



ZIMCODD

Zimbabwe Coalition on Debt and Development

Investing in people for social and economic justice in Zimbabwe

Analysis of the 2016 Auditor General's Report

Ignoring the Recommendations from the Auditor General's Report: A threat to Social and Economic Rights

■ Contents

1. About ZIMCODD.....	1	4.2 Appropriation and Fund Accounts.....	6
2. Introduction and Background.....	2	4.3 State Enterprises and Parastatals.....	8
2.1 Auditing of State Resources and the Constitution.....	2	4.4 Local Authorities.....	9
2.2 Sequencing of the Audit Function.....	3	5. Citizenship and Participatory Governance.....	9
2.3 Objectives of the Paper.....	3	6. Recommendations.....	10
3. Credibility and Independence of The Auditor General.....	4	6.1 To The Parliament.....	10
4. Major Highlights From The Reports.....	5	6.2 To Civil Society Organisations.....	11
4.1 Audit Opinions.....	5	7. Conclusion.....	12

1 About ZIMCODD

The Zimbabwe Coalition on Debt and Development (ZIMCODD) is a socio-economic justice coalition established in February 2000 to facilitate citizens' involvement in making public policy and practice pro-people and sustainable. The vision of the organization is to see a sustainable socio-economic justice in Zimbabwe through a vibrant people based movement. ZIMCODD will continue to promote the realisation of social and economic rights in the constitution as part of strategies towards sustainable social and economic justice in Zimbabwe. ZIMCODD seeks to track, monitor and advocate for the implementation of the constitution provisions. It will popularise, engage and build capacity of citizens and policy makers on social and economic rights. Although the constitution makes progressive provision there are claw back clauses which infringe on the full realisation of social and economic rights.

2 Introduction and Background

The Government of Zimbabwe is financially incapacitated to deliver social and economic services for poverty eradication, and achieving sustainable development of the country owing to a plethora of budgetary constraints. At a time when 91% of the total budget goes to employment costs leaving a meager 9 % for debt servicing and recurrent expenditure (National Budget, 2017), the Government of Zimbabwe must judiciously deliver public services within a sustainable financial framework as provided for under the Public Finance Management Act (Chapter 22:19). The huge debt overhang and the assumption of the RBZ debt exerted pressure on the few resources that are largely financed through taxes.

Although the basic right to education, health and clean potable water is enshrined in Zimbabwe's constitution (sections 75-77), access to such rights among other rights (environmental and economic) has been and is still a dream for many Zimbabweans. This is largely attributed to failure by the state at various levels to utilize the available resources for the progressive realization of such. The gross abuse of public resources and maladministration by the different government departments at national, provincial and local level as flagged out by the successive Auditor General's reports without any action taken to ensure effectiveness and efficiency in the use of public resources largely compromises the quality of service delivery to meet the social and economic rights (SER) of citizens. Such mismanagement of state resources is alarming and increasing at an exponential rate, despite the parliament summoning the heads of these institutions as provided for by the Public Finance Management Act and the National Assembly Standing Rules and Orders which empowers the Public Accounts Committee to examine the sums granted by parliament to meet the public expenditure and of such other accounts laid before parliament.

2.1 Auditing of State Resources and the Constitution

In recent years, governments world over are increasingly using national audits to enforce transparency and accountability in the use of public resources. Audits are being used as a tool for protecting the interests of the citizens, strengthening governance by significantly enhancing the citizens' ability to hold their public officers accountable, promoting credibility, equity, and appropriate behavior of public sector officials, while reducing the risk of public corruption¹. This is crucial for ensuring

¹ Nwaobia et al, *Internal Audit Practices and Public Financial Management in Rwanda and Nigeria: Bridging the Transparency Gap in Public Sector Financial Reporting, 2016*

sustainability in the delivery of medium- and long-term plans such as the Interim Poverty Reduction Strategy Paper for 2016-2018 and the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIMASSET). Pursuant to that, the Zimbabwe Constitution Amendment No. 20 of 2013 section 309 (2) (a) mandates the Auditor General to audit the accounts, financial systems and financial management of all departments, institutions and agencies of government, all provincial and metropolitan councils and all local authorities. This, therefore, identifies the audit function as an issue of national importance and a critical component of the budget cycle. A comprehensive audit is carried out in order to;

- verify whether the financial rules and other laws and procedures are adhered to in respect of financial transactions (Compliance Audit)
- verify the accuracy of the figures reported in the Financial Statements (Financial Audit)
- assess efficiency and effectiveness in the use of resources (Value-for-Money or Performance Audit).

It is, however, important to note that the Auditor General's report is not an end in itself but rather feed into the overall budget oversight.

2.2 Sequencing of the Audit Function

- Timely submission of year-end reports to the Auditor General by accounting officers
- Undertaking of credible and independent audits
- AG's report presentation before parliament
- Legislature refers report to the Public Accounts Committee (PAC)
- Public hearings by PAC to examine the audit reports
- Use of constitutional power by PAC to summon officials and Ministers to provide evidence
- Recommendations of PAC referred back to full parliament for debate
- Implementation of the AG's recommendations by the government

However, the recommendations of the Auditor General are rarely implemented due to weak parliamentary power to hold the executive accountable.

2.3 Objectives of the Paper

This analysis is based on the Auditor General's Reports for the year ended December 31,

2016 on (1) Appropriation Accounts, Finance and Revenue Statements, and Fund Accounts, (2) Local Authorities and (3) State Enterprises and Parastatals with a view to;

- Raising citizens' awareness on key issues identified in the report and fact sheet on public resource management matters in the target areas and at national level.
- Informing the engagement processes with the solution holders on the implementation of recommendations from the AG's reports
- Influencing policy reforms on public resource management using the AG's popular version report and fact sheet.

3 Credibility and Independence of The Auditor General

The Auditor General did not present the detailed findings of the audited Appropriation Accounts for the Office of the President and Cabinet, but instead issued an unqualified opinion for the same. This compromises the credibility and independence of the Auditor General in violation of the constitutional provision (section 311 of the Constitution of Zimbabwe Amendment 20 of 2013). In the event that, the Office of the President and Cabinet is exempted from auditing, it should be provided for within the Constitution and/or the PFMA and the Audit Office Act.

In 2016, there was a reduction in the number of stations visited by the Auditor-General in auditing Appropriation and Fund Accounts by 32.5%. This was largely attributed to inadequacy in financial and human resources. The current staff compliment of 258 out of the authorized 334 has an impact in the quality of audits for all ministries and departments as required by the law, and is likely to create a backlog of the audits of some statutory bodies. This is likely to further compromise the outcome of the audit resulting in some figures being underestimated or overstated, something which has been acknowledged by the Auditor General in her report. The unavailability of sufficient staff further compromised the quality of reports, particularly the one for Local Authorities as the Auditor General subcontract the audit function to private audit firms as enshrined in terms of Section 9 of the Audit Office Act [Chapter 22:18]. The Findings of the Auditor General on Local Authorities are not only insufficient, but were also unsatisfactorily presented. In spite of plethora of challenges facing Norton Town Council, the report only noted material issues with respect to financial and human resource constrains at the Council hospital, for instance. This is contrary to what the residents highlighted with respect to water shortages, poor state of roads, and refuse collection among others. By and large, the Auditor General did not provide her opinions on all the findings, which is critical for follow up and further analysis. The Auditor General should therefore provide clear terms of reference and ensure that they are adhered to in order to ensure credibility of the results.

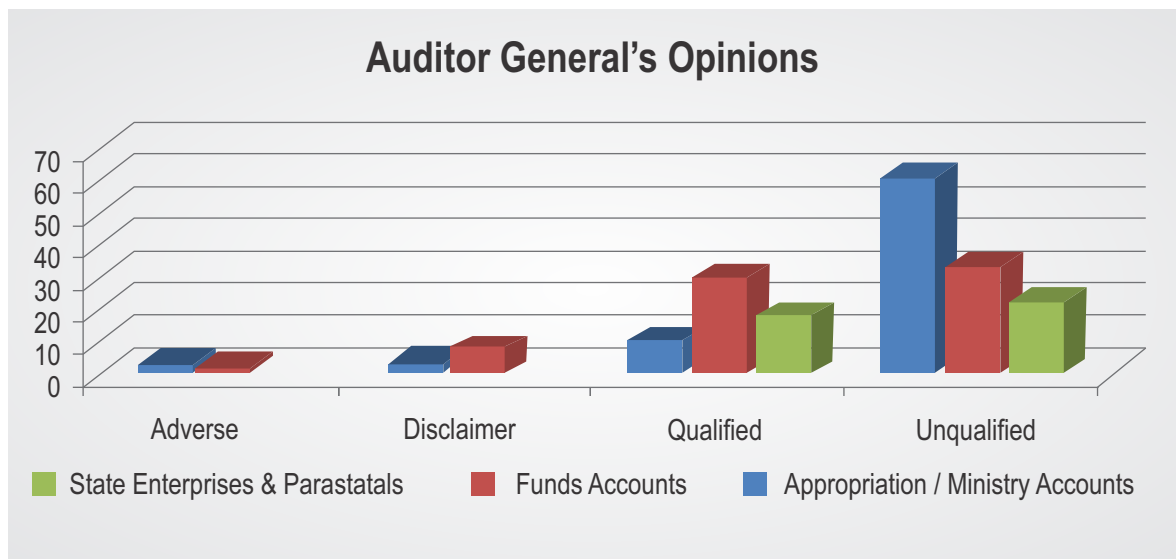
4 Major Highlights From The Reports

Section 9 of the constitution calls for the adoption and implementation of policies and legislation for fostering efficiency, competence, accountability, transparency, personal integrity and financial probity in all institutions and agencies of government at every level and in every public institution. However, all the three reports² outlined material audit findings with respect to the following;

- poor governance,
- deficiencies in revenue collection, management and debt recovery and,
- violation of procurement of goods and services
- employment costs.

4.1 Audit Opinions

Despite an improvement in transparency and accountability in financial matters across the audited accounts as the majority of government departments and entities partly implemented recommendations from the previous reports, accounts of some State Enterprises and Parastatals, and Fund Accounts had adverse and disclaimer opinions as shown in the graph below.



The AG has been apt in providing recommendations for effectively curbing the abuse of scarce public funds, in Government Ministries, local authorities and parastatals, however, the majority of the previous recommendations from the Auditor General remain

² Reports on... 1. Appropriation Accounts, Finance and Revenue Statements and Fund Accounts, 2. Local Authorities and 3. State Enterprises and Parastatals

- unsupported expenditures
- inaccuracies and misstatements
- use of fund resources as collateral security
- poor budgetary control systems
- posting of financial transactions to closed financial years
- failure to display assets in the Public Finance Management System (PFMS)
- lending money to private and public enterprises
- violation of procurement regulations
- failure to recover amounts due to the government

Out of the accumulative expenditure of US\$ 3.84 billion incurred from January to October 2016 (National Budget, 2016), over US\$ 222 thousand was misappropriated from Ministry and Fund Accounts, about US\$62 million was excessive expenditure from fund accounts whilst US\$1 025 384 was spent without following formal tender procedures. These among other irregular expenditures constitute about 30% of the budget deficit (\$964 million) for 2016 (Refer to fact sheet).

4.1.1 Misuse of State Funds and its Implications on Vulnerable Groups

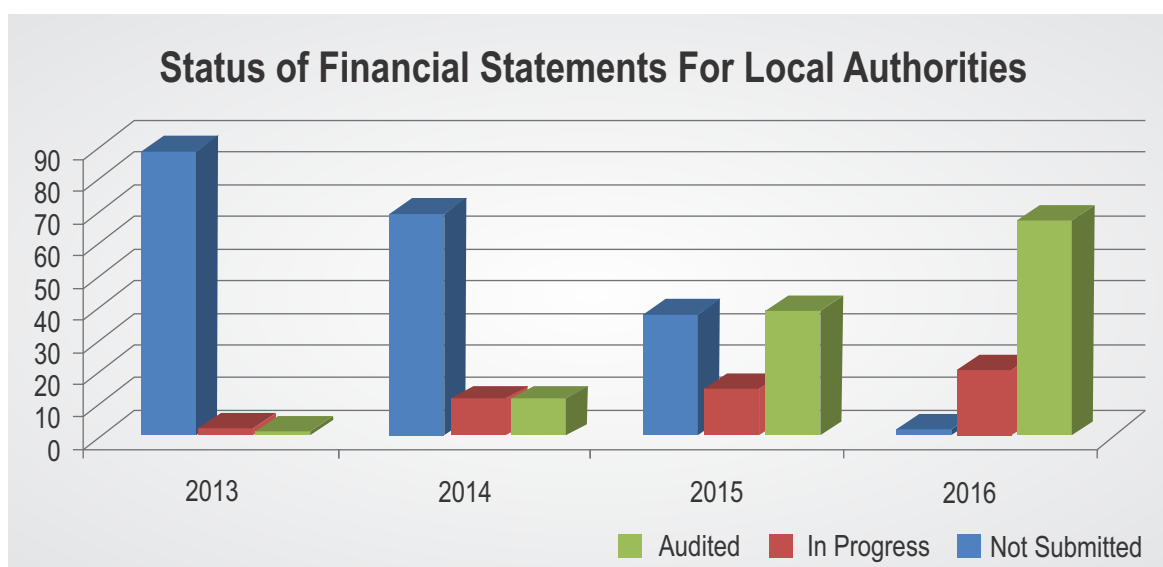
At a time when the government is struggling to raise enough resources to fund the social and economic services, some government departments are still using money from Fund Accounts for Appropriation activities without authority instead of channeling resources to the Consolidated Revenue Fund as espoused in section 302 of the constitution and sections 16 and 17 of the PFMA. The Ministry of Public Service Labour and Social Services which has the responsibility to ensure the delivery of social services borrowed money from the various fund accounts under its administration. For the past two years, the Ministry utilized over US\$1.9 million which was meant for the Public Services Training Loan Fund, Beam, Public Services Training Centres Amenities Fund, Disabled Persons, Older Persons Fund, National Rehabilitation Centre Welfare Fund, Child Welfare Fund, National Drought Fund as well as the Public Assistance. To make matters worse, expenditures from the borrowed funds was incurred outside the Public Finance Management Systems. As a result, the Ministry failed to meet its objectives of ensuring the fulfilment of social and economic rights of the vulnerable people, particularly children, old people, disabled persons and people affected by drought among others. Women and the youth were equally affected during the 2015 calendar year as the resources meant for Youth Development and Employment Creation Fund (US\$131 216) and the Women's Development Fund (US\$22 150) were diverted and utilized by the respective Ministries at the expense of operations of the fund accounts which mainly cater for vulnerable groups. The practice of borrowing money from Fund Accounts may cripple operations of the same if not controlled.

outstanding. The same entities have also been notorious for not timely submitting the audited financial statements to the AG in violation of section 35 subsection 7(b) of the Public Finance Management Act (Chapter 22:19) which states that every accounting officer of a constitutional entity or public entity shall submit audited financial statements of the entity to the Minister, the appropriate Minister and the Accountant-General, within one hundred and twenty days of the end of the financial year. Compliance by local authorities has been appalling.

Defining Audit Opinions

An Audit Opinion expresses an auditor's independent, unbiased and qualified evaluation of the accuracy and completeness of a company's financial statements and practices, as well as an evaluation of an organisation's compliance with Generally Accepted Accounting Principles (GAAP). Generally there are four types of Audit Opinions

Unqualified Audit Opinion	Qualified Audit Opinion	Adverse Audit Opinion	Disclaimer Audit Opinion
This is the best possible outcome of an audit process. It means that the financial statements are free from material misstatements and there are no material findings with respect to reporting on performance objectives or non-compliance with legislation.	A qualified Opinion is issued when the financial statements contain material misstatements in specific amounts, or there is insufficient evidence to conclude that specific amounts included in the financial statements are not materially misstated.	After having obtained enough good audit evidence, the auditor concludes that misstatements, individually or when grouped with other misstatements, are both material and pervasive to the financial statements.	The auditee provided insufficient evidence in the form of documentation on which to base an audit opinion, and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.



4.2 Appropriation and Fund Accounts

The key issues highlighted by the Auditor-General in her audit of Ministry and fund accounts include the following;

- poor maintenance of accounting records
- weak internal control systems

4.2.2 Subsidising State Enterprises

Despite the pressure on financial resources, the Government of Zimbabwe continues to subsidise loss making state enterprises. By subsidising loss making enterprises, the state will be diverting resources meant for service delivery, prejudicing the citizens of their social and economic rights.

Loss Making Entities

ENTITY	LOSS (\$)
ARDA	22 988 102
GMB	176 576 871
Falcon Air Operations	804 395
Litefold Engineering	7 119 510
Sunway City	3.3 million
Powertel	549 417

If efficient accounting systems were in place to recover the US\$91.4 million owed by its debtors, the government could have been able to offset the US\$84.1 million owed to various suppliers of goods and services. If not paid in time, the outstanding figures will continue to grow exponentially as the money owed continues to attract interest charges which would instead be state resources to be committed towards service delivery.

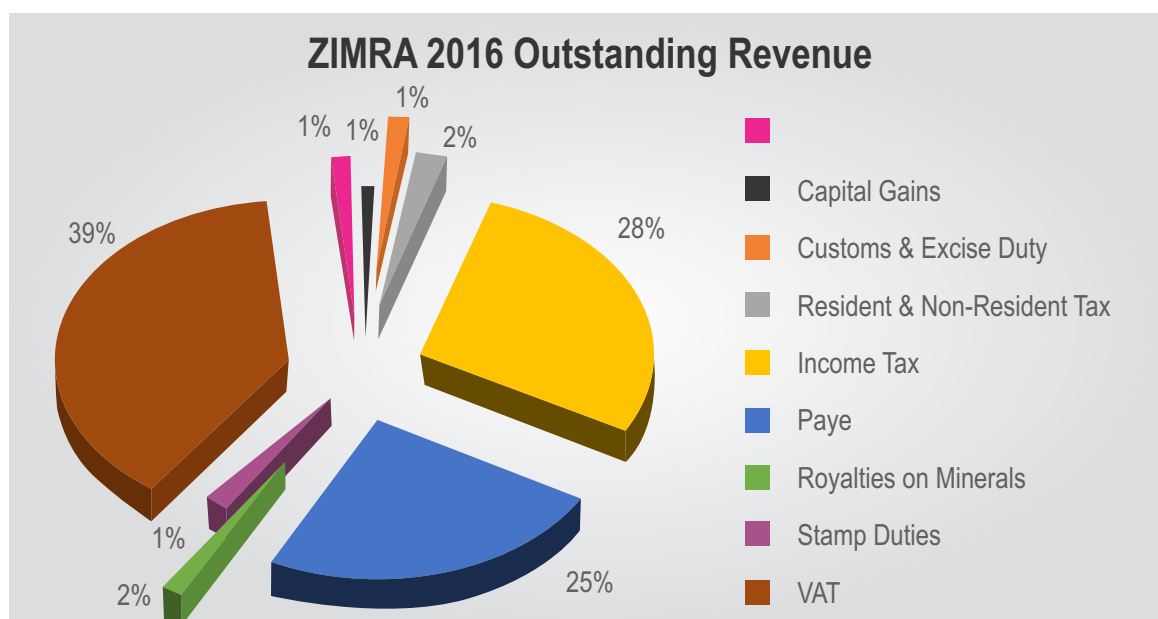
4.3 State Enterprises and Parastatals

Weak corporate governance is rampant among parastatals and state enterprises some of which operated without properly constituted boards. Material issues raised in the report are in respect of failure to honour statutory obligations, excessive expenditures, failure to follow tender procedures, poor maintenance of books of accounts, excessive employment most of which are not subjected to tax.

4.3.1 Potential Tax Revenue

The government has the potential to raise additional US\$1.7 billion tax revenue from the outstanding Revenue owed to ZIMRA from both domestic and customs taxes if proper strategies are put in place to recover this amount. The pie chart below illustrates the outstanding revenue per revenue head which could have been used to offset the budget deficit and supply other public goods and services.

ZIMRA was further prejudiced of the tax revenue due to nonpayment and/or remittance of VAT and PAYE from most state enterprises. Kariba Fisheries Research Institute alone, was not registered for VAT despite its annual revenue exceeding the stipulated US\$60 thousand threshold set in terms of the Value Added Tax Act (Chapter 23:12).



Source: OAG Report for state Enterprises and Parastatals 2016 (pg76)

4.4 Local Authorities

Local Authorities are still being haunted by a government directive issued in July 2013 ordering municipalities to cancel all debts owed by residents backdating to February 2009. This coupled with weak internal controls leading to fraudulent activities by employees; expenditure not supported by adequate documentation; non-adherence with procurement regulations; failure to pay suppliers for goods and services received and inadequate controls over receipting of payments in respect of accounts receivable in a number of councils have compromised the efficiency and effectiveness of local authorities. Residents of Harare and Chitungwiza, for instance, have been denied access to the right to safe, clean and potable water for many years. Numerous cases of typhoid, diarrhea and dysentery have been reported and treated with suspected cases of death resulting from consumption of contaminated water. Service Delivery is compromised, water supply is erratic, burst sewer pipes, refuse collection is erratic and not collected in some areas, public amenities are filthy and non-functional, huge and unsustainable debts characterises most city councils and municipalities. With Chitungwiza municipality expanding every day, the city council relies on water supply from Harare which services 25% of the current demand. This alone is a threat to human life. In the face of poor service delivery the city of Harare borrowed \$11 million to finance salaries and terminal benefits whilst Chitungwiza Municipality financed its day to day operations through bank overdraft facilities and bank loans.

5 Citizenship and Participatory Governance

The citizens of Zimbabwe as the major contributors of state resources in the face of debt

overhang and dwindling aid resources, and recipients of public service delivery should be fully engaged in decision making to ensure ownership in national and local decision making and service delivery. Their input is indispensable and must be at the centre of decision making by the different arms of state. As economic agents, citizens expect value for money and with such levels of gross abuse, misuse and plunder of state resources for individual gain, compliance in tax payment and user fees is compromised whilst trust is eroded. The deplorable state of social and economic services against the backdrop of poor governance therefore requires a new narrative that is inclusive, participatory and citizen centered with provisions for engagement in the overall budget cycle. This will help bridge the gap between the providers and users of public services as they have a voice in the setting of priorities and monitoring of implementation.

Working with citizens in setting priorities and strategies allows the state to fine tune services based on actual needs and the size of the national purse. Resources have always been scarce and the rhetoric should not obscure the citizens from holding the government to account for the use of state resources. Apart from the fact that the government is working on a tight budget, there are multiplicities of other issues inhibiting the judicious implementation of government programmes. The Auditor General's report, therefore becomes an important tool for assessing efficiency and effectiveness of the government.

The economic quagmire that the country is facing is now public knowledge and without information from the Auditor General's reports, citizens continue to sympathise with the government for poor service delivery. It is, however, a cause for concern when public resources are abused for personal gain. The citizens should therefore use the findings of the reports to protect and safeguard the interests of the vulnerable groups in our societies.

The role of media should not be underestimated in disseminating the findings of the Auditor General and ensuring transparency and accountability of the government. It empowers the public to raise their voice and hold the government to account.

6 Recommendations

6.1 To The Parliament

The successive Audit reports which have been tabled before parliament had vital information on public financial practices of executive agencies for their action.

Unfortunately, the government has been reluctant in enforcing sanctions and appropriate action against perpetrators of corruption, abuse and misallocation of state resources. The role of parliament should include the following;

- 6.1.1** Ensure that the contents of the PFMA which is under review reflect the material issues raised in the previous AG's reports such as the review of the percentage being retained by individual departments and Ministries so that the revenue is accounted for through the Consolidated Revenue Fund in terms of section 302 of the Constitution of Zimbabwe Amendment (No. 20) 2013.
- 6.1.2** The parliament in approving the next government votes should ensure that the AG's Office is adequately resourced (in terms of human and financial) in order to improve the quality of the reports.
- 6.1.3** The parliament should exercise their power in defending the constitution against immunity given to the Office of the President and cabinet whose audit reports have not been published.
- 6.1.4** The Parliament Budget Office should foster collaborate between the Public Accounts Committee and the Office of the Auditor General and jointly develop a comprehensive programme for monitoring reviewing actions taken on the recommendations outlining clear roles and responsibilities for each action.
- 6.1.5** Make legislative and regulatory provisions for ensuring that those committing offences are held accountable and appropriate penalties and disciplinary action are enforced.

6.2 To Civil Society Organisations

Civil society organisations should undertake the following actions to ensuring transparency and accountability in public resources as provided for under section 298 of the Constitution of Zimbabwe;

- 6.2.1** Undertake theme based analysis (Governance, Procurement, Revenue Collection and Debt Recovery) in order to inform and improve specific laws and strategies such as the Public Procurement and Disposal of Public Asset Bill, Public Sector Corporate Governance Bill and Debt Recovery Strategies.
- 6.2.2** Mobilise citizens, empower them, create platforms for engagement between

duty bearers and rights holders, and build a movement in order to give pressure to government to respond to the recommendations from the Auditor General.

6.2.3 Conduct social audits in communities and provide information to the Auditor General in order to verify the outcomes of performance reports.

6.2.4 Create networks and coalitions with organisations working on corruption, service delivery, health, education, vulnerable groups in order to develop a coordinated advocacy on the outcome of the AG's report in particular and public finance management in general. This is critical in sustaining dialogue rather than wait for the release of the next report, tracking actions being taken to implement the recommendations, and utilising the findings of the report in informing citizen engagement at the various stages of the budget cycle.

7 Conclusion

Poor governance, violation of tender procedures and failure to honour statutory obligations causes dual leakage of state resources from both potential and actual revenue. This is a serious threat to socio-economic transformation of the country. Public health, education and other basic needs remain underfunded. This means that poor families will have less access to health care services, education, clean and potable water, sanitation among other social services. The poor are clearly the most vulnerable and disadvantaged because they account for 72% of the population³.

The lack of political will to implement the recommendations from the Auditor General's reports and sanction perpetrators of financial misconduct will act as an incentive for further abuse and misappropriation of state resources. The citizens are therefore presented with a daunting task of ensuring transparency and accountability in the utilization of state resources for the public good based on the findings of the Auditor General's report.

³ http://reliefweb.int/sites/reliefweb.int/files/resources/Zimbabwe_Food_Security_Response_2015.pdf



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