10/13	Cibbles	RTGS	2 530
			<b>33 910</b>

#### Risk/Implication

Financial losses due to payments of unauthorised expenses.

### **Recommendation**

Management should ensure that all documents relating to expenses that are; a payment voucher, a requisition and an invoice are stapled and filed together.

### **Management response**

**It is noted, in future payment vouchers will be written together with the RTGS.**

## **4. EMPLOYMENT ISSUES**

### **4.1. Motor vehicle benefit for Chief Executive Officer**

#### **Finding**

The motor vehicle used by the Chief Executive Officer was being leased from CMED. The Hospital incurred a total expense of US\$ 85 827 for the rental of the vehicle during the year under review.

#### **Risk/Implication**

Inefficient use of the organisation's limited resources.

#### **Recommendation**

Management should consider purchasing the vehicle under a hire purchase agreement, as it would cost less than renting it out from the CMED.

#### **Management response**

**As per the employment contract for the Chief Executive Officer, she is supposed to be issued a vehicle by the Ministry of Health and Child Care as part of her contract. At the moment she has not been allocated any car by the Ministry and we have resorted to leasing a motor vehicle from Central Mechanical Equipment Department (CMED). To avert the expenses incurred due to leasing, the Management Board has recommended that a car should be bought by the Hospital for the Chief Executive Officer. The quotations have been sourced and awaiting adjudication.**

# **PUBLIC ENTITIES UNDER THE CATEGORY OF UNIVERSITIES AND TERTIARY INSTITUTIONS**

## **ZIMBABWE OPEN UNIVERSITY (ZOU) 2011**

### **Background information**

The University is registered in Zimbabwe under the Zimbabwe Open University Act [Chapter 25:20] and is engaged in the provision of tertiary education through distance learning.

I have audited the financial statements of the Zimbabwe Open University for the year ended December 31, 2011.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Zimbabwe Open University as at December 31, 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

However, below are material issues noted during the audit.

#### **1. GOVERNANCE ISSUES**

##### **1.1. Performance evaluation**

### **Finding**

There was no evidence of performance evaluation of the senior employees of the University and of Council members during the year under review.

### **Risk/Implication**

Non-compliance with principles of good Corporate Governance.

### **Recommendation**

The Council should conduct annual performance evaluations of its members, senior management, as well as those of Council sub-committees.

### **Management response**

**Council members have not been subjected to performance evaluation in the past. The matter is under consideration by Council itself.**

## **1.2. Internal audit function**

### **Finding**

The internal audit department was reporting to the Vice Chancellor and there was no evidence that the internal Auditors attended continuous professional development programs.

The Audit Charter available was outdated since it was compiled in 2005 and there was no evidence of approval by the Council.

The University had no risk profile or register to guide the internal audit function in the execution of assignments.

### **Risk/Implication**

Risks affecting the University may not be detected and corrected in time; and the internal audit functions may be compromised.

### **Recommendation**

Ideally, internal audit department should report to an Audit Committee.

The University should ensure that Internal Auditors engage in professional continuous development programs so as to keep abreast with new developments in the Auditing Profession.

The internal audit department should come up with a risk profile which identifies the main risk areas for the University

The University should come up with an Audit Charter which should be approved by Council.

### **Management response**

**Noted. Internal audit now reports to the Audit Committee of Council on audit work and to the Vice Chancellor administratively**

**Several Internal Auditors are engaged in various studies with three (3) scheduled to graduate with MBAs in 2013. Funds permitting, the internal auditors will also be encouraged to attend workshops, seminars and possibly being attached to audit firms**

**Noted. Work to update the Audit Charter is underway.**

### **1.3. Agreement between ZOU & ZOU Online**

#### **Finding**

The Zimbabwe Open University entered into a joint venture partnership with another party and formed a company called ZOU Online (Private) Limited. However, management could not provide me with evidence or minutes to support that this partnership was approved by the full Council although an approval letter was obtained from the Council Chairman.

#### **Risk/Implication**

Non-compliance with the ZOU Act and principles of good corporate governance.

#### **Recommendation**

Management should ensure that all activities entered into by the University are allowed by the statutes and are approved by the Council.

#### **Management response**

**The partnership was formed as a response to Government exhortations for the Private Public Partnerships (PPP) in response to the resource constraints and shortage of skills.**

**Council was represented on the board by a Non-Executive Council Member. However, it is the case that no Council resolution was passed to formalise approval of the ZOU-Online project.**

**However, in April 2011, ZOU-Online operations were wound up and ZOU-Online assets were then taken over by ZOU.**

## **2. PROCUREMENT OF GOODS AND SERVICES**

### **2.1. Supplier invoices**

#### **Finding**

During the audit, management failed to provide me with the original invoices for certain transactions, instead photocopied invoices were produced. Examples of such include:

<b>Date</b>	<b>Reference</b>	<b>Description</b>	<b>Amount (US\$)</b>
24/08/11	NC11/3820	ZIMCHE Workshops	587
1/09/11	TK0001	Library books	8 510
6/09/11	N11/4095	Esteem Travel	10 444

**Risk/Implication**

Possible financial loss due to misappropriation of cash resources.

**Recommendation**

Management should ensure that original invoices are filed in a systematic manner and are available for reference purposes.

**Management response**

**Noted. We will ensure that original invoices are filed and available to auditors in future.**

**2.2. Payments****Finding**

The University made double payments for some transactions and no satisfactory explanations were given by management for the payments to the suppliers who were previously paid. Below are examples:

Description	Amount (US\$)
Business travel	1291
ZIMCHE Subscriptions	6000
Foreign Travel	23 669
Halsted Timbers	3230

**Risk/Implication**

Financial loss due to fraud or material error.

**Recommendation**

Management should ensure that all payments made are supported by valid invoices from suppliers and all invoices paid should be stamped “paid”.

**Management response**

**These transactions are under investigation and the University is pursuing the necessary disciplinary, legal and recovery action as appropriate.**



### 2.3. Approved suppliers

#### Finding

I could not obtain evidence to enable me to verify whether the suppliers from which the University was purchasing its goods and services were authorised by the State Procurement Board. Below are examples of such suppliers:

Description	Date of transaction	Purchase order	Amount
Vickstrom International	15/06/11	2100	1 100
Natec Arms Zimbabwe	30/08/11	2248	2 400
Halsteds	21/10/11	3119	2 351
Belsmar Litho Associations	08/09/11	20062	6 800

#### Risk/Implication

Fraud and/or irregularities may occur and remain undetected.

#### Recommendation

The University should ensure that goods and services are only acquired from the suppliers approved by the state procurement board. The list of the approved suppliers should always be readily available.

#### Management response

Noted.

### 3. EMPLOYMENT COSTS

#### 3.1. Staff allowances

#### Finding

During the year under review, the University was paying some allowances to senior management. However, there was no evidence that such allowances were being subjected to tax as they were not included in the payroll when computing Pay As You Earn (PAYE) for the individual employees. These allowances were as follows; Motoring benefits, Guard service allowance, Entertainment allowance, Domestic allowance, School fees and Holiday allowances.

#### Risk/Implication

Non-compliance with Income Tax Act [Chapter 23:06], leading to possible interest and/or penalties being levied on the University.

### **Recommendation**

Management should ensure that all allowances that are taxable are included in the payroll for purposes of computing employee taxes.

### **Management response**

**Historically, all universities were not paying taxes on such allowances. However, ZIMRA has changed their practice and directed that all such allowances be taxed. The allowances are now taxed and passed via payroll with any historical queries in this respect having been resolved with ZIMRA.**

## **3.2. School fees benefit**

### **Finding**

There were instances where payments made outside Zimbabwe in respect of school fees to universities for senior management were being paid at rates more than those authorised by the Council. For instance, US\$4 320 was paid on September 23, 2011, for the Finance Director's child learning at a University in Canada. The fees paid were above the fees charged at other universities by over \$2000.

### **Risk/Implication**

Non adherence to Council resolutions.

### **Recommendation**

Management should ensure that all allowances or benefits to employees are paid at the rates authorised by the Council.

### **Management response**

**Noted. Management will ensure that allowances are paid up to the approved limits. In this respect, all requisitions originating from senior management offices will be authorised by the Human Resources Director before being passed to the finance unit for payment in this way segregation of duties is observed.**

## ANNEXURES

### ANNEXURE (A)

#### STATE ENTERPRISES AND PARASTATALS AUDIT OPINIONS PER ENTITY

PUBLIC ENTITY	YEAR	OPINION ISSUED	YEAR	OPINION ISSUED
<b>Authorities and Agencies</b>				
Agricultural Marketing Authority (AMA)	2014	Unqualified	2013	Unqualified
Civil Aviation Authority of Zimbabwe (CAAZ)	2013	Unqualified	2012	Unqualified
National Social Security Authority(NSSA)	2014	Unqualified with an Emphasis of matter	2013	Qualified
Environmental Management Agency	2013	Unqualified	2012	Unqualified
Radiation Protection Authority	2014	Unqualified	2013	Unqualified
Zimbabwe Revenue Authority (ZIMRA)	2014	Unqualified	2013	Unqualified
		qualified opinion on legal and other regulatory matters		
National Biotechnology Authority	2010	Qualified opinion	2009	Adverse opinion with an emphasis of matter
	2011	Qualified opinion		
	2012	Qualified opinion		
Zimbabwe National Road Administration (ZINARA)	2012	Qualified	2011	Qualified opinion on other legal and regulatory requirements
	2013	Qualified		
Zimbabwe Energy Regulatory Authority	2014	Unqualified	2013	Unqualified
<b>Boards</b>				
Health Services Board	2014	Unqualified	2013	Unqualified
Tobacco Industry and Marketing Board	2014	Unqualified	2013	Unqualified
Tobacco Research Board	2014	Unqualified	2013	Unqualified
Grain Marketing Board (GMB)	2013/14	Qualified with an emphasis of matter	2012/2013	Qualified
<b>Companies and corporations</b>				
Marange Resources (Pvt) Ltd	2014	Unqualified with an emphasis of matter	2012	Unqualified
			2013	Unqualified with an emphasis of matter

<b>PUBLIC ENTITY</b>	<b>YEAR</b>	<b>OPINION ISSUED</b>	<b>YEAR</b>	<b>OPINION ISSUED</b>
National Railways of Zimbabwe	2014	Unqualified with an emphasis of matter	2013	Unqualified with an Emphasis of matter
Power Tel	2014	Unqualified with an Emphasis of matter	2013	Unqualified with an Emphasis of matter
Saint Lucia Park Training and Conference Centre (Private ) Ltd	2014	Unqualified	2013	Unqualified
ZESA Enterprises	2014	Unqualified with an Emphasis of matter	2013	Unqualified
Zimbabwe Academic and Research Network(ZARNet)	2011 2012 2013	Unqualified Unqualified Unqualified	2010	Unqualified
Zimbabwe Mining Development Corporation	2013	Adverse opinion with an emphasis of matter	2012	Qualified with an Emphasis of matter
<b>Councils</b>				
National AIDS Council (NAC)	2013	Unqualified	2012	Unqualified
National Arts Council of Zimbabwe	2013	Unqualified	2012	Unqualified
Traffic Safety Council of Zimbabwe	2014	Unqualified	2013	Unqualified
Zimbabwe National family Planning Council	2014	Unqualified	2013	Unqualified
Zimbabwe School Examination Council ( ZIMSEC)	2013	Unqualified	2012	Unqualified
Allied and Health Practitioners Council	2013	Unqualified	2012	Unqualified
Medical Rehabilitation Practitioners Council	2013	Unqualified	2012	Unqualified
<b>Commissions</b>				
Securities and Exchange Commission of Zimbabwe (SECZ)	2014	Unqualified	2013	Unqualified
Investor Protection Fund	2014	Unqualified with an Emphasis of matter	2013	Unqualified with an Emphasis of matter
National Income and Pricing Commission	2013	Unqualified	2012	Unqualified
Anti- Corruption Commission	2010	Qualified with an Emphasis of matter	2009	Adverse opinion
<b>Financial Institutions</b>				
Infrastructure Development Bank of Zimbabwe (IDBZ)	2014	Unqualified	2013	Unqualified with an emphasis of matter.
People's Own Savings Bank (POSB)	2014	Unqualified	2013	Unqualified

<b>PUBLIC ENTITY</b>	<b>YEAR</b>	<b>OPINION ISSUED</b>	<b>YEAR</b>	<b>OPINION ISSUED</b>
Small Enterprise Development Corporation (SEDCO)	2013	Qualified	2012	Qualified
<b>Tertiary Institutions</b>				
Great Zimbabwe University	2013	Unqualified	2012	Unqualified
Lupane State University	2014	Unqualified	2013	Unqualified
Zimbabwe Open University	2011	Unqualified	2010	Unqualified
Harare Institute of Technology	2014	Unqualified	2013	Unqualified
<b>Other</b>				
National Galleries of Zimbabwe	2013	Unqualified	2012	Unqualified
Scientific and Industrial Research Development Centre( SIRDC)	2014	Unqualified	2013	Unqualified

**ANNEXURE (B)****AUDITS IN PROGRESS AND BEING FINALISED**

<b>PUBLIC ENTITY</b>	<b>YEAR</b>
Agribank	2014
Agricultural Rural Development Authority	2012
Air Zimbabwe and its Subsidiaries	2010
Allied Timbers (Pvt) Ltd	2014
Bindura University of Science Education	2014
Bulawayo School of Hospitality and Tourism	2013
Chinhoyi University of Technology	2014
CMED (Pvt) Ltd	2014
Competition and Tariff Commission	2014
Courier Connect	2014
Deposit Protection Corporation	2014
Health Professions Authority (HPA)	2014
Forestry Commission	2013-2014
Insurance and Pension Commission (IPEC)	2014
Medicines Control Authority of Zimbabwe (MCAZ)	2014
Midlands State University (MSU)	2014
Minerals and Marketing Corporation of Zimbabwe (MMCZ) & Mellofield	2014
National Income and Pricing Commission (NIPC)	2014
National Indigenization and Economic Empowerment Board (NIEEB)	2014
National University of Science and Technology	2014
Net*One (Pvt) Ltd	2014
Petrol Trade (Pvt) Ltd	2014
Postal & Telecommunication Regulatory Authority of Zimbabwe (POTRAZ)	2014
Printflow (Pvt) Ltd	2014
Research Council of Zimbabwe (RCZ)	2014
Sports and Recreation Commission	2014
State Procurement Board	2009-2011
TelOne (Pvt) Ltd	2014
University of Zimbabwe	2014
Zesa Holdings	2014
Zimbabwe Council of Higher Education (ZIMCHE)	2014
Zimbabwe Electoral Commission (ZEC)	2012-2013
Zimbabwe Energy Regulatory Authority	2014
Zimbabwe Investment Authority (ZIA)	2014
Zimbabwe Media Commission (ZMC)	2014
Zimbabwe Mining Development Corporation and its subsidiaries	2014
Zimbabwe National Water Authority (ZINWA)	2013
Zimbabwe Open University (ZOU)	2012

<b>PUBLIC ENTITY</b>	<b>YEAR</b>
Zimbabwe Parks and Wildlife Management Authority	2013
Zimbabwe Posts (Pvt) Ltd (ZIMPOSTS)	2014
Zimbabwe Power Company (ZPC)	2014
Zimbabwe School Examinations Council (ZIMSEC)	2014
Zimbabwe School of Mines	2014
Zimbabwe Transmission and Distribution Company (Pvt) Ltd	2014

## ANNEXURE (C)

### ACCOUNTS NOT SUBMITTED FOR AUDIT

PUBLIC ENTITY	YEAR
Agricultural Rural Development Authority	2013-2014
Air Zimbabwe and its Subsidiaries	2011-2014
Allied Health Practitioners Council	2014
Anti-Corruption Commission	2011-2014
Broadcasting Authority of Zimbabwe	2014
Civil Aviation Authority of Zimbabwe	2014
Cold Storage Company and its Subsidiary Wetblue Industries (Pvt) Limited	2013-2014
Environmental Health Practitioners Council	2014
Environmental Management Authority	2014
Litefold Engineering (Private) Limited	2014
Medical Laboratory Scientists of Zimbabwe	2014
Medical Research Practitioners Council	2014
National Aids Council	2014
National Arts Council of Zimbabwe	2014
National Biotechnology Authority	2013-2014
National Handicraft Centre	2009-2014
National Libraries and Documentation Services	2009-2014
National Museum and Monuments of Zimbabwe	2014
Nurses Council of Zimbabwe	2014
Parirenyatwa Group of Hospitals	2014
Small Enterprises Development Corporation	2014
State Procurement Board	2013-2014
Zimbabwe Academic and Research Network(ZARNet)	2014
Zimbabwe Broadcasting Corporation	2013-2014
Zimbabwe Electoral Commission	2014
Zimbabwe Institute of Public Administration and Management	2014
Zimbabwe National Parks and Wildlife Management Authority	2014
Zimbabwe National Road Administration Authority	2014
Zimbabwe Open University	2013-2014
Zimbabwe Statistical Agency	2012-2014