

# Analysis Of The Auditor General's Reports

From 2013 – 2015



*Investing in people for social and economic justice*

**COMMISSIONED BY:**

*Zimbabwe Coalition on Debt and Development*

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## Imprint

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## The Assignment/ Terms of Reference

The analysis was meant to;

- Assess progress in the implementation of the Auditor General’s recommendations;
- Draw out irregularities raised by the Auditor General’s 2013 to 2015 financial reports;
- Show revenue leakages from ineffective governance;
- Pointing out facilitating factors to leakages and how it hinders fulfillment of socio-economic rights, entrench injustices and debt burden.

## Executive Summary

The policy framework of public funds and public property administration is defined through Constitution Amendment 20, the Audit Office Act (Chapter 22:18), the Public Finance Management Act (Chapter 22:19) and Treasury Instructions. Section 309 of Constitution Amendment 20 sets out the functions of the Auditor-General and Section 308 defines duties of custodians of public funds and property. It is the duty of the Auditor General to audit all institutions, government agencies and when requested by government he or she carries out special audits of the accounts of any statutory body or government controlled entity.

There was some traction on the implementation of the Auditor General’ recommendations especially in the Ministry of Finance and Economic Development. Prior to the current audit reports, the Ministry of Finance and Economic Development had issues of misappropriation of funds, gaps on Treasury Instructions, and absence of contracts for security and cleaning services noted in the previous reports. The current reports by the Auditor General show some ‘efforts’ by the Ministry of Finance and Economic Development to address these anomalies. All other Ministries have, although lowly, addressed a few of the Auditor General’s recommendations with the exception of the Ministry of Mines and Mining Development. Issues of lack of budgetary system, unsupported expenditure and use of cash to make payments instead of using bank transfers continue to haunt the Ministry of Mines and Mining

Development. The absence of Audit Committees remains outstanding in many Line Ministries and several Funds falling under line Ministries.

Zimbabwe's socio-economic and political challenges call for serious proper accounting and transparency in the administration of public funds. The ever growing citizen discontent birthed by allegations of corruption; unreasonable government expenditure; high unemployment levels; deteriorating social service delivery and crafting of policy frameworks divorced from Zimbabwe's socio-economic context specifics, calls for urgency to solve tax justice issues. The 2013 to 2015 period forms the era beyond the Inclusive Government which is a litmus test for the Zanu- PF Government to build on the few stabilization gains created during the government of national unity (GNU) period. Governance, regulatory and fiscal pre-conditions remain important ingredients in the boiling pot of contemporary justice and rights questions in Zimbabwe. Analysis of drivers to public funds leakage and proffering of solutions equally depicts an important area.

The 2013 – 2015 period, just like the previous period, continued to be dogged by a crisis of governance in the administration of public funds. Effective governance requirements are not yet fulfilled. Poor maintenance of accounting records, weak internal controls, unsupported expenditure, poorly constituted Boards of Directors, tax evasions and avoidance, violations of legal, policy and regulatory framework continue to drive public funds leakages. The absence of effective governance bred misstatement of financial statements, undervaluation, and high salary costs.

The analysis recommends the following as possible areas of intervention:

**Partnering Auditor General's Office to Build Capacity of Ministries, State Enterprises and Parastatals as well as Local Authorities:**

Although there are still challenges in implementing recommendations given by the Auditor General's Office, approximately 33% of the recommendations have been addressed by Ministries, Enterprises and Parastatals. Whilst building an informed citizenry and increasing public finance literacy is very important, equally so is the capacity of duty bearers to meet expectations from the citizenry. The Auditor General's Office is a respected entity and building a partnership in pursuit of capacity enhancement for government entities is important.

**Scale Up Enhancing Citizen Literacy, Involvement and Public Awareness**

The citizen remains an important player in holding duty bearers to account. Civil Society Organizations (CSOs) have had good initiatives on building literacy on examining public accounts and finances. The ZIMCODD SEJA (Social Economic Justice Ambassadors) approach is one such example. It remains the duty of CSOs to break abstract concepts into simple language that can be understood by marginalized people. Programmes targeting to enhance active citizenship on issues of public finance need to be broadened to reach every constituency in Zimbabwe. Social and economic justice issues are areas of great concern for citizens in Zimbabwe and enhancing participation should take into consideration literacy as well as information dissemination.

## **Investigative Research in Public Finance Management**

Whilst analysis of Auditor General's Reports present an opportunity to trace leakages on public finance and proffer recommendations, the bigger picture of Illicit Financial Flows that includes unrecorded transactions is highly missed. This is mainly so in Zimbabwe where US\$15 billion from the diamond sector is purportedly missing without trace and probe of what could have happened. The situation is vindicated by the current cash shortage that has engulfed Zimbabwe. Investigative research therefore goes beyond the audit reports books produced by the Audit Office and stretch beyond analyzing books of accounts.

## **Synchronization of Public Finance Management Laws and Regulations**

Constitution Amendment 20 remains the supreme legislation on administration of public funds. There is still need to ensure that other laws are in tandem with provisions of the constitution.

## **Introduction**

### **Methodology and Goal of the Analysis**

The analysis is based on the following tools;

- i). In-depth interviews with key stakeholders in public finance management
- ii). Desk Study of Auditor General's 2013 – 2015 Auditor General's Reports.

Misstating of financial statements from balance of payments between Pay Master General Account or Exchequer Account on one hand and Line Ministries, Local Authorities, State Enterprises and Parastatals on the other hand was analyzed. Tax evasions and cumulative losses were analyzed. Like the previous report, citizenry tax justice demands and socio-economic demands coupled by the debt question in Zimbabwe, informs proposed interventions in this report.

The analysis gives both policy recommendations and action points to address the raised concerns. The results below is a summary which illustrates the public funds leakage in the two-year period of this analysis.

## **Analysis Results: Public Funds Leakages from 2013 – 2015 in Zimbabwe**

The analysis noted that the amount of money lost during the period translate into approximately one billion United States Dollars. A pointer to the total amount lost is the case of the 2013 Ministry of Finance and Economic Development statements where take-on balance and closing balance had a variance of USD5 000 000; line Ministries balances and Treasury balances had a variance of USD324 670

068; line Ministries' Appropriation Account expenditures and Treasury total expenditure had a variance of USD31 687 074; undocumented loan write-offs amounting to USD5 025 000 as well as non-recovered debt repayment for a private company amounting to USD11 833 443. The absence of the figures impacted negatively on graphical presentation of total licit capital flights and the cumulative licit capital flight expressed as a percentage of the total licit capital flight.

The following unexplained variances, misstatements, and under-valuation of assets were noted within line Ministries:

<b>MINISTRY/PARASTATAL</b>	<b>AMOUNT Unaccounted in US\$</b>	<b>CONTRIBUTORY FACTORS</b>
1. Office of the President and Cabinet	\$12 805	Violations of the Treasury Instruction 1504 which require that advances be cleared immediately upon return from official travel by the member so advanced. Non-recovery of money for Foreign Travel and Subsistence Allowances.
2. District Development Fund	\$1 544 517	Legal expenses incurred for failure to pay bills. Inflated prices for materials supplied for projects. Violations of State Procurement Board Circular No. 1 of 2012. Violation of Section 8 of Procurement Regulations 2002. Double dipping. Violations of Public Service Circular 1 of 2012. Violations of Section 12(1) of the Public Finance Management Act (Chapter 22:19). Overstating of maintenance of plant and equipment expenditure.
3. Parliament of Zimbabwe	\$15 465	Unexplained variance between amount banked and amount receipted.
4. Public Service, Labour and Social Welfare	\$102 573	Unexplained variance.
5. Ministry of Defense	\$4 879 774	Unconfirmed payment for debts.
6. Ministry of Finance and Economic Development	\$577 082 115 3 laptops, cellphone	Payments made outside the Public Finance Management System Absence of an Investment Policy. Contingent liabilities amended without necessary documentary evidence. Loans issued without disclosure of the purpose and beneficiaries.
7. Ministry of Industry and Commerce	\$14 994	Violation of Treasury Instruction 1208.
8. Ministry of Agriculture, Mechanization and Irrigation Department.	\$27 015	Misappropriation of funds.

9. Ministry of Local Government, Public Works and National Housing.	\$3 248 587	Violation of Section 81(b)(iii) of the Public Finance Management Act (Chapter 22:19). Violation of Treasury Instruction 0103.
10. Ministry of Health and Child Care	\$16 078 095	Unexplained variance. Violation of Section 81(b)(iii) of the Public Finance Management Act (Chapter 22:19).
11. Youth Development and Creation Fund	\$1 887 949	Irrecoverable loans.
12. Ministry of Information, Media and Broadcasting Services	\$32 400	Double dipping. Paying transport allowances to 27 staff members who were allocated Ministry official motor vehicles.
13. Strategic Fuel Reserve Fund	\$965 263	Undelivered but paid fuel.

## Drivers of Leakage of Public Funds

### Governance

Mis-governance of public funds in Zimbabwe is expressed through policy gaps, violations of laws and regulations governing the administration of public funds as well as uncoordinated institutional framework. In 2013 the District Development Fund (DDF) engaged suppliers of boreholes and irrigation material without following formal tender procedures. DDF in the same year engaged Tenda Transport Pvt Ltd on US\$520 000 road construction projects without a formal tender. This was in breach of Section 8 of the Procurement Regulations 2002. Contrary to provisions of the Public Service Circular 1 of 2012, DDF in the year 2013 awarded transport allowances for officials with motor vehicles for both official and personal use. In 2014, DDF expenditure on employment stood at 80% with only 20% left to finance operations. This violated Section 3 of the District Development Fund Act (Chapter 29:06). Almost all Ministries had no Audit Committees and this is in violation of Section 84(i) of the Public Finance Management Act (Chapter 22:19). In contravention of Section 81(b)(iii) of the Public Finance Management Act (Chapter 22:19), the Ministry of Local Government, Public Works and National Housing did not avail for audit inspection supporting documents with respect to payments amounting to US\$2 304 541 paid by the Treasury to service providers on the Ministry's behalf. In 2015, the Ministry of Macro-Economic Planning and Investment Promotion violated requirements of Section 30 of the Procurement Act (Chapter 22:14) in procuring office furniture, computers and printers worth US\$85 878.

In 2014 the National Heroes' Dependents Assistance Fund ledgers were maintained on Microsoft Excel spreadsheets as was reported in the Analysis of Auditor General's Reports of previous years. The Fund operated with a Board whose tenure of office expired in 2006. Several Ministries benefited from advances made by Funds which they are supposed to supervise. An example is the Public Service Training Loan Fund advance of US\$38 969 to the Ministry of Public Service, Labour and Social Welfare in 2014. Several Ministries do not have Audit Committees as required by Section 84 of the Public Finance

Management Act (Chapter 22:19). As at 31 December 2015, the Ministry of Defense had no such committee. In 2014, the Defense Procurement Fund operated with no budget to guide, control and monitor allocation of resources.

Public Debt figures had variances which were not reconciled. There were also variations on debt repayments between the Treasury and the Debt Management Office.

In 2015 the Ministry of Environment, Water and Climate Appropriation Account reflected a net unauthorized excess expenditure of US\$11 909 412. This was in contravention with Section 299(1) (c) of the Constitution of Zimbabwe read in conjunction with Section 19 (3) of the Public Finance Management Act ( Chapter 22:19). These irregularities in the Ministry of Environment, Water and Climate happen whilst provision of water and even public spending on water infrastructure remains a challenge in Zimbabwe. The constitutional provision on the human right to water that is enunciated in Section 77 of Constitution Amendment 20 remains a dream not yet fulfilled for many Zimbabweans.

The Ministry of Finance had no Investment Policy as at 31 December 2015. This creates gaps which can be manipulated for personal and selfish ends.

In 2013 the National Education and Training Fund disbursed US\$3 354 387 in respect of cadetship grants but the database of all beneficiaries was never provided. This compromises fulfilment of Section 75 of Constitution Amendment 20.

### **Fiscal Drivers**

Fiscal drivers were expressed through unexplained variances, over-invoicing, under-invoicing and tax avoidance.

In 2015 the Ministry of Environment, Water and Climate had an unauthorized excess expenditure of US\$11 909 412. Almost all Ministries had variances between receipts in the Public Finance Management system and the cash reflected in the bank accounts throughout the period under study. In 2014 ZINARA receipts showed a difference of US\$2 201 660 between disbursements figure disclosed in financial statements and the figure as per the submitted ZINARA schedule. Revenue collected by ZINARA for the New Limpopo Bridge Fund in 2014 was understated.

In 2013 the New Vehicle Security Registration Number Plate financial statements were deemed as unfair representation of the financial position of the New Vehicle Security Registration Number Plate Revolving Fund. US\$ 555 572 was paid without supporting invoices.

The Youth Development and Employment Creation Fund declared irrecoverable the loans amounting to US\$ 1 887 949 by 31 December 2014.

In 2015, fifteen officers from the Registrar General Department with free government accommodation were also paid housing allowances amounting to US\$129 per month and this was a pure case of double

dipping. The District Development Fund in 2013 inflated the prices charged by vendors for materials supplied for its projects by US\$ 319 921. Corruption in City of Harare BIQ system bred fake bills and receipts which were posted to customer accounts.

Tax avoidance was also another fiscal driver. In local Authorities top management members of Local Authorities were given huge allowances which were not taxed. This was done to avoid taxation of salaries.

## **Conclusion**

Unexplained variances, over-invoicing, under-invoicing, tax avoidance, policy gaps, violations of laws and regulations governing the administration of public funds as well as uncoordinated institutional framework were the chief drivers of public funds leakage.

A Human Rights Based Approach that aims to enhance capacity of both rights holders and duty bearers ; that addresses root causes to the problems and address concerns of the marginalized, offers a viable path to tax justice, debt management and realization of rights.

The analysis suggests the following recommendations:

### **Recommendations to Government**

- Synchronization of public finance management laws and regulations.
- Partnering with CSOs to strengthen the capacity of financial institutions to monitor public finance administration and adherence to policy and law.
- Improve effectiveness and cost efficiency of public spending.
- Implementation of AGs recommendations to avoid repeating the same gaps raised in the previous reports

### **Recommendations to Civil Society Organizations and Citizens**

- Scaling up citizen, literacy, involvement and public awareness on Auditor General's Reports and how they can be used to engage with duty bearers.
- Disseminating research findings on misuse of public funds in order to increase accountability.
- Investigative research into public funds leakage beyond the Auditor General's Report.
- Section 62 of the Constitution of Zimbabwe Amendment No. 20 entitle citizens the right of access to information held by the State or by any institution or agency of government in so far

as information is required to realize public accountability interests. Citizens should demand the right of access to public finance management information.

#### **Annexure 1**

- Constitution of Zimbabwe Amendment (No. 20) Act 2013
- Report of the Auditor-General for the Financial Year Ended December 31, 2015, on Appropriation Accounts, Finance, Accounts, Revenue Statements and Fund Accounts.
- Report of the Auditor-General for the Financial Year Ended December 31, 2015, on State Enterprises and Parastatals.
- Report of the Auditor-General for the Financial Year Ended December 31, 2015, on Local Authorities.
- Follow Up Audit Report of the Auditor-General on the Management of Government Vehicles by CMED (Pvt) Ltd.

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