



Investing in People for Social & Economic Justice

AUDIT EXPOSES POOR CUSTODY OF PUBLIC RESOURCES AT THE EXPENSE OF VULNERABLE GROUPS

An analysis of the Auditor General's Report Findings from a Social and Economic Justice Perspective

PREFACE

As an organisation, we have been eagerly waiting for the 2017 Office of the Auditor General's report, which was delayed due to political processes in the country following the harmonised elections of July 31, 2018. It was a great disappointment indeed when the report finally came and highlighted the same irregularities that have recurred for the past three years. A deeper analysis and reflection of the social and economic implications of the governance malpractices in government are too ghastly to contemplate. The OAG's work goes unnoticed despite the office's efforts to produce follow up reports on previous recommendations. The challenge is no longer about the legal and institutional frameworks but rather adherence to the fiscal rules and procedures. Institutions entrusted to safeguard and keep custody of national resources abuse them instead. This makes citizens feel cheated when the country's national resources are not used in the most economic, efficient and effective way as provided for in our constitution.



Year in year out, the following actions take place,

- 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

Unfortunately, the AG's recommendations are not implemented due to a lack of political will. Should we expect something different from the newly elected parliament in terms of enforcing the recommendations? This question takes into cognisance the fact that the ruling party has the majority in parliament and the whipping systems in place. The solution lies with our collective responsibility in ensuring that principles of Public Finance Management as provided for under *section 298* of the constitution of Zimbabwe are adhered to especially on the special provision for marginalised groups and areas. Our first step in collective responsibility is this analysis which proffers clear recommendations to both parliament and civil society organisations.

As you go through the analysis, take a reflection on the specific roles and responsibilities that you can play as an individual and/or organisation in fostering transparency and accountability in the management and custody of national resources. Together we can change the lives of the poor and vulnerable groups and ultimately transform the state of public service delivery in the country towards the attainment of social and economic rights in Zimbabwe.

Thank You

Janet Zhou

Executive Director

1.0 Introduction and Background

In spite of robust legal and constitutional provisions on PFM and the Office of the Auditor General's (OAG) role in reinforcing transparency and accountability in management of public funds, economic governance has remained a challenge for Zimbabwe. Comparatively, over the years, the expenditure and non-expenditure irregularities have increased across ministries, an indication that the Auditor General's report is not being fully utilised. Common issues arising from the 2017 Auditor General's report include abuse of financial systems and fiscal rules, failure to reconcile financial transactions, poor book keeping, poor maintenance of accounting records, violation of treasury instructions, poor budgetary control, poor asset management, untimely posting of financial transactions, failure to recover amounts owed to government departments, wasteful and overstated expenditure, violation of procurement procedures, poor service delivery, diversion of resources from both funds and appropriation accounts, failure to recover debts owed to government departments and untimely payments to suppliers of goods and services. Most of these errors have been recurrent since 2015. This has serious implications on the social and economic rights of citizens especially the right to education, health, food and water, right to life and rights of special interest groups including the rights of women, children, the elderly, and persons with disabilities as enshrined under part 2 of the Constitution of Zimbabwe Amendment (No. 20) Act 2013.

Despite the growing public interest in the findings of the AG's report, there has been a lack of political will to enforce the recommendations, hold the perpetrators accountable and enforce appropriate penalties and disciplinary action. This has resulted in increasing public mistrust and therefore, low tax compliance considering that the government is misusing and abusing national resources. The government, thus, has a daunting task to restore the public confidence and the first step is addressing the recommendations of the AG's report.

2.0 Human Rights Implications

By virtue of paying taxes, the citizens are entitled to the basic human rights as enshrined in the national constitution. The table below shows some of the ways in which resources were misused as reported by the AG's reports for 2016 and 2017. When combined, the financial irregularities for 2017 exceeded the 2016 figure by \$36.4 million. This shows that the Ministries are reluctant to implement not only the recommendations of the Auditor General but also to adhere to laid down laws and procedures of public finance management.

Financial Irregularity	Amount	
	2016	2017
Variations between Public Finance Management System and Sub Paymaster General	\$3 016 107	\$19 114 509
Advance of Money from Fund Accounts to Parent Ministry	\$894 251	\$1 769 421
Outstanding Amounts to Suppliers of Goods and Services	\$65 945 456	\$84 085 505
Unsupported Expenditure	\$27 101 167	\$8 315 064
Poor Budgetary Control	\$69 161 624	\$61 695 986
Violation of Procurement Regulations	\$3 788 495	\$1 025 384
Amounts not Collected from Debtors	\$133 897 975	\$91 409 864
Grand Total	\$303 805 075	\$267 415 733

The Auditor General's report was presented against the backdrop of a budget deficit of US\$2.5 billion which far exceeded the targeted 715.4 million. There is growing concern over the rising government expenditure which amounted to US\$6.3 billion against the planned US\$4.1 billion as of September 2018¹. This implies a US\$2.2 billion expenditure over-run resulting from over expenditure on capital and Net-Lending, employment costs and interest on debt repayment². It is ironic that the country experienced such levels of expenditure over run concurrently with the outbreak of cholera and typhoid which was contained with support from well-wishers.

2.1 The Poor and Vulnerable Groups Suffer the Most

Whilst section 30 of the Constitution of Zimbabwe requires that the State must take all practical measures; within the limits of the resources available to it; to provide social security and social

¹ Hon. Professor Mthuli Ncube, Minister of Finance and Economic Development, Presentation at the 2018 Pre-Budget Seminar, 8 November 2018

² Ibid

care to those who are in need, social service delivery is compromised. The Ministry of Public Service Labour and Social Welfare which is mandated to reduce poverty and enhance self-reliance through the provision of social protection services to vulnerable and disadvantaged groups in Zimbabwe has a recurrent record of diverting resources from special funds earmarked for the vulnerable groups which include children, older persons and disabled persons to other government programmes. Out of the US\$1.8 billion diverted by government departments in 2017, about 58% were funds diverted from the funds administered by the Ministry of Public Service Labour and Social Welfare as follows;

Name of Fund/Programme	Amount Borrowed from Fund in 2017
Public Service Training Loan Fund	\$203 646
Disabled Persons Fund	\$316 717
National Rehabilitation Welfare Fund	\$14 662
Child Welfare Fund	\$5 521
National Drought Fund	\$221 166
Public Services Amenities Fund	\$219 756
Basic Education Assistance Module (BEAM) Programme	\$48 578
Total	\$1 030 046

To make matters worse, expenditures from the borrowed funds were incurred outside the Public Finance Management System. It is important to note that the query was also raised in the 2016 AG's report. As of January 2017, the balance brought forward was \$1 374 446. In 2017, the Ministry further borrowed \$1 030 046 and managed to reimburse \$911 051, leaving a balance of \$1 493 441. At this rate, if no corrective action is taken, the Ministry will continue borrowing from the fund accounts while further marginalizing the vulnerable groups. Paradoxically, the school fees and levy arrears for the children under the Basic Education Assistance Module (BEAM) programme had accumulated to \$81.7 million as of 31 December 2017. This means that, the abuse of resources from the fund accounts compromises the education sector. Equally, the Ministry owes about \$7.2 million to several health institutions under the Health Assistance Programme. The Programme is supposed to benefit the vulnerable and indigent people and failure to pay means that the health sector is compromised. The consequences go beyond the intended beneficiaries but rather the entire education and health sectors. Moreover, the Public Assistance Fund and the Older Persons Fund are owed \$184 029 and \$53 666 respectively which were carried over from 2016.

The resources for social service delivery were not only diverted but rather abused as well. About 85% of the funds disbursed to Provincial and District drought relief offices were used for administrative purposes such as travelling, subsistence allowances, vehicle hire, fuel and stationary among other incidental costs, leaving only 15% towards purchase of rice and maize. In Gutu (Masvingo Province) and Mount Darwin, the beneficiaries were being asked to pay \$5 per 50kg bag of maize for transport, security and offloading. The accountabilities for the drought relief programme are in shambles, leaving room for misappropriation and abuse at the expense of the poor who constitute 72% of the Zimbabwean population. The citizens are being shortchanged in spite of the several taxes that are paid to government and are supposed to cater for their needs.

2.2 Supporting Private Sector at the Expense of Citizens

Whilst section 76 of the Constitution of Zimbabwe guarantees that every citizen and permanent resident of Zimbabwe has the right to have access to basic health-care services, including reproductive health-care services, some sections of the public hospitals are being privatized. In the case of Marondera Provincial Hospital, mortuary services are charged at \$9 and \$6 for adults and infants respectively. Doves Funeral Services (Pvt) Ltd which is supposed to remit 10% of the proceeds to the hospital and maintain and procure new refrigerators has not remitted anything in that regard. The citizens no longer access X-ray services, full blood count, liver function tests among others for free after privatization. People's lives are threatened since these services are only accessible to the economically advantaged citizens. In hospitals that offer the services for free, the equipment constantly breaks down and/or there are no technicians to operate the machines. This is in violation of both the national constitution and article 12 of the International Covenant on Economic, Social and Cultural Rights (ICESCR) on the right to health. A combination of the privatisation of the health sector and lack of systems to monitor the private

sector intervention is a recipe for disaster. The private players optimize on that at the expense of both the government and the citizens.

2.3 Gaps in Debt Management

The country's debt position puts the country in a very vulnerable position. The country's indebtedness obscures the country's ability to fulfil its human rights obligations to the citizenry. The debt situation undermines human rights in Zimbabwe through diversion of resources from basic social services and policy conditionalities attached to international debt relief mechanisms which undermine the country's ownership of national development strategies. This will not only affect the current generation but future generations as well if the debt situation is not addressed.

At a time when the government is exploring for a debt management strategy for Zimbabwe, the Ministry of Finance and Economic Development presented varying amounts for debt repayments as follows;

Debt Repayment as at 31 December 2016

	PFMS Repayments (US\$)	Payment Schedule (US\$)	Statement of Public Debt (US\$)
Foreign Debt Principal Repayment	770 501 788	47 080 592	149 603 104
Foreign Debt Interest Paid	770 501	24 256 242	31 020 801
Borrowing Costs	98 139	413 937	-
Domestic Debt Principal Repayment	758 591 206	756 090 826	738 491 554
Domestic Debt Interest Paid	113 879 193	100 755 287	64 155 214
Total	\$899 848 827	\$1 002 218 524	\$919 115 459

Determining the correct debt figures is very difficult considering that the closing balance for external and domestic debt as at December 31 2015 and January 1 2016 differed by \$44 887 008 and that the treasury bills are not properly recorded; some of which have been issued without serial numbers. Furthermore a failure to calculate the compounded penalty interest charges on loans has a risk of understating the penalty interests considering that the figures presented by the Ministry shows negative penalty interest charges for some foreign loans. The Ministry of Finance should strengthen the Zimbabwe Aid and Debt Management Office in order for them to fully execute their mandate.

ZIMCODD has been calling for a comprehensive Debt Audit to ascertain the correct amounts owed as well as assessing the legality of the debt. Without proper reconciliation of the three accounts, it is difficult to ascertain the correct amounts owed to the creditors.

2.3.1 Assumption of Debts amid Governance Challenges

The Government has plans to assume debts owed by Air Zimbabwe, Civil Aviation Authority (CAAZ) and the National Railways of Zimbabwe (NRZ) amid governance challenges and malpractices in these institutions. The government should not condone corruption by transferring the burden from these institutions to the citizens when it is clear on how the institutions are being mismanaged. The same officials who oversaw the demise of these institutions continue to run them despite the rot. Prior to assuming parastatal debts, serious considerations should be made based on the material issues raised in the Auditor general's reports as follows;

State Owned Enterprise	Issues Raised
Civil Aviation Authority of Zimbabwe (CAAZ)	<ul style="list-style-type: none"> • Domestic debt of \$165.5 million • External debt amounting to \$100.8 million • Procurement of cellphones for board members worth \$6 265 without the approval of the parent Ministry • Paid \$419 677 to Creative Systems for furniture in 2015, but only furniture worth \$28 614 delivered
Air Zimbabwe	<ul style="list-style-type: none"> • Debt exceed \$334 million <p>As of 2010,</p> <ul style="list-style-type: none"> • Current liabilities exceeded current assets by \$104.4 million • Collusion between management team and their insurance broker

	<ul style="list-style-type: none"> regarding overpayment of aircraft insurance premiums • Poor management of inventories • Three airlines leased without a signed lease agreement • Incorrect valuation of property, aircraft and equipment • Unsupported expenditure worth over \$107 million • Unsupported transactions on property aircraft and equipment • Poor book keeping • Noncompliance with International Accounting standards
National Railways of Zimbabwe (NRZ)	<ul style="list-style-type: none"> • Debt exceed \$200 million • Accumulated loss of over \$388 million • Illegal tenants on real estate land

3.0 Conclusion and Recommendations

Service provision is not only a function of the quantum of resources generated by the government. The resources might not be enough to satisfy the public service provision and fill the infrastructure gap but adherence to *section 298* of the constitution goes a long way in the fulfillment of the social and economic rights of Zimbabwean citizens, particularly on ensuring transparency and accountability in public finance management and that expenditure must be directed towards the development of Zimbabwe with a special provision for marginalised groups and areas.

Poor governance and financial malpractices, if not addressed will exacerbate and perpetuate public mistrust and compromise tax compliance. Poor public finance management contravenes the social contract between citizens and government which is vital in domestic resource mobilization. Addressing the recommendations from the Auditor General's report, therefore, plays a critical role in rebuilding public confidence and fostering participatory, inclusive and sustainable development

3.1 To the Parliament of Zimbabwe

- 3.1.1 The parliament should come up with clear mechanisms for continuous monitoring of public resources and provision for redress during implementation of the budget rather than waiting for the Auditor General's report. This goes a long way in fostering fiscal discipline.
- 3.1.2 Consistent with the follow up reports from the Auditor General's report, the legislature should develop a comprehensive programme for monitoring and reviewing actions taken on the recommendations outlining clear timelines considering that some of the recommendations date back to 2014. If unchecked the government departments will be reluctant to address them.
- 3.1.3 Should enforce appropriate disciplinary action and strict penalties against non-compliance including those responsible for the persistent malpractices.

3.2 To Civil Society Organisations

- 3.2.1 Civil society organisations should facilitate to strengthen citizen oversight in public finance management by creating spaces for dialogue and interface between the citizens as right holders and government authorities as solution holders.
- 3.2.2 Undertake thematic analyses of the Auditor General's Report, conduct awareness raising among citizens so as to build a strong movement, and create platforms for engagement on transparency and accountability in public finance management
- 3.2.3 Conduct continuous budget tracking to ensure continuous assessment and monitoring of budgets during implementation to avoid being reactionary.
- 3.2.4 Provide technical support to Parliament in the development of tools for monitoring the implementation of the recommendations emanating from the AG's report.

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