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Analysis of the 2023 Auditor General's Report on Appropriation Accounts



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Analysis of the Report of the OAG Report Findings on Appropriation Accounts, Finance and Revenue Statements, and Fund Accounts for the Year Ended 31 December 2023.

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Introduction

Section 309(2) of the Constitution of Zimbabwe, as read together with Section 10(1) of the Audit Office Act [Chapter 22:18], provides for the examination of public accounts. Also, Sections 35(6) and (7) of the Public Finance Management Act direct the Auditor-General (AG) to prepare and submit to the Treasury a report on the examination and audit of Zimbabwe's public accounts by no later than June 30 each year. In strict adherence to these provisions, the AG, through the Office of the Auditor-General (OAG), has diligently prepared and shared the 2023 audit report on appropriation accounts.¹ The latest report has uncovered numerous irregularities in the distribution and utilization of funds by line ministries. Against this backdrop, the piece explores these irregularities' socio-economic implications for attaining national ambitions espoused through the National Development Strategy 1 (NDS1) (2020-2025) and Vision 2030.

As such, the OAG audit reports serve as an essential public expenditure document that tracks government (local and national) expenses to ensure efficient and prudent Public Finance Management (PFM). These audit reports also play a crucial role as evaluation tools for internal control mechanisms within the public sector, enhancing transparency and accountability in the use of public funds. This, in turn, stimulates good governance and creates space for social accountability, resulting in fiscal discipline (revenue generation versus expenditures), allocative efficiency, and operational efficiency (VFM for citizens on procurement). As such, for effective fiscal transparency, supreme audit institutions like Zimbabwe's OAG must be afforded maximum statutory independence from the Executive as well as unlimited access to relevant information, adequate resources to fulfill their audit functions, and publicly report on the use of taxpayers' money.

Importance of OAG Reports

The AG is mandated by law 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. At the request of the government, the AG can carry out special audits on the accounts of any statutory body or government-controlled entity. Further, the AG carries out audits to ensure that the receipt and disbursement of public money have been made under proper authority and have been correctly accounted for. This is a key responsibility of the government audit department in safeguarding State property. In addition, the law directs the AG to carry out Value for Money (VFM) audits, which entails examining the economy, efficiency, and effectiveness with which those entrusted with financial and material resources have utilized them in carrying out their mandates.

Key Audit Findings

- Out of 268 audit findings raised in the 2022 report, 31% were fully addressed, 11% were partially addressed, and 58% were yet to be addressed.
- The OAG is grossly underfunded. In 2023, there were 4,330 stations in total, and the AG visited only 196 provincial and district offices for audit, compared to 300 in 2022.
- Out of 80 financial statements audited in 2023, 49% had clean/unmodified audit opinions,² 34% had qualified opinions,³ 6% had adverse opinions,⁴ and 11% had audit disclaimers.⁵
- Treasury made direct payments to suppliers on behalf of Ministries without processing payments through the PFM System in contravention of 2019 PFM Treasury Instructions.
- About 27 Ministries accumulated arrears unsustainably, risking negatively impacting

1. The appropriation accounts show how line ministries spent allocated public funds for various government departments and projects.

2. Clean – the financial statements contain no material misstatements.

3. Qualified – the financial statements contain material misstatements in specific amounts or there is insufficient evidence to conclude that financial statements are not materially misstated.

4. Adverse – the financial statements contain material misstatements or misstatements represent a substantial portion of the financial statements.

5. Disclaimer – AG has not been able to obtain sufficient appropriate audit evidence to provide a basis of an audit opinion.

economic growth, public service delivery, and government reputation.

- About 12 Ministries failed to conduct risk assessments to identify and manage business and financial risks, and Disaster Recovery Plans (DRPs) were not in place.
- About 13 Ministries, Commissions, and Funds incurred expenditure without adequate supporting documents, thus undermining the reliability of financial records.
- As of June 2024, three (3) buses, 60 motor vehicles, 167 laptops, and other furniture paid for between 2020 and 2023 had not been delivered. Yet ZWL1.7 billion advance payments were made.
- Maintaining asset registers remains a serious challenge; for instance, 173,070 liters of diesel and 2,015 liters of petrol were not recorded in fuel registers.
- Ministries underutilized allocated funds totaling ZWL10.3 billion earmarked for social protection because they lacked effective mechanisms to identify beneficiaries.

Socio-economic Implications of Findings

Of the 347 audit findings in the 2023 report, governance issues topped (60.2%), followed by procurement-related issues (11.2%), asset management issues (11.2%), revenue collection and debt recovery issues (10.4%), program implementation issues (2.6%), gender-related issues (2.6%), and employee compensation issues (1.8%). This section succinctly analyzes the extent to which these audit findings can militate against the attainment of social and macroeconomic objectives, which are deemed critical for achieving an upper-middle-income economy:

- Inclusive economic growth,
- Low unemployment,

- Controlling cost and price inflation,
- Sustainable trade balance,
- Improved productivity and international competitiveness,
- Improved public services,
- Sustainable government finances,
- Economic well-being and equitable distribution of income and wealth.

Sustainable Government Finances

Generally, fiscal discipline is essential for sustainable government finances, as it helps reduce vulnerabilities, sustain economic performance, and maintain macroeconomic stability. Yet, the 2023 audit report on appropriation accounts indicates that many ministries are not fiscally disciplined. For instance, they are accumulating payment arrears unsustainably, with the AG establishing that arrears payments constituted at least 50% of the 2023 national budget. A lack of enforcement of procurement legislation and weak internal controls explain these out-of-control expenditures by various ministries.

Consequently, inadequate fiscal indiscipline and weak fiscal management drive fiscal deficit and public debt exponentially. The latest 2024 Mid-term Budget and Economic Review show that Treasury spent ZIG38.9 billion in the first six (6) months of 2024, resulting in a huge overall budget deficit of 5.9% (ZIG2.3 billion). This explains the jump in public debt, particularly domestic debt, which increased from 38.4% (US\$8.1 billion) of the total debt estimated in Dec 2023 to 41.3% (US\$8.7 billion) in June 2024. Overall, total public debt is now unsustainable, constituting 96.7% of national output (GDP).

This depicts a worrisome trend as unsustainable fiscal deficits and public debt make Zimbabwe susceptible and unable to respond quickly to adverse shocks such as currency fluctuations, natural disasters, financial market volatility, and terms-of-trade shocks. These shocks directly impact budgets (limited fiscal space), destabilize local currency, and fuel chronic inflationary pressures.

Improved Public Services

The primary role of government is to provide essential public services like education, housing, healthcare, and disaster response. To fulfill this role, it has all the powers to levy taxes and even borrow internally or abroad to provide these essential services. In return, taxpayers expect quality, accessible, and affordable public services from their government. However, the 2023 audit report on appropriation accounts highlights that gross inefficiencies in ministries constrain public service delivery, pushing many citizens into abject poverty. For instance, the audit report showed that many ministries pay for goods and services that never get delivered despite making huge advance payments to suppliers. In other cases, there is a lack of due diligence in procurement processes, which is reducing the VFM for citizens as the government is often extremely overcharged. Also, there is slow adoption of technology as many ministries are still predominantly following manual procedures, making public funds prone to corruption, abuse, and misuse.

Economic Well-being

Generally, economic well-being is about creating a conducive environment where individuals and communities have the resources and opportunities they need to fulfill their potential and lead fulfilling lives.

This concept extends beyond just income or wealth to include factors such as employment opportunities, work-life balance, access to education and healthcare, and the ability to participate in society. In essence, it is a vision of an economy that not only grows but also improves the quality of life for all its participants. Yet, the 2023 audit report indicates that some ministries effectively marginalize vulnerable groups and communities. For instance, the Disabled Persons Fund, which was created to promote the welfare of disabled persons by providing financial resources for rehabilitation, training, and engaging in income and employment-generating projects, is grossly abused.

Again, the audit report shows that some ministries are failing to spend resources earmarked for vulnerable groups' well-being and social protection simply due to a lack of mechanisms to identify beneficiaries. Also, the AG reported that it takes a long time for ministries to clear outstanding obligations under the Basic Education Assistance Module (BEAM) scheme, disrupting learning for children from underprivileged households. This occurs at a time when 22% of school-going age are reportedly not in school, with 10.3% of them faced with financial challenges⁶. If uncorrected, these unfortunate episodes will continue to widen societal inequalities and trapping vulnerable groups in a vicious cycle of poverty. As such, government ministries must always thrive to advance the economic well-being of marginalized groups.

In December 2022, the Ministry of Finance ordered seven Toyota Hilux GD6 vehicles from Tsapo, a car dealership. According to the Auditor General: "The seven vehicles had not been delivered at the time of concluding the audit in September 2023."

6. <https://www.unicef.org/zimbabwe/reports/zimbabwe-livelihoods-assessment-report-2024>

Equitable Distribution of Income and Wealth

Equitable distribution of income and wealth - the way a nation's wealth and income are divided among its population - is essential for reducing poverty as it provides a fair chance for all citizens to succeed. The poor will have access to education and healthcare, which improves the quality and quantity of factors of production in the long term. Also, the poor are generally considered to have a high marginal propensity to consume. As such, redistributing income and wealth will increase consumption and thus aggregate consumer demand. This will spur economic growth and development. However, the 2023 audit report on appropriation accounts shows that ministries are not contributing to equitable income distribution. For instance, senior management of some ministries were awarding themselves huge perks while evading tax. Also, government officials use public assets for their personal benefit, and in some cases, motor vehicles procured using public funds are registered in the names of individuals. In addition, weak debt recovery strategies in many ministries coupled with the incessant violation of procurement laws and regulations only benefit the rich and politically connected. Thus widening the net of the have-nots, a situation which significantly contributes to high crime rates, early child marriages, and drug abuse by many unemployed young people.

Low Unemployment

Under the NDS1 and its Vision 2030, Zimbabwe aims to achieve low unemployment by helping the economy provide decent formal jobs. Nevertheless, the 2023 audit report on appropriation accounts shows that some ministries lack up-to-date appointment and termination registers and personnel files. This anomaly may lead to the existence of ghost workers and reduced government hiring at a time when citizens,

particularly the youth, are actively searching for decent jobs. Also, the lack of employment opportunities in government can be attributed to ministries' failure to implement the AG's audit recommendations to improve financial management, policy implementation, and service delivery. As alluded to earlier, out of 268 audit findings raised in the 2022 audit report, only 31% were fully addressed, while 11% were partially addressed, and 58% were yet to be addressed. Again, the OAG is grossly underfunded. In 2023, the AG managed to visit only 196 provincial and district offices for audit, compared to 300 in 2022. If not controlled, all this will continue to mask severe irregularities, thus dampening chances for robust job creation by the government.

Low Inflation

One of the key macroeconomic objectives of governments is to attain low inflation – the primary function of a nation's central bank. Generally, low inflation immensely contributes toward economic stability, encourages savings, investment, and economic growth, and helps maintain international competitiveness. However, in 2023, Zimbabwe experienced increased volatility of prices driven by incessant instability of the then Zimbabwe dollar (ZWL).⁷ A granular analysis of audit findings for the 2023 appropriation accounts shows that price instability likely emanated from increased spending by ministries. The AG reported that the total budget allocation for the fiscal year 2023 was ZWL12 trillion against the initially approved budget of about ZWL2.7 trillion. For the previous fiscal year, 2022, unauthorized excess expenditures also came in at ZWL534 billion. In all these episodes, the AG did not find evidence that the Treasury sought prior approval from Parliament, thus contravening Section 307 of the Constitution.

⁷<https://zimcodd.org/economic-review/>

Improved Productivity

In economics, productivity refers to how much output can be produced with a given set of inputs.⁸ Labor productivity, also known as workforce productivity, is defined as real economic output per labor hour. Workforce productivity can be affected by many factors, including, but not limited to, worker skills, technological changes, management practices, and the work environment. In light of this, it is clear that poor working conditions in many ministries are likely contributing to high labor turnover and low labor productivity. The 2023 audit report on appropriation accounts established that many ministries' processes and procedures are still manually conducted. Also, the welfare of government workers across various ministries and agencies is likely compromised as some staff houses are reportedly deplorable, and they are working in buildings with cracks and lacking proper roofs, doors, and windows. All this poses a greater risk to human life, government assets, and public records, thus negatively impacting service delivery and attainment of Vision 2030.

Inclusive Economic Growth

Vision 2030 is anchored on sustainable and inclusive economic growth. Inclusive economic growth is a concept that advances equitable opportunities for economic participants during economic growth with benefits incurred by every section of society.⁹ This can be achieved through gender mainstreaming, that is, integrating a gender equality perspective at all stages and levels of government policies, programs, and projects. Women and young girls continue to face a heavily unequal world characterized by a lack of leadership positions, gender-based violence (GBV), imbalance in unpaid care work, legal barriers, poor sanitation, inadequate funding, workplace discrimination and inequalities, social norms, and cultural practices.

While the government has made strides in empowering women and other disadvantaged groups, gender mainstreaming of policies remains wanting. The 2023 appropriation accounts audit report established that there is a lack of gender mainstreaming strategy in many ministries. For instance, the Ministry of Industry had no gender policy document, gender activities plan, a clear gender structure, and no Director for gender activities. If unremedied, this will continue to militate against women's empowerment, leading to GDP growth that leaves more than half of the population behind.

Conclusion

The 2023 audit report on appropriation accounts, finance and revenue statements, and fund accounts shows that government ministries are not making significant efforts to implement the AG's recommendations. Yet many ministries have porous public financial management systems, weak internal controls, and procurement gaps. These gaps have become conduits for the diversion of public funds into private hands, thereby creating a highly unequal economy. In the end, the government is failing to achieve its macroeconomic objectives effectively, a likely stumbling block for the attainment of Vision 2030. A whole-of-government approach is needed to improve the PFM systems and procedures, strengthen the legal framework, and improve public service delivery and infrastructure development.

8. <https://www.rba.gov.au/education/resources/explainers/productivity.html>
9. <https://indiactr.in/what-is-inclusive-growth/>

Recommendations

Progressive Tax System

Adopting a progressive tax system buttressed by transfer payments like subsidies, unemployment benefits, and disability benefits will make the rich pay their fair share in taxes, and income will be redistributed from the rich to the poor.

Responsible Private Sector

The private sector must be responsible. As such, all private sector companies that are implicated in the audit report must be fully investigated and blacklisted from government procurement systems if found on the wrong side of the law.

Vulnerable Groups Database

The government must quickly establish and compile a nationwide database of vulnerable groups. This will help ensure timely disbursement of funds to expected beneficiaries.

Fiscal Discipline

Government ministries must always adhere to fiscal discipline to help reduce fiscal deficits and the unsustainability of public debt. Also, the Treasury must abstain from unapproved excess expenditures as these destabilize currency and price stability.

Public Financial Management System

All government ministries, including the Treasury, must always ensure that all payments and financial transactions pass through the PFM system to reduce unexplained variances.

Gender Mainstreaming

Ministries must always gender-mainstream their policies and programs to increase the economic participation of women and reduce gender-based discrimination and inequalities.

Technology Adoption

Government ministries and agencies must abandon manual processes to increase allocative and operational efficiency by adopting advanced technologies and systems.

Staff Welfare

The government must prioritize the maximization of the welfare of government workers to reduce the brain drain and avoid the deterioration of critical public services.

Reform PFM Act

Civil Society Organizations (CSOs) must petition parliament to reform the PFM Act by putting a clause that suspends the accounting officer pending investigations, particularly if the AG issues an audit disclaimer of opinion.

Whistle Blower Protection

There is a need for standalone whistleblower protection legislation to ensure increased reporting of underhand dealings that might escape the audit processes.