Analysis of the 2023 Auditor General's Report on State Owned Enterprises

1. Introduction

The Treasury tabled before Parliament the State-Owned Enterprises and Parastatals (SOEPs) audit report from the Office of the Auditor General (OAG). This audit report, a crucial document in assessing the level of accountability, transparency, efficiency, and effectiveness of SOEPs in utilizing public resources, is of the utmost importance. The OAG report tells the story of public finance management within ministries, departments and agencies of government. The report is also an instrument of public accountability and feedback to the citizens who largely fund expenditures of the state through taxation. Last but not least, the audit report also sheds light into spending patterns and budget utilization. This write-up unpacks major highlights and analysis of the audit report in a summarized and simplified manner for the uptake of different stakeholders but primarily, citizens. This write up summarises key highlights from the audit report, provides an analysis and implications of the key issues emanating from the findings and proffers actionable policy alternatives to help stakeholders promote transparency and accountability in public finance management (PFM) in Zimbabwe.

2. Brief Context

The SOEPs audit report comes at a time when the contribution of SOEPs to national output as measured by the Gross Domestic Product (GDP) has been on a downward trend. Literature shows that many factors have contributed to this downward trend, including, but not limited to, dry International Monetary Fund (IMF) structural adjustment programs & reforms, perpetual macroeconomic challenges (volatile local currency, chronic price inflation, debt distress, unsustainable external trade imbalances, financial repression, etc.), climatic disasters, policy inconsistencies, undue political interference in SOEPs' decision-making, high public sector corruption, corporate misgovernance, bureaucracy, weak internal controls, and a general lack of innovation. The reform of SOEPs towards efficient economic actors has remained an elusive agenda. For instance, many of the earmarked SOEPs reforms outlined in the Transitional Stabilization Programme (Oct 2018-Dec 2020) and the National Development Strategy (NDS1) (2021-2025) are yet to be fully implemented. Yet these reforms are critical if Zimbabwe's SOEPs are to meaningfully contribute towards national GDP, employment creation, quality public service delivery, reduction of inequality, and poverty alleviation.

3. Delving into the role of State-Owned Enterprises

Globally, SOEPs are a vital force in the promotion of social and economic development. They are created by the state (through an Act of Parliament) to achieve a specific social or economic goal determined by the government. According to the Organisation for Economic Co-operation and Development (OECD), SOEPs are ultimately owned by the general public and government agencies that exercise the ownership rights are answerable to the general public.[1] SOEPs play a vital role in the delivery of public services and in generating domestic revenue to fund the national fiscus leading to economic growth and infrastructural development. Evidence from many countries demonstrates the effectiveness of SOEPs in delivering social and economic goods and services. For instance, as of 2021, Botswana's SOEPs contributed 32% to the GDP of the country.[2] India's SOEPs have also been flourishing, with the Indian Railways alone employing over 1.6 million people, making it the world's largest state-owned commercial employer. The success of SOEPs in these countries is rooted in environments marked by robust corporate governance, professionalism, and importantly, transparency and accountability in public finance management.

However, while countries like India and China have successfully utilized SOEPs to bolster their economies, Zimbabwe's SOEPs continue to struggle under the weight of corruption, inadequate corporate governance, and generally poor performance. These challenges have hindered Zimbabwe from harnessing the full potential of its state-owned sector to contribute meaningfully to economic growth and stability. Surprisingly, in the 1980s, SOEPs used to contribute 40% of the GDP, but poor management, corruption and weak governance systems have seen them being rundown with contribution to the economy plummeting to an estimated 2%.[3] Mthombeni et al (2021) are of the view that the problem bedeviling SOEPs is poor practice of corporate governance standards and this has downplayed their ability to meaningfully contribute to the growth of Zimbabwe's economy.[4] While section 195(1) of the Constitution of Zimbabwe provides that state controlled commercial entities are expected to maintain commercial viability and adopt generally accepted standards of good corporate governance in their operations, the outcomes of various assessments and auditing process are not reflective of such. The results of the 2023 OAG's report on SOEPs reveals deviations from the principles of public

[1] OECD (2018), Ownership and Governance of State-Owned Enterprises: A Compendium of National Practices

[2] https://www.elibrary.imf.org/view/journals/002/2023/318/article-A001-en.xml#:~:text=Total%20SOE%20assets%20amounted%20to,in%202021%20(Figure%201).&text=Financial%20SOEs%20account%20for%2014,Botswana%20Savings%20Bank%20(BSB).

[3] https://www.herald.co.zw/editorial-comment-state-enterprises-reform-will-benefit-all/#:~:text=Zimbabwe's%20107%20SOEs%20and%20parastatals,to%20an%20estimated%20two%20percent.

[4] Mthombeni et al 'Corporate governance reform strategic for State Owned Enterprises: An integrated review of related literature' 2021 Indonesian Journal of Business and Economics at 648.

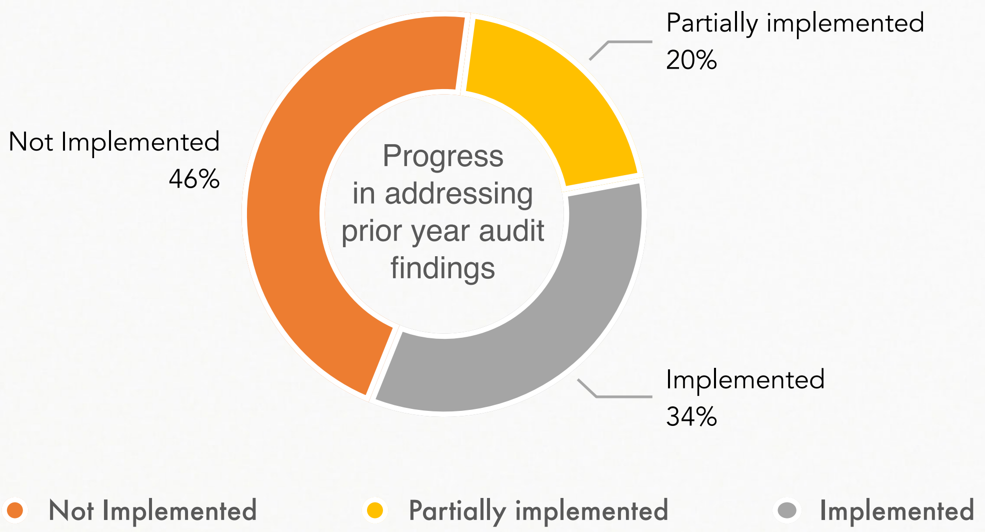
finance management outlined in section 298 of the Zimbabwean Constitution. These findings indicate a betrayal of ordinary citizens by the institutions and individuals entrusted to safeguard public resources and property, as mandated by section 308 of the Constitution. The report highlights both expenditure and non-expenditure related issues that hinder SOEPs from fully contributing to Zimbabwe's economic growth.

4. Summary of Key Audit Findings

Expenditure related	Non expenditure related
Unsupported expenditures	Violations of laws and procedures
Wasteful expenditures	Bookkeeping and asset mismanagement
Unreconciled expenditures	Unauthorized transfer of funds
Fraudulent expenditures	Unauthorized borrowing
Payments made for goods not delivered	Non servicing of loans
Outdated accounting manuals	Absence of internal audit arrangements

Progress in addressing prior year audit findings

It is worrisome to note that out of the 388 recommendations made in 2019-2022 reports that only one hundred and thirty-two (132) representing (34%) were addressed, seventy-seven (77) (20%) were partially addressed and one hundred and seventy-nine (179) (46%) were not implemented at all. The reluctance on the part of government to address the OAG's recommendations undermines public trust in these state-owned entities. This affects the revenue mobilisation efforts of government as people do not see value in their contribution to tax revenue.



5. Impact of findings on social and economic justice

5.1 Loss of social security

Zimbabwe has seen its social security schemes collapsing and lifetime investments going down the drain. Pensioners have become destitute in Zimbabwe despite having worked and contributed to the National Social Security Authority (NSSA) for years. The 2023 OAG report noted that NSSA's remuneration structure was not in line with the approved Cabinet framework that governs the remuneration of Chief Executive Officers and Senior Managers of public entities. As a result, the Authority incurred approximately USD 58 019 and ZWL$ 19.8 million through payments of unauthorized benefits. In addition, NSSA executives were paid some allowances in USD which were not approved by the board amounting to USD 265 821. Reported resource leakage within NSSA is happening at a time when citizens, especially pensioners cannot afford quality healthcare[5]; when pensioners' average incomes remain pathetically low and mere tokens; when poor and vulnerable households wallow in poverty.

5.2 Compromise to provision of safe water supply

Access to water is not just a matter of convenience; it is a fundamental human right and a cornerstone of sustainable development. Clean and reliable water sources are essential for basic hygiene, sanitation, and health, preventing the spread of waterborne diseases and improving overall quality of life. Beyond personal use, water is vital for agriculture, industry, and ecosystems, supporting food security, economic growth, and environmental sustainability. However, millions of people in Zimbabwe still lack access to safe drinking water. Authorities obligated to ensure the provision of water such as Zimbabwe National Water Authority (ZINWA) are grappling with a plethora of challenges. The findings of the OAG noted that ZINWA's service centers experienced shortage of vehicles to attend to breakdowns and day-to-day operations. For instance, Sanyati catchment had seventeen (17) vehicles servicing eighty-nine (89) stations and seven (7) of the seventeen (17) vehicles had exceeded their useful lives. Review of the operating expenses revealed that the vehicle maintenance costs have increased by 324% compared to the prior year. To make matters worse, ZINWA do not have a backup power supply in the event of load shedding. These challenges, compounded by the lack of backup power supply, underscore the urgent need for ZINWA to prioritize infrastructure investments and operational improvements to ensure reliable service delivery.

[5] Ministry of Health and Child Care (n 1).

5.3 Poor and inefficient public transportation system and infrastructural development

Transport infrastructure is vital for economic development, connecting people, goods, and services across regions and facilitating trade, tourism, and mobility. Investment in transport infrastructure is crucial for stimulating economic growth by reducing transportation costs, improving access to markets, and attracting investments. Unfortunately, Zimbabwe's transport sector is in shambles. The OAG noted that NRZ incurred an unaccounted loss of ZWL$2.4 billion in 2021 and ZWL$ 3.5 billion in 2020 totaling to ZW$5.9 billion. Meanwhile, ZUPCO incurred a loss of ZWL$4.5 billion in 2020 and ZWL$4.4 billion during the year ended December 31, 2021. ZUPCO and NRZ are losing the much-needed money despite having dilapidated and obsolete infrastructure. According to NRZ's daily locomotive utilisation analysis report of 16-17 June 2024, three locomotives (2104, 34612 and 34840) were parked awaiting fuel while one locomotive (1036) was waiting for sump oil. On the other hand, a total of six locomotives (1011, 1015, 2103, 2109, 34851 and1036) were completely out of service. Furthermore, negligence is so rampant that some trains that break down are left unattended over petty issues. For example, in March 2024, a train that had developed vacuum challenges in Mbembesi could not be attended to by examiners just over unavailability of toll gate fees.[6] This has hindered the overall service reliability and efficiency for stakeholders and customers alike.

5.4 Poor and Inconsistent Electricity supply

The state of electricity in Zimbabwe remains precarious, characterized by frequent power outages and load shedding which stems from inadequate generation capacity, aging infrastructure, and mismanagement of financial resources. This has greatly affected the full operation of hospitals and clinics, leading to delays in critical treatments, loss of data, and inability to use life-saving medical equipment thereby causing loss of life. Furthermore, erratic electricity has undermined the education sector as schools struggle to effectively equip students with scientific, technological, engineering and mathematical skills needed to drive development. For businesses, the recurring power cuts have led to increased operational costs due to the need for alternative power sources like generators, reduced productivity, and hindered economic growth. Amidst widespread power cuts plaguing the country, the findings of the OAG noted that the Zimbabwe Power Company (ZPC) incurred an unjustified financial loss of ZWL$187.3 billion during the end of December 31, 2022. The audit findings further revealed that ZPC's asset maintenance

---

[6] https://cite.org.zw/gross-mismanagement-and-corruption-threaten-nrzs-viability%EF%BF%BC/

plans were not effective during the period. As a result, generators 6 and 7 at Munyati Power Station were not working due to problems related to faulty rotor and stator on each of the generator. Consequentially, the power plant could not generate sufficient energy to meet power output requirements resulting in reduced electricity revenue and reduced power supply to the national grid. Additionally, projects at Hwange Power Station are still lagging behind and some capital projects have not been completed thereby compromising effective electricity supply. This has seriously affected electricity supply in the country which does not only affect ordinary citizens but the entire economy.

As if that was not enough, the Rural Electrification Fund's Head office had long outstanding receivables of more than 180 days amounting to ZWL$ 5.8 billion. These receivables included travelling and subsistence advances amounting to ZWL$6.4 million which had not been acquitted. This was contrary to the Fund's policy which requires travelling and subsistence advances to be cleared within 14 days after return to home station. The report shows that the management decided to award amongst themselves allowances at the expense of service delivery. Resultantly, the Fund had projects in the Midlands province with transformers that had no cable guards installed. This negligence significantly increases the likelihood of theft of cables and transformers, contributing to an already critical problem in the country.

5.5 Provision of health care services

Access to healthcare is a fundamental human right that impacts individuals, families, and entire communities. It encompasses the ability of individuals to obtain needed medical services, including preventive care, diagnosis, treatment, and rehabilitation, without encountering barriers such as financial hardship, geographic distance, or discrimination. Access to healthcare is essential for maintaining and improving health outcomes, reducing the burden of disease, and enhancing overall quality of life. However, the health sector in Zimbabwe continues to be in a deplorable state as revealed by the OAG's report. The report noted that Parirenyatwa Group of Hospitals was allocated a capital grant of ZWL$ 800 million for the 2022 financial year, however, no funds were received from the capital grant allocation. As a result, hospital infrastructure had gone for years without rehabilitation. For instance, the kitchen ceiling had deteriorated and the old kitchen equipment such as steamers, electric stoves, freezers and ovens were not functioning and some have since been decommissioned. The OAG further noted that Mpilo hospital grapples with weak internal control systems evidenced by the fact that former employees were still on the bank signatory's panel which may cause financial loss due to irregular transactions. The hospital faces a massive shortage of manpower which comprises access to health care. The OAG further reported an unaccounted staggering financial loss of ZWL$4.4billion in 2021 and ZWL$2.1 billion as at December 31, 2022, the money that could have been used to finance and revamp the healthcare infrastructure. It is by no surprise that child mortality rate at Mpilo Central Hospital have increased to a total of 280 in the first four months of 2024, with neonatal deaths accounting for the majority.[7]

5.6 Revenue leakages

Zimbabwe is facing a severe crisis that demands effective resource mobilization. The country's external debt is soaring, with interest rates continually rising. In addition, climate finance is urgently needed, placing additional strain on state coffers. These factors underscore Zimbabwe's critical need for increased revenue. Despite expectations that Zimbabwe's tax authority, ZIMRA, has implemented effective measures to prevent revenue leakage, the OAG's report reveals significant issues. As of 31 December 2023, ZIMRA had outstanding revenue returns of ZWL$8.3 billion. The report further reveals that the Authority had not collected this amount since some of the clients who were placed on garnish had no funds in their bank accounts. The clients that were being authorized to defer payment of VAT[8] were not complying with the deferment terms in that at the lapse of deferment periods (due dates), these clients were not honouring VAT obligations, leading to massive loss of revenues. It is not surprising that essential social and economic sectors such as education and healthcare have consistently been underfunded, despite the tax agent continuing to incur revenue losses.

6. Conclusion

The OAG plays a significant role in enhancing sound public finance management systems in Zimbabwe's public entities including SOEPs. This is so because sound, transparent and accountable PFM systems enable SOEPs to deliver services more effectively and equitably thereby uplifting people from poverty, inequality, and vulnerability in Zimbabwe. Countries such as Botswana, South Africa, India, China, and Singapore have leveraged on their SOEPs to promote economic growth and infrastructural development. The situation is quite different within the context of Zimbabwe. SOEPs in Zimbabwe are marred with poor governance systems and weak internal control mechanisms that create a breeding ground for rampart corruption. The issues raised in the OAG's report are a testament of

[7] https://cite.org.zw/mpilo-hospital-faces-surge-in-child-deaths/

[8] Value Added Tax Act [Chapter 23:12] sec 12 (f).

the failure of Zimbabwe's SOEPs. Year in year out, the OAG has released reports that consistently expose massive scandals of corruption and theft. Resultantly, citizens have completely lost public trust amid the high macroeconomic challenges perpetuated by governance challenges and malpractice in government. This analysis has given recommendations below and strongly believes that the implementation of those recommendations will make a huge positive difference in the country. This is particularly important at a time when the country is grappling with both financial and non-financial irregularities in public finance management.

7. Policy Recommendations

7.1. To the Parliament

- Parliament should enforce adherence to the already existing corporate governance systems and begin to hold corporate executives accountable for the performances of the enterprises that they preside over. The corporate executives have already signed up to their adherence to and implementation of these fundamental principles. Therefore, it is only logical that they own up to what they have committed to.

- The appointment of persons to boards of SOEPs should be undertaken by Parliament just like the manner in which Parliament is involved in the appointment of commissioners. The appointment of boards by respective ministers as is currently the general practice makes the board members seemingly less accountable to Parliament. Their appointment through Parliament gives the board members more independence from the minister in the face of accusations that new ministers always seem to 'fire' boards to appoint their own when they assume office

- Parliament should undertake follow-up action on an annual basis with the relevant SOEPs and ministries to determine the extent to which the recommendations of the Auditor-General are being followed up on and implemented. This will help avoid the last minute surprises where some of the recommendations may not have been implemented by the end of the year. This will also help in identifying and rectifying any challenges that are currently being faced by the SOEPs in addressing the issues raised by the audits.

- Parliament should take the lead in enactment of a robust national whistleblowing (legislation) framework given that it is a key element of the first line of defense against corporate malpractices in the public sector. It encourages employees to disclose any irregularities without the fear of retaliation and facilitates the early detection of any issues, thereby helping to prevent corporate malpractices and corruption.

- Parliament should expedite the alignment of the PFM Act to the Constitution and the SADC Model Law on Tax Expenditure reporting to enforce 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.

- Parliament should facilitate an inquiry into the specific recurrent irregularities on SOEPs and 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 2010. Clear penalties should also be enforced on persistent malpractices.

- Parliament of Zimbabwe must guarantee operating space and legal freedoms required by civil society organizations to engage in advocacy and activism on the basis of the audit findings.

7.2. National Prosecuting Authority

- The National Prosecuting Authority must deliberately invest in strengthening the capacity of its staff to investigate and prosecute perpetrators of commercial crimes in order to ensure that those committing offences are held accountable and appropriate penalties and disciplinary actions are enforced.

7.3. Ministry of Finance and Economic Development

- The Ministry of Finance and Economic Development should come up with a comprehensive programme for strengthening institutional capacities in state owned enterprises including tailor made trainings on revenue management, contract management, financial reporting and procurement.

7.4. Office of the President and Cabinet (OPC)

- OPC should demonstrate political will to eradicate corruption and mismanagement of public funds. There must therefore, be greater commitment from OPC which goes beyond verbal pronouncements and translates to actions which arrests and punish perpetrators of corruption.

7.5. The judiciary

- The judiciary should be independent and must be able to interpret the law without fear or favour.

7.6. Zimbabwe Anti-Corruption Commission

- The Commission should institute a commission of investigation on issues raised by the OAG and produce a report of findings.

- The Anti-Corruption Commission should spearhead the development of whistleblowing protection legislation in order to protect and defend those that would have reported cases of corruption.