ZIMBABWE

REPORT

of the

Auditor-General

for the

FINANCIAL YEAR ENDED DECEMBER 31, 2012

STATE ENTERPRISES AND PARASTATALS

VOLUME II OF III

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ZIMBABWE

Ref: 2012 AG Report

OFFICE OF THE AUDITOR-GENERAL
5th Floor, Burroughs House
48 George Silundika Avenue
Harare

January 10, 2014

The Hon. P. Chinamasa
Minister of Finance and Economic Development
New Government Complex
Samora Machel Avenue
Harare

Dear Sir,

I hereby submit my report on the audit of State Enterprises and Parastatals in terms of Section 309(2) of the Constitution of Zimbabwe read together with Section 10(1) of the Audit Office Act [Chapter 22:18], for the year ended December 31, 2012.

Yours faithfully,

M. Chiri (Mrs).
AUDITOR-GENERAL

HARARE
January 10, 2014

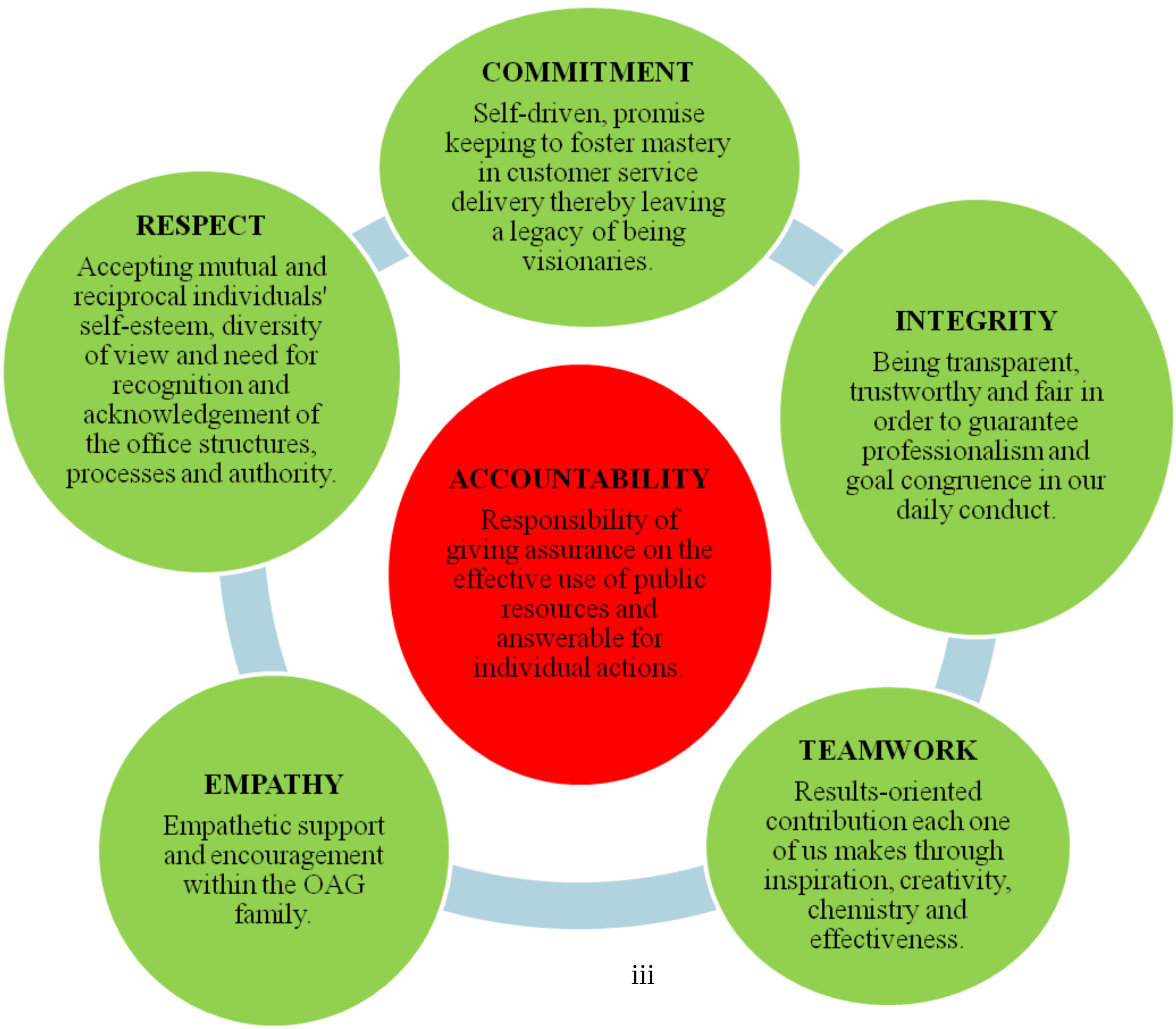
ZIMBABWE

OAG Vision

To be the Centre of Excellence in the provision of Auditing Services.

OAG Mission

To examine, audit and report to Parliament on the management of public resources of Zimbabwe through committed and motivated staff with the aim of improving accountability and good corporate governance.



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EXECUTIVE SUMMARY

This executive summary covers major audit findings which were noted during my audit of State Enterprises and Parastatals. The issues highlighted in this report include; governance, procurement of goods and services, revenue collection and debt recovery and employment costs. Although some of the issues identified are common within the audited entities, the majority of the findings are not the same due to the nature, uniqueness and varying mandates of each entity. The key findings are summarised below.

Governance

There were numerous cases of improperly constituted and understaffed Boards of Directors and board committees. For example, out of the eight(8) board committees at the National Social Security Authority, one board member was a Chairperson in four(4) of them. For the whole of 2012, Net*One operated without a substantive Board, the entity was under the stewardship of an Interim Board. On the other hand the Securities Commission and the Investor Protection Fund Board of Trustees was operating without committees. The Zimbabwe Mining Development Corporation did not have board representations on the boards of its joint venture companies as per the joint venture agreements. The ZIMRA Board membership was reviewed from seven (7) to ten (10) but the review was never implemented and this resulted in the three (3) non-executive members rotating to serve in the available committees.

A number of State Enterprises and Parastatals were struggling to honour their statutory obligations to NSSA, ZIMRA, Pension funds and Medical Aid Societies due to liquidity challenges.

There were no back-up facilities for Information Technology in some of the entities.

Revenue Collection and Debt Recovery

The challenge facing most of the State Enterprises and Parastatals was failure to recover outstanding debts. The Grain Marketing Board was owed $31 400 000 by the Government for storage and handling charges relating to the current and prior intake periods as at March 31, 2013.

An amount of $3 143 000 constituting 48.92% of total debt was owed to the Zimbabwe Broadcasting Corporation by various Ministries as at December 31, 2010. Management indicated that the debt had ballooned to over $6 000 000 as at December 31, 2012.

The Zimbabwe Revenue Authority was owed more than $240 000 0000 by its clients. Some of the debts were backdating to the year 2009.

Revenue collection systems were weak as evidenced by, failure by CMED Bulawayo provincial office to recover payments for liquid fuel borrowed by its employees. The People's Own Savings Bank (POSB) Causeway branch was failing to recover salary based loans issued to twenty five (25) Chitungwiza Municipality workers.

The administration of leases was not being done in a transparent and accountable manner. There were cases of failure to collect lease rentals from tenants and unavailability of lease agreements. In certain instances rental income from leased properties was being recorded on a cash basis at rates that were verbally agreed with tenants, an example is the Zimbabwe Mining Development Corporation houses at Mhangura and Lomagundi mines. There were some civil servants who were occupying Civil Aviation Authority of Zimbabwe houses without paying rent. NetOne was not recovering loans advanced to staff under a vehicle purchase scheme.

Procurement of Goods and Services

Farmers who delivered grain worth $4 534 741 to the Grain Marketing Board (GMB) during the 2011 grain intake period had not been paid as at December 31, 2012, while those who delivered grain during the 2012 grain intake period had been paid.

Some State Enterprises and Parastatals were violating procurement procedures, a case in point was the award of tenders to a number of suppliers by the National Railways of Zimbabwe (NRZ) with prepayments amounting to $1 900 000 being made to five suppliers who ended up not meeting their service/supply obligations to the organisation. In their response, management did not outline the measures they were going to take in order to recover the prepaid amount or having the goods and services supplied.

There were no due diligence tests conducted in the selection of vendors for the supply of goods and services. Jena mine (Pvt) Ltd a subsidiary of the Zimbabwe Mining Development Corporation (ZMDC) transacted with a non-Value Added Tax (VAT) company resulting in an opportunity cost of $260 512 as a result of both not deducting withholding taxes and not being able to claim input tax on transactions.

The procurement of goods and services at the Zimbabwe Institute of Public Administration and Management (ZIPAM) was not above board. There was no segregation of duties to the extent that a senior official would authorise and pass for payment vouchers in his favour. Some of the payments made by the Institute were not supported by any documentation.

Employment Costs

A senior official at ZIPAM authorised payment of salary advances amounting to $4 687 to himself over a period of thirteen days in February 2012. The advances were not recovered.

CMED (PVT) LIMITED

BACKGROUND

CMED (Private) Limited is a commercialized enterprise as provided for by the Central Mechanical Equipment Department (Commercialisation) Act, 2000. It is wholly owned by the State and its mandate is to provide transport and equipment hire services to the market. It also provides ancillary services in the form of vehicle procurement, fuel, training and testing drivers and the administration of the Government Transport Purchase Fund.

1. GOVERNANCE ISSUES

1.1 BOARD EXPENDITURE

Finding

The expenses of the governing board rose from $42 455 to $169 723 representing a 400% increase as compared to the prior year 2011. This was due to adjournment of meetings for issues which could have been deliberated and finalised in one sitting.

Risk / Implication

The company may be incurring wasteful expenditure sacrificing activities of its core business.

Decisions may take unnecessarily long to conclude thereby compromising the timely implementation of strategies.

Recommendation

The board should deliberate and finalize issues without unnecessary adjournment of meetings.

Management Response

The other factor that contributed to the increase in board expenses in 2012 vis-à-vis the 2011 figure is the review of Board fees authorized by the parent Ministry and it became effective in July 2012.

1.2 STATUTORY DEDUCTIONS

Finding

Gweru and Gwanda stations were not remitting pension funds due to National Social Security Authority in violation of NSSA Act [Chapter 17:04].

Risk / Implication

Non remittances of statutory deductions attract penalties and fines from the responsible authorities. The entity's employees may also fail to access their pension benefits after retirement or compensation in the event of an injury at work.

Recommendation

The company should comply with the statutory requirements.

Management Response

Regional Managers have been requested to come up with payment plans and prioritize payment of statutory deductions in the same way they do on salaries notwithstanding the cash flow challenges being faced by all business units/provinces. Head Office has not been able to support provinces in that regard due to the same cash flow challenges. A huge Government debt has precluded the company from honouring payments on time and has arranged for set off with ZIMRA and Pensions Office through treasury.

2 REVENUE COLLECTION AND DEBT RECOVERY

2.1 RECEIPT BOOKS

Finding

I observed that some stations purchased receipt books from Print flow (Private) Limited Gweru office in January 2012 which had neither CMED nor Easy Go Logo. The system in place was that receipt books were centrally procured from Head Office and then distributed to the provinces so as to maintain one sequence. The books that were purchased were as follows:

Serial number range	Station Issued	Date issued
907201-907300	Gokwe	07 January 2012
907301-907400	Zvishavane	07 January 2012
907401-907500	Kwekwe	07 January 2012
907501-907600	Gweru	11 January 2012
907601-907700	Easy Go-Gokwe	2 March 2012
907701-907800	Easy Go –Kwekwe	28 March 2012
907801-907900	Gweru	28 March 2012
907901-908000	Easy Go- Kwekwe	9 March 2012

Risk / Implication

Use of receipt books without security features may facilitate fraudulent activities.

Recommendation

The company should comply with its policy of procuring stationery centrally from Head Office.

Management Response

It has been communicated to the Manager and Accountant for Gweru area to request all security documents from Central Stores.

2.2 FUEL TANKS

Finding

The fuel tanks and the infrastructure for safekeeping of fuel at Chiredzi station were dilapidated to the extent of allowing water into the fuel tanks.

Risk / Implication

Fuel might be contaminated.

Recommendation

I recommend that the infrastructure should be renovated to ensure safekeeping of fuel.

Management Response

Pressure test will be done to ascertain the leakages of the tanks and water testing chemicals provided for testing products before dispensing fuel. New tanks shall be installed in future as sales improve.

2.3 BLANK COUPONS

Finding

Coupons at CMED (Pvt) Ltd Hwange Petrol Oils and Lubricants (POL) were not being filled in after the customer had redeemed them for fuel. As a result, the fuel attendants were keeping blank coupons received from customers. At the time of audit, they had thirty two (32) 25 litre diesel coupons, seventeen (17) 25 litre petrol coupons and twelve (12) 5 litre coupons.

Risk / Implication

Coupons may be re-sold to unsuspecting customers.

Recommendation

Management should ensure that fuel coupons are defaced as soon as the fuel is redeemed.

Management Response

The coupons were eventually defaced after reconciliations and ascertaining that the fuel records were balancing. The attendant was warned not to keep un-defaced coupons in future.

2.4 SUPERVISION AND RECORD KEEPING

Finding

There was no evidence to support that supervision and checks were being done by the Mechanic in charge at Hwange and Victoria Falls fuel stations. As a result the records and in particular the S28 forms (summary sheets of fuel withdrawn) were haphazardly maintained.

Risk / Implication

Errors and manipulation of the system may occur and not timely detected for corrective action.

Recommendation

Adequate supervision and checks should be carried out to ensure proper record keeping is maintained at the fuel pumps on a daily basis.

Management Response

An accounts clerk was assigned to Victoria Falls to supervise receipting and banking and improve on record keeping beginning January 2013.

2.5 STAFF DEBTORS

Finding

Employees at Bulawayo provincial office were issued liquid fuel on credit; however there was no evidence to suggest that they subsequently paid.

Risk / Implication

Employees might be abusing the facility for personal gain.

Recommendation

All employees with outstanding balances should pay their obligations or else the amounts owing should be deducted from their salaries.

Management Response

Recoveries through payroll will be done without delay. Local Management has been tasked to engage all staff concerned and effect recoveries starting May 2013 and ensure proper record keeping going forward. A Memo was sent to all the provincial heads to stop issuing fuel on credit except VVIPs.

3 PROCUREMENT OF GOODS AND SERVICES

3.1 PAYMENT OF SUPPLIERS

Finding

Easy Go, a subsidiary of CMED, was using photocopied documents (payment vouchers, supplier's invoice, purchase order, GRV) at Head Office to process payments to suppliers. These payments were initially processed using original documents to the same supplier. The following is a sample of payments which were processed using photocopied payment vouchers:

Payment Date	Supplier	Details	Amount paid $	Comment
04 Jan 2012	Parts Unlimited	Brake booster	630	Payment voucher photocopied in order to process the balance outstanding.
21 March 2012	American Motors	Purchase of tyres	780	Payment voucher photocopied in order to process the balance outstanding
08 Nov 2012	Central Vehicle Registration	New number plates	640	Payment voucher photocopied in order to reprocess payment to the supplier, initial payment was rejected.
28 Aug 2012	Wozani Lodge	Accommodation for the trainer	192	Payment voucher photocopied in order to reprocess the payment to the supplier, initial payment was done to wrong account.

Risk / Implication

Use of photocopied payment vouchers may create an opportunity for fraud.

Recommendation

Every payment voucher should be original and should be attached to original supporting documents.

Management Response

New vouchers shall be processed in future and will be attached to the initial voucher processed for the deposit since the original invoice and purchase order will be the same.

CIVIL AVIATION AUTHORITY OF ZIMBABWE (CAAZ) 2011

BACKGROUND

Civil Aviation Authority of Zimbabwe was incorporated in Zimbabwe in 2000. The Authority was established to promote the safe, regular and efficient use and development of aviation inside and outside Zimbabwe and to advise the Government on all matters relating to domestic and international civil aviation.

1. GOVERNANCE ISSUES

1.1. INTERNAL CONTROL

Finding

There were long outstanding reconciling items in the Authority's bank accounts. A number of these reconciling items date back to 2009. There was no evidence to show that these reconciling items were being followed up timeously.

Bank reconciliation statements for the two CBZ accounts were not timeously prepared. For instance the bank reconciliations for the year 2011 were prepared months later after year end, contrary to the procedures manual of the Authority, which required the bank reconciliations to be prepared by the 10^{th} of the following month.

There were instances where journals with significant amounts were processed without authorization and some were not adequately supported. For instance on September 30, 2011 a journal to reverse misallocation of monthly subscription amounting to $168 178 was processed and this journal was not authorized. Similarly on August 18, 2011 a journal to reverse GRV 7667 amounting to $92 459 was not supported, the copy of the GRV was not attached.

Risk/Implication

Errors and irregularities may not be detected and prevented timeously.

Recommendations

Bank reconciliations should be prepared on a monthly basis and reconciling items followed up and cleared timeously.

All journals should be properly authorised.

Management Response

The audit observation has been noted and management will ensure timely clearance of outstanding reconciling items.

Management will ensure that all bank reconciliations are done timeously by the 15th day of the following month.

1.2. STATUTORY DEDUCTIONS

Finding

The Authority was not remitting statutory deductions on set deadlines.

Statutory Payment	Month Accrued	Month Paid
NSSA , PAYE	January	August
NSSA , PAYE	February	September
NSSA , PAYE	March	October

Risk/Implication

The authority may be liable to penalties.

Recommendation

Management should ensure that statutory deductions are timeously remitted.

Management Response

Late payments were mainly due to cash flow challenges; however there was some improvement during 2012. Management will continue to monitor the situation with the view of ensuring paying promptly notwithstanding the cash flow challenges faced.

1.3. SUSTAINABILITY OF SERVICE DELIVERY

Finding

As at December 31, 2011 CAAZ recorded a loss of $33 602 100 (2010: $16 608 004). In addition liabilities of $220 083 101 exceeded assets of $177 790 645 by $42 292 456. This casts doubt on the Authority's ability to sustain service delivery without external financial support.

Risk/Implication

The Authority may fail to pay its debts as they fall due and service delivery may be compromised.

Recommendation

Management should come up with turnaround strategies to enable CAAZ to meet its debt obligations and transform it into a viable entity.

Management Response

The going concern of the Authority might be compromised if assessed from the continued loss making point of view which is mainly attributed to low capacity utilisation due to depressed business volume. The loss is mainly attributed to high depreciation figure which shows that the huge asset base is not optimally used to generate revenue. The Authority has huge and high value assets which do not generate the expected business levels. However, the aviation business in the country is looking bright as shown by the coming of new airlines (Emirates, KLM and LAM) in 2012. This is a confidence booster which will help to attract more interest into Zimbabwe as a tourists' destination. This indicates that in terms of business prospect the Authority is a going concern. A lot of effort is being channelled in recapitalisation and modernisation of the aviation systems in order to attract more business. The Authority in 1997 had 34 major airlines and all these left due to political reasons primarily. CAAZ and Government are currently aggressively marketing Zimbabwe as a prime destination. The MTP's (2011-2015) objective is to have 40 airlines flying into Harare by 2015.This will improve capacity utilisation and profitability.

1.4. STAFF HOUSES

Finding

The Victoria Falls accounts pool office, store room, bars and the international departure lounge ceiling were damaged due to a leaking roof. In-addition from a sample of staff houses selected the following damages were noted:

Stand Number	Description	Details
Stand 44	Staff house	Cracked asbestos, window frames required replacement, septic tank was full especially in the rain season.
Stand 53	Staff house	Cracks on walls and blocked sewer.
Stand 43	Staff house	Window panes need to be replaced asbestos need to be replaced and septic tanks.
Stand 42	Staff house	The house was renovated but was still leaking.
Stand 21	Staff house	The gutters were pouring water into the houses and the septic tank required attention.
Stand 73	Staff house	Leaking roof and staff indicated that septic tank required attention.
Stand 24	Staff house	Asbestos were cracked and the roof was leaking.

I further observed that there was need for repairing the staff houses mentioned below that are in the Victoria Falls suburb.

Stand Number	**Details**
Stand 63	The house was not fenced, the windows were broken and the roof was leaking.
Stand 65	The house was not fenced, the windows were broken and the roof was leaking.
Stand 175	The house was not fenced, the windows were broken, the geyser was no longer functional and the fascia boards required to be replaced.
Stand 213	The house is not fenced, the windows are broken and fascia boards need to be replaced.
Stand 218	The house was not fenced, the windows were broken and fascia boards required replacement.
Stands 575 and 580	The ceiling and gutters required to be replaced and the house was not fenced.

Risk / Implication

The Authority's corporate image may be compromised by the poor state of airport facilities.

Staff houses may pose physical and health hazard to occupants.

Recommendation

The Authority should repair the properties.

Management Response

Management embarked on a staff accommodation rehabilitation project in August 2010. However, due to cash-flow challenges, the speed of implementing the project has seriously been affected. Since the start of the project, twelve houses have been rehabilitated.

Fencing of the CAAZ houses in Victoria Falls Town has been a capital projects priority for the station in the past three years, as indicated in our budget proposals. Our target was to fence or erect a pre-cast wall on one property per financial year, but that has not been achievable due to financial constraints.

In view of the poor state of the staff accommodation within the Airport Village, compared to the state of houses in town, we made a deliberate decision to concentrate more resources towards rehabilitating staff houses at the airport, first, and then gradually start on the houses in town at a later stage.

2. REVENUE COLLECTION AND DEBT RECOVERY

2.1. RENTAL INCOME

Finding

Meteorological services, National Handling Services and VID employees were occupying CAAZ staff houses without paying rent to CAAZ. There was no evidence that rentals were received for the occupation of these houses.

Risk/Implication

Potential revenue could be lost.

Recommendation

Management should make efforts to ensure that all outstanding revenue from rentals is collected.

Management Response

Management stands to be guided on how to proceed on the issue of collecting rentals from houses occupied by civil servants from various ministries staying in the Airport Village.

GRAIN MARKETING BOARD (GMB) 2011/2012

BACKGROUND

Grain Marketing Board was established under statute by the Grain Marketing Board Act [*Chapter 18:14*] The Board's main activities are buying, storing of grain, manufacture of silo products, managing of the Strategic Grain Reserve and the Input Scheme on behalf of the Government of Zimbabwe.

1. GOVERNANCE ISSUES

1.1. INTERNAL CONTROL

There was no adequate file/document recording system to provide a control mechanism to ensure that all manually generated transactions were captured into the reporting system (System Application Products-SAP in data processing).

The general ledger and the underlying records could not be reconciled. The grain creditors general ledger for Mashonaland West province had a debit balance of $2 364 034 while the creditors schedule had a credit balance of $4 612 258. In addition, the Bulawayo grain creditors ledger had a balance of $211 501 whereas the creditors schedule had a balance of $100 471.

The cash book balance could not be reconciled to the bank balance by $1 422 017 as at March 31, 2012. Furthermore, the SAP bank clearing accounts had un-cleared transactions.

Risk / Implication

The Board's SAP records may not be complete in terms of farmer payments transactions, or that incorrect information may be posted into the SAP system.

Fraud and error may go undetected.

Recommendation

Management should ensure that farmer payments records are updated accurately before financial statements are prepared and finalised. They must also ensure that the variance shown above is reconciled.

Management should ensure that cash books are updated timeously and that bank reconciliations are properly prepared.

Management Response

The Board is working towards 60% SAP connectivity by 31 March 2013 so that transactions are processed real time.

Audit recommendation is noted. Reconciliations are now being done timeously as 8 depots are now live compared to 2 during the audit period.

Variances are still being investigated.

2. REVENUE COLLECTION AND DEBT RECOVERY

2.1. OUTSTANDING REVENUE

Finding

GMB was owed $31 453 436 (which constituted 84% of the total GMB receivables) for storage and handling charges relating to the current and prior intake periods. The Board charges the Government handling and storage fees for the Strategic Grain Reserve (SGR) and inputs distribution.

The table below summarises the total invoices raised by GMB to Government and the receipts from treasury made for the year ended March 31, 2012.

Description	**Total invoices raised by GMB** **$**	**Payments done by the Government** **$**	**Amount owing** **$**
SGR	28 825 923	6 850 000	21 975 928
Inputs	6 475 845	500 000	5 975 845
Total			**$27 951 773**

Risk / Implication

Failure to pay for grain delivered may result in side marketing by farmers thereby negatively affecting the strategic grain reserve.

Recommendation

Management should continue to engage Ministry of Finance for the outstanding amounts.

Management Response

In the period under review weekly reminders were sent to Treasury.

2.2. STOP ORDERS

Finding

Stop orders raised at Masvingo Depot had inadequate information to facilitate recovery of amounts for the inputs provided.

Risk / Implication

There is risk that GMB may fail to recover amounts owed in case of dispute with input credit scheme debtors.

Recommendation

The Board should ensure that stop orders are complete and have all the requisite information required for recovery.

Management Response

Appropriate action will be taken.

3. PROCUREMENT OF GOODS AND SERVICES

3.1. TOLL MILLING PROJECT

Finding

There was no evidence that technical evaluations were done by the Procurement Committee in the adjudication of an informal tender for the toll milling project. From the minutes of GMB procurement Committee meeting held on 4 October 2011 for the procurement of repair services for silo temperature monitoring system, the tender was awarded to the highest bidder. It was awarded on the basis that the company was a known expert in the field of factory temperature monitoring system while the other bidders were said to be only experienced in domestic air conditioning system. There was no evidence of a technical evaluation process done by the Procurement Committee to satisfy themselves on the capabilities of the bidders before awarding the tender.

Furthermore, the winning bid was submitted more than a month and a half before the other bids upon the request of GMB as stated on the quotations. However, no information was availed to audit with regards to the opening and closing dates of the tenders.

Risk / Implication

Due to lack of transparency, there is risk of procuring services at a higher cost without proper technical evaluation on the capability of the bidders to perform.

Recommendation

GMB should ensure that evidence of a proper technical evaluation of bids is documented and availed for audit inspection and proper procurement procedures are adhered to.

Management Response

The observation is noted.

3.2. FARMER PAYMENTS

Finding

Farmers who delivered their grain worth $4 534 741 to GMB during the 2011 grain intake were not settled as at December 31, 2012. However, farmers who delivered grain during the 2012 grain intake were paid ahead of the farmers who delivered in 2011. There was no further information as to when this debt was going to be settled.

Risk / Implication

Non-payment of farmers in 2011 may have negatively impacted the 2012 productivity thereby affecting the Strategic Grain Reserve in a similar way.

Recommendation

There may be need to review the debt settlement policy and strategy to take into account a "first in first paid" basis, to prevent the above risk

Management Response

The first come first serve rule was waived by Treasury directive of 7 August 2012. Management implemented Treasury instructions as directed. Management queried the waiver.

HEALTH PROFESSIONS AUTHORITY 2009-2011

BACKGROUND

The Health Professions Authority is a health regulatory and advisory body which was set up in terms of the Health Professions Act [*Chapter 27:19*]. There are seven medical practitioners councils that fall under the Health Professions Authority.

1. GOVERNANCE ISSUES

1.1 SERVICE LEVEL AGREEMENT

Finding

There was no written service level agreement between the Health Professions Authority and Omni Africa, the company responsible for maintenance, repairs and upgrades of Pastel software accounting package.

Risk / Implication

In case of a dispute between the two parties an oral agreement is difficult to enforce.
In the absence of a written service level agreement, data protection and security is difficult to enforce.

Recommendation

The two parties should regularize their contractual relationship by signing a written service level agreement.

Management Response

Recommendation is noted and management will immediately ensure that there is a written service level agreement with Omni Africa.

1.2 MONITORING OF CONTROLS

Finding

The Authority was operating without an Internal Audit unit to help management and the Board in monitoring internal controls.

Risk / Implication

Fraud and errors may not be detected timely for correction.

Recommendation

The Authority may need to consider the above risk and put in place measures that ensure monitoring of controls are performed.

Management Response

Recommendation is noted and the Authority is in the process of engaging the Ministry of Health and Child Welfare for the provision of internal audit services.

1.3 INTERNAL CONTROL

Finding

The movable assets of the Authority were not marked with asset numbers for identification purposes and security.

There were no inventory listings in the offices detailing items of movable assets in a particular office or room. Inventory listings serve to control movement of assets.

Bank reconciliations were not prepared for a greater part of 2011. Only two bank reconciliations for the months of November and December 2011 were availed for audit.

Expenditure vouchers were not being marked "paid" to prevent double payment.

Some board sitting allowances were paid without raising payment vouchers and some requisitions were not signed to acknowledge receipt of money by respective board members. Furthermore, some signatures kept on changing therefore authenticity of payments was doubtful.

Risk / Implication

Assets may be moved or used without authority. In case of a dispute over ownership involving movable assets the Authority may fail to prove ownership beyond reasonable doubt.

Assets may be used for purposes other than for the benefit of the Authority.

Errors and fraud may take long to be detected and corrected. Non-performance of bank reconciliations creates a weak internal control environment over cash resources of the Authority.

Dual payments may occur as a result of vouchers being presented more than once.

Fraud can be perpetrated and be concealed by processing transactions that are not properly authorized and supported.

Recommendations

The Authority should put asset numbers on all its movable assets for easy identification. The Authority may use high adhesive stickers, indelible ink or engraving machines to mark the assets.

The assets in each office or room must be listed to enhance control over unauthorized movement of assets. Periodic reviews and checks should be done and evidenced on the asset listing.

The Authority should ensure that bank reconciliations are prepared on a monthly basis as control mechanism over cash and should be checked by an independent senior official.

All payment vouchers should be marked "Paid" to avoid dual payments

All board allowances should be approved and adequately supported by a copy of the attendance register.

Management Response

This has been noted. Currently a process is under way to have all assets of the Authority distinctly marked for identification purposes.

Bank reconciliations are now being done monthly.

This has been noted and a detailed listing of movable assets in each office or room is being put in place

A "Paid" stamp has been purchased and all paid up invoices are appropriately stamped "Paid" to avoid dual payments of invoices.

All payment vouchers for Board fees are now appropriately authorised. In the case of board sitting allowances, respective board members are now signing to acknowledge receipt and the signed schedule is now attached to the payment voucher.

2 REVENUE COLLECTION AND DEBT RECOVERY

2.1 DIRECT DEPOSITS

Finding

There were significant amounts that were deposited directly into the bank account of the Authority and not subsequently receipted. Among them were some direct deposits which could not be traced to the customer as they were classified as unknown. From a sample of deposits examined from January to December 31, 2011 below are those with amounts that were not receipted.

Date	Name of Client	Amount $
05/03/2011	Ministry of Health	15 000
27/07/2011	Ministry of Health	3 000
23/12/2011	Zimasco (rtgs)	2 700
09/12/2011	Rtgs (unknown)	5 850
28/12/2011	Mkwasine estate	450
Total		**$27 000**

Risk / Implications

Some revenue may not be accounted for where receipts are not raised.

It may create opportunity for fraudulent activities.

Recommendation

All income should be receipted for accountability purposes.

Management Response

This scenario occurred during the time when the Finance Department was not staffed with qualified and experienced persons. Measures have since been put in place to ensure that all revenue is receipted.

2.2 IRREGULAR BANKING

Finding

Cash receipts were being held on average for over a week before the cash was banked. This was the position despite the Authority being located within the central business district of Harare where banks were easily accessible.

An analysis of banking for the months of April, May and June 2011 is shown below with the longest period being eighteen days.

Cash Collected $	**Date Banked**	**Cumulative Days Cash Held**
5 730	08/04/11	8
3 785	13/04/11	5
5 145	19/04/11	6
3 160	27/04/11	8
3 060	13/05/11	16
2 900	17/05/11	4
5 140	30/05/11	13
6 480	17/06/11	18
4 055	29/06/11	12

Risk / Implication

In the absence of regular banking there is risk of cash collections being susceptible to misappropriation and theft.

Recommendation

Cash should be banked on a daily basis.

Management Response

Banking is now done daily.

NATIONAL ARTS COUNCIL OF ZIMBABWE (NACZ) 2011

BACKGROUND

The National Arts Council of Zimbabwe (NACZ) was established in terms of the National Arts Act [*Chapter 25:07*]. The main function of the Council is to foster, develop and improve the knowledge, understanding and practice of the arts and their presentation, performance, execution and exhibition of the same to the public**.**

1. GOVERNANCE ISSUES

1.1. DECLARATION OF INTERESTS

Finding

According to the Corporate Governance Framework for State Enterprises and Parastatals and other leading corporate governance practices, board members should declare their interest in every board meeting. However, I observed that during 2011 National Arts Council was operating without a declaration of interest register where board members would declare their interest in every board sitting.

Risk / Implication

Objectivity may be impaired if potential conflicts of interest are not declared or identified.

Recommendation

A declaration of interest register should be maintained in future.

Management Response

The observation is noted. A declaration of interest register will be introduced and maintained for all Board meetings with immediate effect.

1.2. INTERNAL CONTROLS

Finding

The Council had ten (10) provincial offices and one cultural centre. The internal audit had planned to cover all the provinces. However, during the year under review Internal Audit only visited Mashonaland East office in Marondera and Murehwa Cultural Centre.

The Council received $700 849 from the Ministry of Education, Sports, Arts and Culture in 2011 that was deposited directly into the Council's bank account. However, there were no correspondences or remittance slips for the money deposited.
Incompatible duties such as receipting of cash, custodianship of cash box, preparation of banking and physical banking of cash were assigned to Program Officers or Provincial Manager at Bulawayo, Matabeleland South province, Murehwa Culture Centre and Matabeleland North province.

Risk / Implication

Effectiveness of internal controls might not be reviewed and internal control weaknesses might not be timeously detected for corrective action.

Lack of adequate information to support the disbursements might lead to improper accounting for public funds.

Misappropriation of cash and errors may not be timeously detected for corrective action.

Recommendation

Review of internal controls effectiveness should be done regularly for stations according to risk assessment by Internal Audit.

All disbursements made to the Council should be supported by the relevant documentation.

Segregation of duties should be implemented to enhance internal controls.

Management Response

The observation is noted. Resources permitting the internal audit will carry out provincial audits in all the ten Provinces as approved by the supervisor.

Observation is noted. Management will alert the Ministry of Education, Sport, Arts and Culture about this omission and request to get all disbursement letters.

The observation is noted. The post of Accounting Assistant for the Centre was advertised and would be filled soon after the recruitment process is finalized. Filling of the other posts would be subject to adequate funding from Government. The problem of segregation of duties will persist until NACZ is adequately funded and allowed to recruit for all the approved posts. The current structure was approved but recruitment was frozen by Government due to funding challenges.

NATIONAL INCOMES AND PRICING COMMISSION (NIPC) 2011 AND 2012

BACKGROUND

The National Incomes and Pricing Commission is an organization registered in Zimbabwe under National Incomes and Pricing Commission Act [*Chapter 14:32*].The objectives of the Commission are to monitor price trends of goods and services through comprehensive surveys and inspections, undertake research and maintain a nationwide database for use in the analysis of pricing models, frameworks, and strategies across all sectors of the economy, promote public understanding and disseminate information on matters related to prices and wages, establishing the determinants of wages and wage variations in all sectors of the economy.

1. GOVERNANCE ISSUES

1.1. BOARD OF COMMISSIONERS

Finding

The National Incomes and Pricing Commission (NIPC) (here in called the Commission) had no Board of Commissioners for the period ended December 31, 2011. The previous Board's term of office expired in 2010.

Risk / Implication

There may be a policy formulation vacuum resulting in paralysis of the organisation's operations.

Recommendation

The appointment of the Board of Commissioners should be done on a timely basis so that policy and governance issues are addressed timeously.

Management Response

The observation is noted. The tenure of all Commissioners expired in June/September 2010 and the amendment of the NIPC Act and the change from the Commission to the Board is underway hence the delay in the reappointment of Commissioners.

Evaluation of management response

As at October 2013 the National Incomes and Pricing Commission had no Board of Commissioners.

1.2. ACCOUNTING PROCEDURES MANUAL

Finding

The Commission did not have an Accounting procedures manual in place to guide accounting personnel when doing their duties.

Risk / Implication

In the absence of an accounting procedures manual, inconsistencies may arise and it may be difficult to enforce accountability in the event that officers apply their own judgement.

Recommendation

The Commission should consider drafting an accounting procedures manual.

Management Response

The observation is noted. The Commission will prepare an accounting and procedures manual by December 2012.

Evaluation of management response
As at October 2013 the accounting procedure manual was still not in place.

NATIONAL OIL INFRASTRUCTURE COMPANY OF ZIMBABWE (NOIC) 2011 AND 2012

BACKGROUND

The National Oil Infrastructure Company of Zimbabwe (NOIC) (Private) Limited is incorporated in Zimbabwe in terms of the Companies Act [*Chapter 24.03*] and it is wholly owned by the Government of Zimbabwe. The company is responsible for the transportation, storage and handling of petroleum products for oil companies. The National Oil Infrastructure Company of Zimbabwe is one of the predecessor companies to the National Oil Company of Zimbabwe (NOCZIM).

The Company has a 50% interest in Petrozim Line (Private) Limited, an entity that operates a multi-product fuel pipeline between Feruka and Harare and 40% interest in Inpetrol-Independent Petroleum Terminal S.A. which operates petroleum storage facilities in Beira Harbour.

1. GOVERNANCE ISSUES

1.1 DECLARATION OF INTERESTS

Finding

The Company did not maintain declaration of interests register where Board members would record their interest at every board sitting.

Risk / Implication

There is risk that the company may fail to record conflict of interest and related party transactions for adequate disclosure and review.

Recommendation

A register of declarations of interest should be maintained for record and for use to review related party transactions.

Management response

Observation noted. Management will engage the board in the current year.

1.2 OWNERSHIP OF ASSETS

Finding

There was no evidence to support that the company had title deeds in its name for Orange Groove farm which was transferred from National Oil Company of Zimbabwe

(NOCZIM) to National Oil Infrastructure Company of Zimbabwe (NOIC) during the unbundling of NOCZIM in 2011. In addition, the following NOCZIM assets were not allocated to either Petrotrade or NOIC during the unbundling exercise in 2011 but were being used by NOIC.

Description/ Asset name	Reference number	Location
Massey Ferguson 465 tractor	YA31491B005774S	Workshop area
Massey Ferguson 435 tractor	141AC74711689	Workshop area
Hyster forklift	2615325	Workshop area

Risk / Implication

Ownership can be disputed if this issue is not addressed.

Recommendation

The Company should make concerted effort to regularise the ownership of assets.

Management response

The process of transferring the depot to NOIC from Government was initiated in 2012 and is currently underway. However, the farm on which the depot is located had been gazetted for compulsory acquisition by the Government for resettlement purposes. Noted. As regards to the NOCZIM assets, the company is currently using them and awaiting formal handover from Government.

NATIONAL RAILWAYS OF ZIMBABWE (NRZ)

BACKGROUND

The National Railways of Zimbabwe (NRZ) is a designated corporate body operating in terms of the Railways Act [*Chapter13:09*]. NRZ is the prime mover of local, import/export and transit traffic carrying freight and passengers by rail.

1. GOVERNANCE ISSUES

1.1. STATUTORY PAYMENTS

Finding

National Railways of Zimbabwe was not up to date with its statutory tax obligations therefore no tax clearance certificate (ITF263) was issued for the six months ended 31 December 2012.The organisation also did not have a tax clearance certificate for the year ended 31 December 2011.

The Zimbabwe Revenue Authority (ZIMRA) regulations require the organisation to fiscalise its operations. According to section 3(1)-(4) of Statutory Instrument 104 of 2010, every registered operator in Category C who is a retail operator, and any other operator other than a retail operator who meets the Revenue threshold of $240 000 per annum is required to record taxable transaction using fiscalised devices. National Railways of Zimbabwe failed to meet the fiscalisation deadline of 1 January 2012 due to a variety of reasons.

Risk / Implication

There may be financial loss due to interest and penalties charged by ZIMRA.

National Railways of Zimbabwe may not be able to renew the Agent's Bond which enables them to clear customs goods.

NRZ's costs of transactions may be increased as suppliers are required to charge withholding tax on customers who are not tax cleared by ZIMRA.

Recommendation

In order to obtain a tax clearance certificate and renew the Agent's Bond, management should ensure that all statutory tax obligations are remitted as and when they fall due.

Management should negotiate for favourable settlement terms and engage ZIMRA proactively to avoid penalties.

Management should ensure that all machines are fiscalised to ensure compliance with the tax regulations.

Management Response

Agreed. NRZ's failure to remit taxes stems from its failure to generate sufficient revenues. However, management has been and continues to engage ZIMRA to explain the challenges being faced by the organisation. Payment plans have been agreed with ZIMRA although difficulties have been experienced in meeting the plans. The engagements have resulted in ZIMRA issuing Tax Clearance Certificates, in some cases for even short periods of one month. A permanent solution will only be possible when the organisations' cash flow improves.

Due to the complexity of NRZ systems, difficulties were experienced by the few suppliers of fiscalised machines to achieve configuration compatible to NRZ programmes. Considerable progress has been made and the Freight (main business), commuter operations and catering were fiscalised. The tender for Intercity passenger services has had to be re-awarded and programming of machines for the rent management module is expected to be completed and installed by end of May 2013. The NRZ fiscalisation programme is being carried out with involvement of ZIMRA officials who have been kept informed on progress.

1.2. NSSA PAYMENT PLAN

Finding

National Railways of Zimbabwe (NRZ) entered into an agreed payment plan with NSSA to clear its statutory arrears. NRZ was supposed to pay $210 000 per month to cater for both arrear and current NSSA obligations.

This agreed payment plan was not met for several months and subsequently NRZ was fined $380 000. Payments for November and December 2012 had not yet been made as at 10 April 2013.

Risk / Implication

Failure to pay its obligations may affect its ability to discharge its mandate effectively.

Recommendation

NRZ should adhere to agreed payment plans.

Management Response

Observation has been noted. It has not always been possible to meet the payment plan agreed with NSSA due to cash flow challenges experienced in 2012. NSSA will continue to be engaged for condonation of defaults.

1.3. PENSION CONTRIBUTIONS

Finding

The organisation was not remitting employee pension fund contributions as and when the amounts fell due.

Risk / Implication

The entity may fail to pay employees when they retire.

Recommendation

Management should work on improving cash flows in order to meet its obligations.

Management Response

Observation has been noted. Failure to remit pension contributions is a result of the organisation's cash flow challenges. Continuous engagement between the Pension Fund Trustees and the NRZ management is being done. In order to release pressure on NRZ negotiations are at an advanced stage to convert all pension arrears into a 5 year loan.

1.4. BUDGETARY PROCESS

Finding

A review of the financial figures provided indicated that there were significant adverse variances between the organisations budgeted performance and actual performance as shown below.

Product	Budget $	Actual $	Variance $	Percentage Variance
Freight Revenue	156 284 584	76 314 234	(79 970 350)	(51%)
Passenger Income	3 989 957	2 843 569	(1 146 388)	(29%)
Commuter Income	377 000	200 769	(176 231)	(47%)

The significant adverse variances observed in 2011 and repeated in 2012 suggested that the budgetary system at planning level was not realistic.

Risk / Implication

Use of unrealistic budgets may result in inability to achieve corporate objectives.

Recommendation

Management should ensure that budgets are as close to realisable amounts of the organisation capacity as possible.

Management should also revise their budgets on a quarterly basis.

Management Response

Actual expenditure for the year was in line with budgeted levels. However, it is agreed that the tonnage and resultant revenue budgets were above actual performance. NRZ performance is based on derived demand and budgeted levels reflect what business had pledged to avail to NRZ. Due to a multiplicity of factors ranging from low international prices to machinery breakdowns customers did not avail the pledged business.

In terms of the Railways Act (Chapter 13:09), NRZ is required to prepare annual budgets, there is no provision for quarterly budgets. This notwithstanding and for internal purposes only, projections are made on a quarterly basis and decision making based on the latest projections.

1.5. BACK UP FACILITY

Finding

National Railways of Zimbabwe had no back-up facilities for all IT information. The organisation's information was stored at each work station without any back up.

Risk / Implication

In the absence of back up facility information may be easily lost should there be a disaster.

Recommendation

Management should develop a Business Continuity Plan which spells out methods and procedures of backing up and restoring data.

Management Response

The recommendation for a business continuity plan is noted and will be considered particularly after recent experiences (closure of the line between Chicualacuala and Maputo)

1.6. OVERALL PERFORMANCE

Finding

The National Railways of Zimbabwe's current liabilities exceeded current assets by $64 086 445 as at 31 December 2012 (2011: $19 317 021).

The organisation also incurred a net loss of $52 645 499 for the year ended 31 December 2012 (2011: $44 386 005).

At 31 December 2012, the organisation had accumulated losses of $154 594 384 (2011: $101 948 885) since the adoption of the multi-currency system in 2009.

Risk / Implication

These financial indicators may cast significant doubt over the organisation's ability to continue as a going concern.

Recommendation

Management should explore ways of improving the organisation's working capital position and reported earnings.

The Board should come up with a turnaround strategy.

Management Response

The observations are noted. NRZ's business is anchored on derived demand and therefore is dependent on the performance of the Zimbabwean economy. The level of business activity and therefore the tonnages availed to NRZ by the market and the resultant revenues generated are insufficient to cover the organisation's expenditure obligations that are largely fixed in nature. Specifically, the large workforce is misaligned to the business level. Given the difficulties in rightsizing the organisation, strategies to grow the business are being employed. Management is pursuing recapitalisation loan facility.

Government is fully supportive of NRZ and funds amounting to $27 449 177 have been disbursed from the government for infrastructure and equipment refurbishment since 2010. Inter-parastatal debt swap by government is being pursued. Private Public Partnership (PPP) programs for the refurbishment of wagons have been implemented.

2. REVENUE COLLECTION AND DEBT RECOVERY

2.1. PASSENGER TICKETS

Finding

When tickets were being issued at the various stations, the operator number of the issuer was reflected on the passenger ticket. Each issuer had a unique operator number and an updated list of all unique operator numbers was maintained by management. However, there were passenger tickets issued whose operator numbers did not exist on the list of management allocated operator numbers.

Risk / Implication

There may be possibility of cash fraud due to weak internal control environment resulting in limited assurance on the completeness of NRZ revenue.

Recommendation

Management should consider investigating this issue and also tighten its internal controls.

Management Response

Observation agreed to, though it is acknowledged that there is a malfunction in the computer program used to generate computer numbers the organisation has counter controls used to safe guard itself against potential fraud e.g. there is the use of sequence check on all tickets issued to conductors that they have been accounted for.

3. PROCUREMENT OF GOODS AND SERVICES.

3.1. PREPAYMENTS TO SUPPLIERS

Finding

The organisation awarded tenders to a number of suppliers through the State Procurement Board. Upon awarding the tenders, prepayments amounting to $1 912 215 were made to five (5) suppliers who ended up not meeting their service/supply obligations to the organisation. Below is a table of the goods not supplied;

Service / goods to be supplied	**Date of order**	**Amount prepaid $**
2000 x 45kg/metre welding sets	March 05, 2010	884 000*
Ballast Screening Plant	March 06, 2012	366 160*
6 x 8 tonne trucks	August 25, 2011	598 080
1034 plastic sided shoes and 450 safety boots	August 10, 2011	38 975
5 x 29.5 R 25 tyres	October 21, 2011	25 000
Total		**$1 912 215**

**these payments relate to ex–employees*

Risk / Implication

There may be financial loss resulting from failure to recover prepaid amounts from the defaulting suppliers.

Recommendation

Prepayments should only be made when a supplier produces a bank guarantee to ensure that funds are secured.

Management should make follow up on the defaulting suppliers

Legal action should be taken to recover the outstanding amounts.

Management Response

Due to the economic environment in the country, some reputable companies who have been supplying NRZ for a long time, have faced difficulties and failed to deliver. The system of purchasing including vetting of suppliers has been strengthened and the necessary guidelines developed in conducting due diligence tests. Bank guarantees are now being sought before prepayments are sought. However, it should be borne in mind that NRZ can only recommend to the State Procurement Board and has no power to stop, let alone overturn its decisions.

NATIONAL SOCIAL SECURITY AUTHORITY (NSSA)

BACKGROUND

The National Social Security Authority is a corporate body that was established in terms of the National Social Security Authority Act, [*Chapter 17:04*], to establish Social Security Schemes for the provision of benefits to contributors of the Schemes. It has the mandate to administer the National Pension and Other Benefits Scheme, the Workers Compensation Insurance Fund and every Scheme and Schemes to be established in terms of the Act.

1. GOVERNANCE ISSUES

1.1. RELATED PARTY TRANSACTIONS

Finding

I observed that the Authority released funds to Capital Bank amounting to 3 million dollars before conditions to the structured arrangement were fulfilled by other parties to the agreement. The funds were supposed to be released after a Special purpose Vehicle for the arrangement had been formed and a Notarial General Covering Bond (NGCB) registered in the Special Purpose Vehicle's put in place. During the year under review, the board approved a $4.3 million facility to assist Star Africa Corporation in acquiring a sugar refinery plant which was to be imported, installed and commissioned by a Special Purpose Vehicle wholly owned by Capital Bank. The security for the funds was in the form of a Notarial General Covering Bond (NGCB) registered in the Special Purpose Vehicle's name. However the Authority proceeded to disburse funds to Capital Bank before ensuring that the above mentioned requirements were fulfilled. As at September 12, 2012 the Authority had released $3 million to Capital Bank as part payment of the arrangement.

In addition, in a letter dated December 20, 2012, Capital bank acknowledged receiving the 3 million dollars and using it to discharge its obligations to old depositors. This drawdown of $3 million had no contractual validity as it was neither an investment nor a structured arrangement as originally intended. When capital bank defaulted from the agreed plan, the Authority then decided to convert this arrangement into a money market investment. No due diligence was performed in terms of assessing the appropriateness of Capital Bank as a partner in the structured arrangement considering that the bank was emerging from financial dire straits.

I also noted that there could be a related party influence in this transaction as the Chairman of Star Africa Corporation is the Chairman of Capital Bank and Chairman of the NSSA Board Investments Committee.

Risk/Implication

Financial loss may result from transactions that are irregular.

Uneconomic decisions can be made as a result of related party influences.

Recommendation

The Authority should carry out due diligence exercises before releasing funds.

The Authority should put in place a system that regulates related party transactions.

Management response

Observation noted and management response is as follows:

Please note that the contract for the purchase of the machinery was not supposed to be between NSSA and Star Africa, but between Capital Bank and Star Africa. NSSA role was only to provide funding to the tune of $4.3 million as per Board resolution and this money was supposed to be channeled through a bank and this is exactly the procedure that NSSA followed.

When Capital Bank wrote to NSSA requesting for the release of the funds, the Authority assumed that the bank was acting in good faith and management went on to release the funds as per the bank's request. According to the bank's request the funds were supposed to be disbursed in three batches with the first batch of $660,000, followed by the second batch of $2,340,000 with the last batch being $1,300,000. NSSA paid the first and second amounts and when the Authority was preparing for the release of the final amount of $1,300,000 that is when the bank indicated that the Authority had to delay a bit. On questioning further that is when the bank opened up to NSSA and indicated that the $3 million that they had received from NSSA had been used to discharge its obligations to old depositors instead of using it for the original intended purpose. This was after the bank had faced some challenges regularizing the transaction with the RBZ.

When this communication was given to NSSA, management then advised the bank to return the funds to NSSA. However the bank indicated that they did not have the funds at that moment and would propose converting the $3 million into an investment. The $3 million was then converted into an investment secured with property cessions.

The development was later brought up to the attention of the Board that had initially approved the disbursement and a new position was reached with the Board passing a resolution that management should recall the funds and structure the deal directly with Star Africa and the supplier of the machinery. The position now is that Capital Bank will return the $3 million to NSSA together with interest earned whilst

NSSA is working with Star Africa to finalize the contracts that will see the machinery being brought into the country with payment being made directly to the supplier.

1.2. RISK EXPOSURE

Finding

The Authority's risk exposure in Capital Bank (a subsidiary in which the Authority holds 84%) as at December 31, 2012 appeared high. The exposure related to funds invested by NSSA in the Bank's equity, money market investments, funds meant for third parties which the Bank diverted to its own use, guarantees of loans made to the Bank by third parties and increased trading limits with the Bank. The table below quantifies the extent of the exposure:

Description	**Amount $**
1. Capital amount invested in the Bank	24 173 332
2. Money market investments	19 790 800
3. Third party funds from NSSA for diverted by the Bank to own use	3 000 000
4. Capital Bank loans guaranteed by NSSA	10 000 000
Total	**$ 56 964 132**

The money market trading limit was increased from $10 million to $20 million in order to settle its old depositors' obligations.

The Bank incurred a loss after tax of $25 152 193 (2011: $8 687 277 loss) during the year ended December 31, 2012. As at December 31, 2012, the Bank had a negative capital of $13 174 334 and it therefore required $38 174 334 to meet the minimum capital requirement of $25 000 000. The Bank also had a negative liquidity gap of $3 336 498 as at December 31, 2012.

NSSA undertook to support the Bank up to a time when the Bank is self-sustaining.

Risk / Implications

There may be;

Default risk as the Bank may fail to settle obligations towards NSSA.

Concentration risk as NSSA's investment in the bank in relation to the bank's total assets is substantial.

Loss of pensioner’s funds as the Authority tries to sustain the Bank’s operations.

Financial loss through claims by third parties for loans guaranteed by NSSA.

Recommendation

The Authority should ensure that exposure to Capital Bank is minimised through robust monitoring mechanisms to limit further financial loss.

The Authority should consider an exit strategy that minimises further financial losses and preserve pensioner’s funds.

Management response

Please note that Capital Bank are in the process of disposing its shares in Afre Corporation and NSSA will receive the full 3 million plus interest direct from the broker and this communication had already been agreed upon.

Capital Bank entered into funding facilities with the PTA ($7 million) bank and NORSAD ($3 million) for a total of $10 million. The shareholder guarantee was given by Renaissance Holdings as the major shareholder. Once NSSA took over the bank and its subsequent re-branding, the providers of the facilities wanted a guarantee from the major shareholder – in this case now NSSA. To avoid calling off the facility and hence putting further strain on Capital bank’s, liquidity position, NSSA provided the Shareholders Guarantee on the back of assurances from Capital bank that they would meet interest and other payment obligations to the two institutions on time, hence eliminate the need for NSSA to make good the guarantee. Up to now there has been no communication to the contrary regarding the servicing of the two facilities by Capital bank.

In order to access more funds from the Authority, Capital bank lodged Gold Bonds and Statutory Reserve Bonds issued by RBZ as security. These have a face value of to $3 923 695.83. On the back of these bonds, NSSA advanced funds to the bank safely in the knowledge that its funds are secured by these bonds issued by RBZ.
The initial trading limit for Capital bank was $10 million secured by a special dispensation granted by the Board for the use of cessions. Given the needs of the bank this was reviewed upwards to $20 million and secured by more cessions. Please note that the $20 million includes the $3 091 000 for the bonds and the balance ($16 699 800) was secured by cessions, giving a total of $19 790 800 as at end of December 2012.

Management has since secured the services of Consultancy firm to do a valuation of Capital bank and the results would be used for a variety of things including but not limited to preparation of an exit strategy if need be.

Management would also want to bring to your attention that the MD and FD of the bank make monthly presentations of the management accounts to the Executive Management committee of NSSA.
Please note that Capital bank has given NSSA the go ahead to buy properties ceded to them by their defaulters and in the process reducing the debt to very minimum levels. We hope that the 14 million investment in Capital bank will be significantly reduced through this process.

1.3. MONEY MARKET INVESTMENTS

Finding

National Social Security Authority continually rolled over its money market investments in Capital Bank as a result of the Bank's inability to settle on maturity. All the money market investments made in Capital Bank during the year were never broken except that on maturity of the various investments, book entries were made between the investment account and the call account maintained by the same bank.

The Bank was technically insolvent with total liabilities exceeding total assets by $13 174 334. The bank had a negative liquidity gap of $3 336 498 and also made losses of $8 687 277 and $25 038 124 for the years 2011 and 2012 respectively. These points highlight the fact that the bank could not settle the Authority's money market maturities. The total amounts advanced to the Bank in the form of money market investments may technically not have constituted proper money market investments but loans to the Bank. As at December 31, 2012, the total money market investments of the Authority held by the Bank amounted to $19 790 800 (i.e. National Pension and other Benefits Scheme $13 078 800 and Workers Compensation Insurance Fund $6 712 000).

The money market investments were secured by cessions and not by mortgage bonds. Cessions had previously proven to be costly to the Authority as they constituted insufficient security in cases of default. Cessions in essence represented the Bank's rights over its clients' title deeds surrendered for loans received from the Bank, which the Bank then ceded to NSSA. The Bank's rights over these properties were only limited to the portion of the amount borrowed that still remained unpaid, so were the rights of NSSA.

Risk / Implications

Cessions are insufficient security in cases of default.

Financial loss in case of default by Capital bank since the Authority has no legal right to dispose third party properties.

The Authority's cash flow projections may be disrupted were funds placed on short-term investments end up being long term loans by default.

Recommendation

Management should put in place a mechanism of ensuring that maturities are monitored. They should ensure that money market investments are regularly broken to confirm clients' ability to settle and reduce exposure in case of default.

Management response

The observation has been noted and management response is as follows;
Please note that Capital Bank is 84% owned by NSSA and there was a special concession made by the NSSA Board in order to assist the bank get its footing after the curatorship period. The NSSA Board approved a trading limit of $20 million for the bank that was to be secured by cessions, statutory reserve bonds and gold bonds issued by the Reserve Bank of Zimbabwe
The rationale for NSSA investing in Capital Bank on the back of cessions was that this bank is owned by NSSA to the extent of 84% and if NSSA does not support the bank it stands to lose all its investments in the bank.
NSSA has assurance that it will receive the amounts invested in Capital Bank because it can still exercise its right to dispose of the properties since the Authority are the owners of the bank. Gold bonds and statutory reserve bonds are underwritten by the RBZ therefore funds secured with those assets will eventually be settled should anything happen to the bank.

1.4. MEMBERSHIP IN BOARD COMMITTEES

Finding

I observed that out of the eight board committees of NSSA, one board member was a chairperson in four of them, namely: Corporate Governance and Strategy Committee, Audit and Risk Committee, Benefits Appeals Committee and Human Resources and Public Relations Committee. I also noted that one board member sat in the Audit and Risk Committee and the Investments Committee which may translate to self-review as the Audit Committee reviews the Investments Committee's decisions.

Risk / Implication

For a member to chair multiple committees there is risk of overlapping power and influence across committees.

The member may not give the due commitment to each of the committees (member effectiveness) and in addition the self- review threat may exist.

Recommendation

The Board should observe good corporate governance practises and principles to avoid the risks mentioned above.

Management Response

The Corporate Governance and Strategy Committee resolved on 28th May 2013 to review, inter alia, Composition of Board Committees. Membership by one individual to the Corporate Governance & Strategy Committee, Human Resources and Public Relations Committee, Audit & Risk Committee and Benefits Appeals Committee should then be reviewed in line with the aforementioned.

The Corporate Governance Framework, the Public Finance Management Act, Chapter 22:19, and other Corporate Governance Codes mostly used in Zimbabwe such as King III and the UK Corporate Governance Code do not give the Audit and Risk Committee the mandate to review other Committee's decisions. However the Corporate Governance and Strategy Committee resolved on 28th May 2013 that members of the Audit Committee should not be members of any other Committee.

Evaluation of management response

The audit and risk committee by its nature presides over the preparation of financial statements, internal as well as external audit functions therefore the risk of self review by the committee member concerned will arise. In addition, risk assessment on investments may be impaired.

1.5. INTERFIN INVESTMENT

Finding

The Authority released Interfin Bank title deeds which were held as security for unsettled money market maturities totalling $15 874 086. The Authority did not receive any alternative security in return. On enquiry, management indicated that they released these title deeds on the basis of faith and mutual trust that was placed on the bank by the Authority.

In addition, Interfin Bank went on to request for financial assistance of $157 046 from NSSA to pay for bond registration fees. This was agreed to by NSSA management on January 14, 2013. According to management, this amount was to be added to the principal amount that Interfin Bank was already owing to NSSA, and this assistance was to be secured by third party cessions. This arrangement was entered into with management fully aware that Interfin Bank had been under curatorship since June 12, 2012.

Risk / Implication

The issue that management released better quality security on the basis of faith and mutual trust may give an impression of negligence.

There may be possible financial loss through increased exposure to underperforming entities.

The nature of this transaction may be indicative of possible fraud involving the Authority's management as evidenced by release of the Bank's title deeds in anticipation of receipt of inferior security.

Recommendation

The Authority's management should display appropriate levels of faithful stewards as they are entrusted with pensioners' funds.

Management response

The Audit observation is noted. The risks highlighted are also noted. However, there is need to set the record straight in terms of the title deeds swap transaction.

The $157 046 was paid straight to the conveyancers of the bank upon production of registration fee invoices on 22 February 2013. The payment was based on a board resolution. The decision to swap cessions with mortgage bonds was a deliberate strategy to obtain better security in case the bank would go into liquidation. First mortgage bonds are more secured than cessions.

The following mortgage bonds were received from the banks attorneys on 27 March 2013.

Stand Number	Deed of Transfer Number	Mortgage Bond Number	Prior Deed of Transfer
3643, 4450 Salisbury T/s	818/2013	3055/2013	3026/2004
42 Karoi T/S	820/2013	3056/2013	4754/2004
147 Salisbury	819/2013	3062/2013	4752/2004
3636 Salisbury T/S	821/2013	3057/2013	3059/2004
18927 Harare T/S	822/2013	3058/2013	3151/2004
23 Kariba T/S	823/2013	3059/2013	4751/2004
281 Kariba T/S	825/2013	3063/2013	4750/2004
612 Kariba T/S	824/2013	3061/2013	4753/2004
306 Chiredzi T/S (received on 4 April 2013)	1055/2013	1418/2013	8490/2004

NET* ONE (PRIVATE) LIMITED

BACKGROUND

Net*One is involved in the provision of connection to the network for airtime services. The company is a limited liability company incorporated and domiciled in Zimbabwe.

1. GOVERNANCE ISSUES

1.1 ONE WALLET PRODUCT

Finding

Revenue of $1194 was earned from 'One Wallet' product for the year ended 2012. The cost of implementing this product was $225 867 and the return on investment thereof was 0.005% in 2012. An analysis of the product performance revealed that the 'One Wallet' product did not have a facility to transfer funds across other networks and customers had to swap their old sim cards with new ones in order to access the product.

Risk / Implication

Possible failure to recover funds invested in the product.

Recommendation

Management should consider increasing the catchment of 'One Wallet' dealer network to other dealers and enable the transferability of funds across other networks.

Management should ensure that sim cards are adaptable to system or product changes.

Management response

Whilst these play an important part in both cashing in and paying out, we have also engaged other dealers in the market. Management continues to engage more dealers as we have already started advertising the product.
NetOne had already engaged the supplier of One Wallet system on the issue of funds transfer across networks and the works are now at an advanced stage. Once the system update has been completed deployment will be promptly made in order to increase use and availability across the country where mobile networks have coverage.

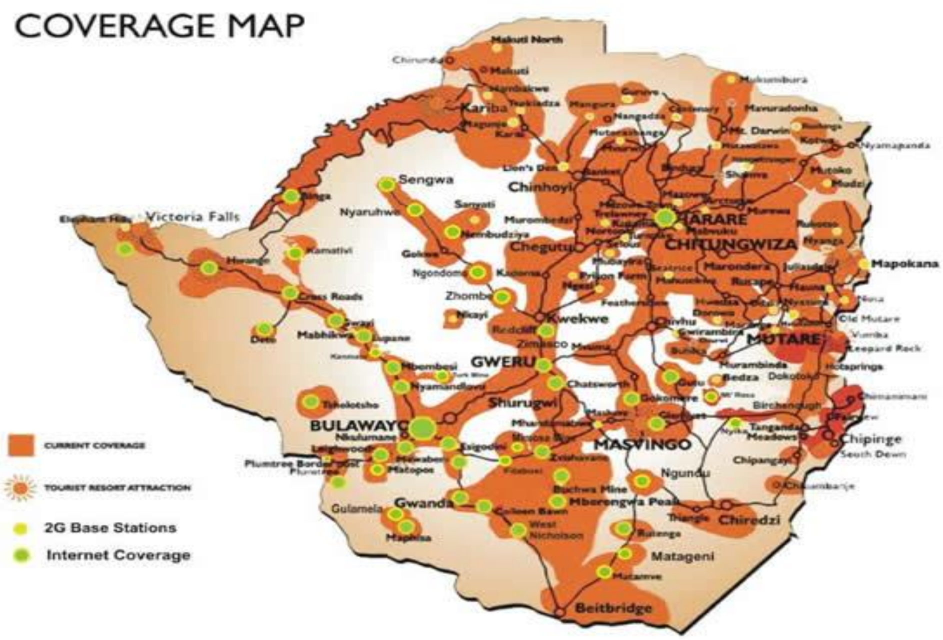
The swapping of sim cards from the 32k to 128k sim cards is required if the customers can transact sending money to other network users. Besides issues to do with the wallet security, the sim swaps are encouraged because of the additional product offerings that come with the new sim card. These products will be used for customer retention and meet certain identified gaps in customer needs.

1.2 DISTRIBUTION CHANNELS

Finding

Net*One Cellular has a wide network coverage around the country and in most remote areas of Zimbabwe such as Gokwe, Mutorashanga, Nyanga, Sengwa, Matageni.etc. However, these areas did not have enough recharge cards for sale considering the population, economic activity and increase in tele-density in Zimbabwe (86/100). The distribution of Easycall airtime was mainly through the Net*One flagship shops (One World Shops), Firstel Cellular (Net*One Service Provider), OK and BonMarche supermarkets, Innscor retail outlets and Zimpost branches.

However, only Zimpost had nationwide presence to enable Net*One Cellular to service the remote areas. Some of the post offices around the country were also facing closure. The map below shows network coverage for Net*One Cellular in Zimbabwe.



Source: www.netone.zw

Risk / Implication

Revenue may be lost to competitors as subscribers tend to switch to other networks whose airtime they can access.

Recommendation

Management should improve airtime distribution channels by setting up agents and kiosks so as to tap into revenue from these areas.
Management should increase One World Shops.

Management response

We have targeted airtime dealership arrangements with institutions that not only have a wide network of selling points, but also the capacity to purchase our airtime in bulk for onward re-distribution to small dealers and vendors.

1.3 BOARD OF DIRECTORS

Finding

Net*One operated without a substantive Board for the year 2012 but rather under the guidance of an Interim Board.

Good corporate governance requires companies with public interest to have a Board of Directors that meet at least once in a quarter. Inquiries with management revealed that the company had an interim board which only met twice during the year and no Board-committees were set up.

Risk / Implication

There may be lack of effective strategy, policy formulation and management supervision in the absence of the Board.

Recommendation

The shareholders should consider the appointment of a substantive Board of Directors.

Management response

Management can only recommend good corporate governance practice to the shareholder, but has no power or influence in the appointment of the Board of Directors. It is a matter entirely within the jurisdiction of the shareholder.

1.4 OUTSTANDING DEBTORS

Finding

The company had debtors (Trade receivables) amounting to $43 947 589 as at 31 December 2012. Of these debtors an amount of $22 274 546 arose from debtors with balances of more than 90 days old. Therefore, working capital was tied up in receivables and the company had to finance its operations using borrowings.

Risk / Implication
There is a possibility of failing to recover outstanding debts.

The company may face working capital constraints.

Recommendation

Management should consider signing payment plans with the debtors. These plans should then be followed up to ensure compliance.

Management response

Consignment Sales
We experienced a period in 2011 and early 2012 during which our prepaid airtime sales were on the decline as dealers were not willing to invest cash into Net*One recharge cards because of reduced turnover and limited product offering. During that time, our market was demanding more of value added services such as data, prepaid roaming and mobile money transfer services. Our investments were channelled more towards network infrastructure to reinforce the backbone for more product offering and enhancement. Consignment sales route was then a noble strategy with laid out rules and standard operating procedures that required us to continuously update given the changing environment.

We have thus revised our consignment procedure with clearly spelt out authorization levels on each and every selling stage. This is in addition to the required collateral security to guard against unforeseen default by the dealers.
The observation by the external auditors on the list of owing dealers has already been noted by our internal auditors and efforts to recover the debt are being pursued through our Loss Control and Credit Control section where acknowledgements of debt and payment plans have been instituted.

It should be noted that we have made tremendous progress in reducing our reliance on consignment / credit to cash airtime sales from 60:40 to 20:80 as from October 2012 with only ZIMPOST, OK Zimbabwe being the major credit / consignment dealers whilst the facility has been stopped with independent dealers.

PARIRENYATWA GROUP OF HOSPITALS

BACKGROUND

Parirenyatwa Group of hospitals, as a Central Hospital, is a body corporate established in terms of section 18 (1) of the Health Service Act, [*Chapter 15:16*] *of 2004*. The Group consists of Mbuya Nehanda Maternity Hospital, Sekuru Kaguvi Eye Unit, Annex Hospital for the Mentally Disabled and the Main Hospital.

1. GOVERNANCE ISSUES

1.1. INTERNAL CONTROL

Finding

The pharmacy bin cards had no adequate information to facilitate tracing the goods received vouchers for the procured items and subsequent issues. In addition there was no evidence to support that the bin cards were subject to regular reviews by someone independent.

Risk / Implication

It may be difficult for the Hospital to detect material errors and irregularities timeously.

Recommendation

Bin cards should contain adequate information to prevent the above risk.

Management Response

Noted. Staff concerned will be given proper instructions on recording of receipts and issues on stock cards. A schedule for periodic checks by the sectional Heads, Pharmacy Stores Controller and Chief Pharmacist will also be put in place and monitored to ensure those checks are carried out.

PEOPLE'S OWN SAVINGS BANK (POSB)

BACKGROUND

The People's Own Savings Bank is a corporate body established in terms of section 3 of the People's Own Savings Bank of Zimbabwe Act, [*Chapter 24:22*] of 1999, to provide savings, banking and financial services in Zimbabwe. The bank accepts deposits that will accumulate interest for the benefit of the depositors and all deposits are government guaranteed.

1. GOVERNANCE ISSUES

1.1. INFORMATION TECHNOLOGY CONTROLS

Finding

There were no formal change management procedures that were followed with regards to the Belina system upgrade implemented in the period under review. The following deficiencies were identified:

The change was not formally requested and authorised through the Change Request Form.

There was no formally documented charter for the project outlining the Project scope and objectives, Project Assumptions, Constraints and Boundaries, Stakeholders and their roles, Project Risks and Deliverables and Criteria for Success and Change Management.

No formal system requirement specifications in terms of the functional and non-functional requirements were sent to the vendor when the upgrade was implemented.

Risk / Implication

Failure to implement system change management procedures may result in lack of a common understanding with regards to service quality, deliverables, delivery timelines, priorities and responsibilities. This may increase the likelihood of failure in meeting the objectives of the system change.

Recommendation

Management should implement formal change management procedures when performing all system changes so as to ensure changes are done in an appropriate manner.

Management Response

Observation has been noted.

2. REVENUE COLLECTION AND DEBT RECOVERY

2.1. OUTSTANDING LOANS

Finding

During the year ended December 31, 2012 the bank's Causeway branch advanced salary based loans to twenty five (25) Chitungwiza Municipality workers. The Municipality wrote to the bank confirming that their employees were not to change their pay point till the completion of loan repayments. However, I noted that the workers for the Municipality changed their pay points without notifying the bank. Therefore, there were no monthly loan repayments done as from September 2012 up to the time of audit in February 2013. There was no evidence to support that the bank made some follow up of repayments from the workers.

Risk / Implication

There is risk that the bank may suffer financial loss.

Recommendation

The bank should make timeous follow up on the loan repayment.

Management Response

Chitungwiza Municipality unilaterally changed the pay point for its employees after being offered credit facilities by another bank in September 2012. Furthermore, the municipality is behind by an average of 5 months on its payroll obligations to its employees. Letters of demand have been sent to the borrowers and their guarantors. Further, meetings have been held with the Finance Director and Human Resources Manager of Chitungwiza Municipality, where it was agreed that the municipality will deduct repayments at source whenever they make salary arrear payments to their workers, going forward.

2.2. FRAUD INVESTIGATIONS

Finding

There was a significant increase in the number of fraud investigations from ten (10) in prior year (2011) to twenty-seven (27) investigations in 2012. The rise in fraud cases in the bank may imply that the controls in place are weak.

Risk / Implication

The control environment might be weak to prevent fraudulent activities.

Recommendation

The review of the control environment of the bank should be considered.

Management Response

We acknowledge the observation. The control environment in the bank has not totally collapsed despite the increase in number of investigated cases. Routine internal audits carried out show that there has been a general improvement in the state and functionality of most high risk, mission-critical controls and related systems and processes. In addition, I.T. and non-I.T. controls in place have managed to detect the deviations that were subsequently investigated.
Notwithstanding, management has made a commitment and taken an initiative to tighten preventative controls including applying stiff/deterrent measures to offenders, training of staff and continuously improving I.T. systems' controls.

SECURITIES COMMISSION AND THE INVESTOR PROTECTION FUND

BACKGROUND

The Securities Commission of Zimbabwe was enacted through the Securities Act [*Chapter24:25*]. The Commission started operating on September 1, 2008 when the first commissioners were appointed. It is the regulatory body for securities and capital markets in Zimbabwe.

GOVERNANCE ISSUES

1.1. BOARD COMMITTEES

Finding

The Fund Board of Trustees was operating without committees. Good corporate governance requires that suitably qualified persons be appointed to assist with Board committees.

Risk / Implication

Non-compliance with good corporate governance practices may weaken the control environment.

Recommendation

The Trustees should ensure the Fund adheres to the provisions of good corporate governance.

Management Response

The Board of Trustees at its meeting held on 12 February 2013, resolved to set up an Investments Sub – Committee to specifically have oversight of the Fund's investments. Other sub – committees to oversee the various aspects of the Fund and reporting to the Board of Trustees will be established as the need arises

1.2. TRUST DEED

Finding

The Fund trustees were appointed in 2010 and the management of the Fund was transferred to the Trustees in 2011. However, up to and until 2012 the trust deed had not been registered.

Risk / Implication

In the absence of a Trust Deed, the transparency of the Fund may be compromised and investors have no framework to serve as a reference point with respect to matters to be provided for in the Trust Deed.

Recommendation

The Trust Deed drafting process should be expedited and the Trust Deed be registered with the Deeds Office.

Management Response

The Fund Administrators have drafted the Trust Deed which forms the basis of establishing the Fund and sets out the full scope of duties and powers of the Board of Trustees. The draft is currently being reviewed by the Chairman following which it will be formally registered. It is expected that the Trust Deed should be finalized early in 2013.

2. REVENUE COLLECTION AND DEBT RECOVERY

2.1. INVESTOR PROTECTION LEVIES

Finding

Investor Protection Fund (IPF) levies were recorded based on weekly returns submitted by individual brokers without independent verification by the Fund administrators using information from the Zimbabwe Stock Exchange (ZSE). Re-computations of the expected levy for the year based on the figures sent by the ZSE revealed a difference of $25 047 for potential uncollected levies.

Risk / Implication

Non-compliance with legal regulations by brokers undermines the regulatory role of the Fund. In addition, cash inflows are reduced which may negatively impact the functions of the Fund.

Recommendation

Management should send confirmations to the ZSE periodically to verify the value of trades for individual brokers and re-compute the levies per brokers. Any discrepancies identified should be followed up and resolved timely.

Management Response

Comarton Consultants (Pvt) Ltd, the recently appointed Fund Administrators are independently verifying the returns on trades from the stockbrokers with the Zimbabwe Stock Exchange and investigating any variances with the stockbrokers concerned to ensure that the Fund is not prejudiced of levies due.

TEL●ONE (PRIVATE) LIMITED 2011 AND 2012

BACKGROUND

Tel●One (Pvt) Ltd was incorporated in Zimbabwe in 2000 in terms of the Postal and Telecommunications Act [*Chapter 12:05*]. The Company's main business is that of provision of telecommunication services and products.

1. GOVERNANCE ISSUES

1.1. AUDIT COMMITTEE

Finding

The board chairman performed the critical role of guiding the Board and simultaneously participated as a member of the audit committee. This was not in compliance with good corporate governance practices.

Risk / Implication

The objectivity of the committee may be compromised.

Recommendation

In order to enhance the objectivity of the Committee, the Board Chairman should not sit in the Audit Committee.

Management response

The anomaly was brought to the attention of the Board and management still hopes corrective action will accordingly be taken.

1.2. TITLE DEEDS

Finding

The rectification of title deeds was not addressed since the unbundling of Post and Telecommunications (PTC). As a result there were forty four (44) housing units in Chiredzi under ownership dispute between Tel●One and its former employees. At the time of audit, these houses were occupied by former employees and Tel●One was not deriving any economic benefits from them. These houses were recorded in the company's asset register.

Risk / Implication

The company may claim title to properties that belong to other parties.
The company may be losing rental revenue

Recommendation

The dispute should be resolved.

Management Response

Recommendation noted and corrective action is being taken.

1.3. CUSTOMER QUERIES

Finding

There was slow response to the customer queries on their bills. As a result queries remained outstanding for a long period of time. An extract of the sample of the customer queries are as follows;

Year query was raised	Ledger balance $	Remarks as at 31.12.12
2011	7 380 733	Query remained unresolved
2010	89 281	Query remained unresolved
2011	54 555	Query remained unresolved
2012	245 645	Query remained unresolved

Risks / Implications

Customers may be frustrated and switch to other service providers.

Delay in resolving queries may result in debt collection targets not being met.

Recommendation

All customer queries should be addressed timeously and effectively.

Management's Response

The observation is noted and corrective action has been taken with each case dealt with on an individual basis.

2. REVENUE COLLECTION AND DEBT RECOVERY

2.1. MOTOR VEHICLE LOANS

Finding

There was no evidence to support that the company was recovering outstanding amounts from motor vehicle loans as per the loans policy. For example, of the ten (10) employees who terminated their employment contracts during the course of the year 2011, three of them left the company without clearing their loans of $22 393.

Risk / Implication

There is risk that the company may not be able to recover the outstanding loaned amounts.

Recommendation

The loans policy should be implemented to facilitate recovery of the outstanding amounts.

Management Response

The anomaly observed has since been mitigated / corrected through the introduction of an insurance cover to obviate premature termination of employment by staff whilst motor vehicle loan is still running. All new loans are thus insured against such risk (Section 5 of Loan Agreement refers). Management will continuously monitor and review compliance issues.

Evaluation of management response

Management response is silent on whether the outstanding balance was recovered.

PROCUREMENT OF GOODS AND SERVICES

2.2. INSURANCE POLICY

Finding

The company procured insurance services and paid insurance premiums for items that the insurer could not cover. The insurance policy for electronic equipment covered excess limit of 2.5% of the total liability. This meant that all claims which were $30 000 and below fell within the limit that was not claimable.

From a sample of transactions examined, instances where claims were not compensated are as follows.

Date	**Details**	**Value $**
31/01/11	Theft of 200pairs x 500m underground cables	9 000
01/02/11	Theft of 1200pairs x 500m underground cables and 600 pair x 500m cable	19 000
15/02/11	Theft of 400 pairs x 250m cable	8 500
21/04/11	The theft of 200 pair x 100m cable	2 500
17/03/11	The theft of 20 pair x 550m ADC CABLE	3 920
21/04/11	The theft and vandalism of 30 S and L poles	12 000

Risk / Implication

There is risk that the company might be incurring insurance costs of which they would not be able to make claims.

Wasteful expenditure may be incurred.

Recommendation

The company should consider reviewing the Insurance contracts and ensuring that services are provided by companies that cover all the losses.

Management Response

The current cover effective 1 February 2012 has been negotiated to enable claim for anything above $100. The risk has therefore been mitigated.

TOBACCO INDUSTRY MARKETING BOARD (TIMB)

The Board was established in terms of the Tobacco Marketing and Levy Act [*Chapter 18:20*]. The mandate of TIMB is to control, regulate and promote the marketing of tobacco as well as to produce and collate statistics relating to the marketing, manufacture and consumption of tobacco in Zimbabwe.

1. GOVERNANCE ISSUES

1.1. STOP ORDER SYSTEM

Finding

The stop order system was not being updated timeously to record the payments made by farmers towards repayments of monies advanced to them by the Board. The delays were resulting in deductions being made from farmers already paid up. As a result, several refunds had to be made to farmers to correct the errors.

Risk / Implication

Numerous reversals may result in a lot of time being spent correcting errors; and compromise the integrity of information processed through the system.

Recommendation

Management should ensure that receipts from farmers are captured and updated timeously in the system to avoid double deductions.

Management Response

We acknowledge the recommendation. For Tobacco Inputs Credits Scheme (TICS) refunds, the system is updated the day after sale, and the incidences of refunds are very minimal. The greatest challenge with refunds is for grower registrations. System controls and data capturing personnel are under continuous improvement to reduce cash refunds.

ZIMBABWE BROADCASTING CORPORATION (PVT) LIMITED 2010

BACKGROUND

The Zimbabwe Broadcasting Company was established in terms of the Broadcasting Services Act [*Chapter 12:06*] and Zimbabwe Broadcasting Corporation [Commercialisation Act 2000]. Its core function is to carry on broadcasting services for the information, education and entertainment of listeners in and outside Zimbabwe.

1. GOVERNANCE ISSUES

1.1. INTERNAL AUDIT

Finding

The Internal Audit Charter which was approved by the Chief Executive Officer (CEO) stipulated that the Internal Audit Manager reports functionally and administratively to the CEO. Best practices in corporate governance require that internal audit should report functionally to the Audit Committee and administratively to the Chief Executive Officer and it is the responsibility of the board to formulate and approve all policies governing the entity.

Risk / Implication

The effectiveness of the Internal Audit function could be compromised.

Recommendation

The board should review the Internal Audit Charter with a view that it should comply to good best practices.

Management Response

Given that management is responsible for the maintenance of sound financial records and internal control system and ultimately the preparation and presentation of financial statements, which responsibility allows them to establish an internal audit department to act as a watch dog for management, it is logical for the internal audit to be both functionally and administratively accountable to the Chief Executive Officer.

In our view, this reporting structure allows more attention to the audit work rather than accountability to the non-executive directors whose time of attendance is too

spaced for fair work attention, besides, this reporting structure is cost effective since it mitigates sitting fees.

Evaluation of Management Response

I appreciate the view of management that it is logical for internal audit to report functionally and administratively to the CEO, however the challenges with such an arrangement are as follows:

- **Lack of objective reporting**
- **It deprives the audit committee and ultimately the Board to receive objective feedback on internal controls.**
- **Contravenes the Public Finance Management Act.**

1.2. POLICY DOCUMENTS

Finding

The Corporation did not have a risk management policy for the year under review as required by Section 6.9 of the Corporate Governance Framework for State Enterprises and Parastatals.

In addition, there was no evidence to support that the Information Communication and Technology (ICT) policy that was availed for audit was approved by the Board. The policy was only signed by the ICT manager and had a CEO's date stamp.

Risks / Implications

The Corporation may fail to identify and mitigate risks that can hinder the company from achieving its objectives.

The draft policy may not be enforceable.

Recommendations

A risk management policy should be put in place to cover the process of identifying, analysing and mitigating risks.

The ICT policy should be approved by the board.

Management Response

Observation is noted. However the policy is in the process of being put in place.

Observation is noted. At the time of the audit, the ICT Policy was yet to be forwarded to the relevant Board Committee on technology. Executive management was yet to deliberate on its adequacy particularly in view of digitalization.

1.3. FINANCIAL PERFORMANCE OF THE CORPORATION

Finding

The Corporation made losses of $3 953 907 and $3 121 001 for two consecutive years ending 31 December 2009 and 2010 respectively.

The Corporation was in arrears in statutory payments of $3 259 583 up from $605 527 (2009) including Value Added Tax obligations.

Funding of employment costs averaging $700 000 per month against average cash inflows of $600 000 was through an overdraft facility.

The Corporation's ability to offer services in a sustainable manner is compounded by the fact that its cash generating ability is significantly affected by the failure of major debtors to service their debts.

Risk / Implication

These are indications that sustainability of services offered by the Corporation may be threatened.

Service delivery may be compromised.

Recommendation

The Corporation should come up with a turnaround strategy that ensures that it breaks even and also improves on debt management.

The Corporation should negotiate payment plans with relevant authorities to avoid fines and penalties.

Management Response

Observation is noted.

However, cognizant of the fact that the State owns commercialized entities, the Public Finance Management Act [Chapter 22:19] falls short of prescribing the

minimum capital level requirements for such commercialized entities and means of guaranteeing maintenance of the prescribed capital levels.

Notwithstanding the fore going, it is worth noting that ZBC's scope of mandate is socio-economic consequently making it difficult to be discretionary in its business activities hence the continual losses.

2. REVENUE COLLECTION AND DEBT RECOVERY

2.1. AIRTIME DISCOUNTS

Finding

There was no documented policy to regulate airtime discounts given to customers. The discounts were inconsistently applied without any proper explanations being given to justify the variations. In some instances, airtime was sold at discounts between 50% and 75% in 2010. Some of these discounts awarded are tabulated below;

	Code	**Rate card**	**Amounts charged USD**	**Difference**	**Discount%**
Day	**zbcf4661**	**Sep-10**			
6		$8 640	$3 450	$5 190	60
13		$8 640	$3 450	$5 190	60
20		$8 640	$3 450	$5 190	60
27		$8 640	$3 450	$5 190	60
		$34 560	**$13 800**	**$20 760**	60
Day	**zbcf5563**	**Nov-10**			
4		$2 000	$1 000	$1 000	50
11		$2 000	$1 000	$1 000	50
18		$2 000	$1 000	$1 000	50
25		$2 000	$1 000	$1 000	50
		$8 000	**$4 000**	**$4 000**	50
Day	**zbcf5591**	**Dec-10**			
1		$2 000	$500	$1 500	75
2		$2 000	$500	$1 500	75
3		$2 000	$500	$1 500	75
		$6 000	**$1 500**	**$4 500**	

Risk / Implication

The Corporation could have lost revenue through such discounts.

Recommendation

Management should develop a policy to regulate airtime discounts.

Management Response

Observation is noted. Upon discovery of the potential abuse, management instituted an investigation which led to the suspension and ultimate dismissal of the then Head Marketing. In the interim an authority level has been put in place for discounts and marketing has since been tasked to come up with a Marketing Policy.

2.2. AMOUNTS OWED BY VARIOUS MINISTRIES

Finding

An amount of $3.143 million constituting 48.92% of total debt was owed to ZBC by various Ministries as at 31 December 2010. A follow up for collection by the Debtors department did not yield any results. Debt collection department was facing difficulties in that some debtors did not acknowledge the debts on the basis that the services were not requested for. It was not clear as to who should pay for coverage of national events.

Risk / Implication

The recovery of debts may be doubtful.

Recommendation

There should be an agreement between the Corporation and the various Ministries on responsibility in terms of payment for coverage of national events.

Management Response

Observation is noted. However the non-acknowledgement of debt by some Ministries denotes short comings in policy appreciation. However, the matter has since been taken up with the Ministry of Media, Information and Publicity proposing a set off against tax obligations. The debt has since escalated to $6 361 800.

3. PROCUREMENT OF GOODS AND SERVICES

3.1. MUSIC ROYALTIES

Finding

Royalties paid to artists for the music played by the broadcaster were based on a percentage of the Corporation's gross revenue. I could not establish the relationship between the music played and the revenue which the Corporation generated. The amount related to such royalties owed to Zimbabwe Music Rights Association (ZIMURA) was $548 748 at the end of December 2010. The figure was arrived at by calculating ten percent (10%) of the broadcaster's gross revenue. This method of calculation was not covered in any statute. Explanations from management revealed that this was a negotiated position.

Risk / Implication

The Corporation could be over or under paying the Zimbabwe Music Rights Association.

Recommendation

The royalties or negotiated position on royalties should where as practical as possible, be based on formula that takes into account at a minimum, the frequency music is played.

Management Response

Noted and agreed. The Corporation has since re-engaged ZIMURA on the need to review the basis of charge and also align it to regional practice. The results of the discussions will be availed in due course.

ZIMBABWE INSTITUTE OF PUBLIC ADMINSTRATION AND MANAGEMENT (ZIPAM)

BACKGROUND

The Institute was established in Zimbabwe through the Zimbabwe Institute of Public Administration and Management Act [*Chapter 25:17*]. The Institute is responsible for the dissemination of information relating to, and the promotion, teaching, direction, supervision, study and coordination of matters of administration and management with particular reference to the interest of the Public Service, Local Authorities, Parastatals and also the private sector.

1. GOVERNANCE ISSUES

1.1. COMMITTEE MEETINGS

Finding

The audit committee met once during the year under review. However, according to good practice on corporate governance the audit committee should meet quarterly to enable it to exercise its oversight role.

In addition, the human resources committee did not meet during the year under review.

Risk/Implication

Effectiveness of the Board may be compromised.

Recommendation

The Institute's board committees should meet at least quarterly.

Management Response

Management has since resolved to meet the Committees even in their respective workplaces or after hours to ensure the meetings are held regularly.

1.2. PAYMENT VOUCHERS

Finding

I could not verify the accuracy of the expenditure and cash accounts of the Institute as transactions/ Vouchers posted in the system were not physically availed for my inspection. I could not quantify the amount involved as the system did not reflect the amounts involved. According to the cash book provided the following cash vouchers

were missing and not posted in the primary and subsidiary ledgers of the Institute.

F120013,	F120509,	F121511,	F122846,
F120022,	F120533,	F121559,	F123020,
F120034,	F120541,	F121620,	F123087,
F120036,	F120613,	F121701,	F123141,
F120046,	F120639,	F121718,	F123276,
F120112,	F120768,	F121893,	F123427,
F120117,	F120883,	F121895,	F123545,
F120123,	F120899,	F122413,	F123606,
F120128,	F120905,	F122430,	F123866,
F120139,	F121029,	F122560,	F123922,
F120140,	F121032,	F122581,	F124089,
F120142,	F121159,	F122699,	F124186,
F120143,	F121166,	F122777	F124255.
F120165,	F121320,	F120184,	F120506
F120199,	F121410	F120195,	

The following vouchers were not availed for my audit inspection.

Date	**Payee**	**Voucher number**	**Amount USD**
10.1.12	Hotel foods	F120040	1690
10.1.12	Detergents	0041	415
10.1.12	Sekenhamo	0043	400
13.1.12	Hotel foods	0081	320
20.1.12	Hotel foods	0186	1 900
18.1.12	Hotel foods	0154	2 100
15.2.12	Hotel foods	0447	1 600
15.2.12	Hotel foods	0457	700
15.2.12	Sekenhamo	0494	349
27.2.12	Sekenhamo	0641	800
TOTAL			**11 424**

Risk/ Implication

Recorded expenditure may not have been incurred for the benefit of the Institute.

Recommendation

The Institute needs to locate such vouchers and establish the value of the expenditure incurred.

Management Response

Internal Audit needs to assist in verifying and getting all facts in regard to missing vouchers and establish the value for immediate management action according to our code of conduct manual.

1.3. STATUTORY DEDUCTIONS

Finding

The Institute was not remitting statutory obligations that had been deducted from payroll and hotel levy to their respective bodies. The table below serves to support this observation.

Statutory body	**Details**	**Amount outstanding as at December 31, 2012**
Zimbabwe Revenue Authority	PAYE	$430 285
National Social Security Authority	Contribution	$9 624
Zimbabwe Tourism Authority	Tourism Levy	$26 818
National employment Union of Zimbabwe	Trade union contribution	$12 980
ZB pension	Pension	$227 242
Total		**$706 949**

Risk/Implication

Non remittance of statutory deductions may attract fines and penalties from the responsible authorities.

Employees may not obtain meaningful benefits in the future as their contributions will not be invested timeously to earn extra income.

Recommendation

The Institute should pay statutory deductions as they fall due.

Management's response

Management is currently working on modalities to source funds to help alleviate the dire situation at hand.

2. PROCUREMENT OF GOODS AND SERVICES

2.1 SERVICE LEVEL AGREEMENT.

Finding

There was no service level agreement between the Institute and the service provider responsible for upgrading and updating the payroll information system.

Risk/ Implication

In the event of a dispute, it may be difficult to resolve issues.

Recommendation

The Institute should have a written service level agreement with the service provider.

Management Response

Observation is noted. Management has put to task the Centre Manager and Procurement to provide service level agreements for all service providers in place.

2.2 SEGREGATION OF DUTIES

Finding

There was no authorization by a senior official of payments made to the Finance Manager. In some instances the Finance Manager would authorise and pass for payment such expenditure. Below is a sample of such expenses which were incurred during the year under review:

Date	Details	Payment Voucher Number	Amount $
16/01/12	Fuel	F120092	60
21/02/12	Fuel	F120574	70
17/02/12	Fees assistance	F120529	68
13/02/12	Fuel	F120425	50
02/04/12	Fuel	F121351	411
13/04/12	Mileage Claim	F121496	200
09/01/12	School Fees	F120042	270
04/05/12	Mileage claim	F121753	110
22/05/12	Salary payment	F121892	650
18/05/12	Salary Payment	F121870	300
18/06/12	Mileage claim	F122266	107
08/08/12	Salary Payment	F122150	1 400
06/06/12	Salary Payment	F122136	2 000
Total			**$5 696**

Risk/Implication
Unauthorised payments could be made.

Recommendation

The internal control system should be strengthened to ensure that no one individual authorises and approves the same payment.

Management Response

The transactions highlighted above need to be further scrutinized by Internal Audit for validity and accuracy as management waits for the final report thereto. In future Finance Department will ensure transactions are authorised.

Evaluation of management response

The finding was about the finance manager performing incompatible functions i.e. authorising and passing for payment payments to himself.

2.3 UNVOUCHED EXPENDITURE

Finding

The Institute processed payment vouchers which were not supported by any documentation, neither were there any receipts nor acknowledgement of receipt to show how the funds were used. Below is a sample of such unvouched payments which were affected.

Date	**Details**	**Payment Voucher Number**	**Amount $**
14/03/12	Hotel Provisions	F120975	700
31/12/112	Hotel provisions	F124574	700
06/01/12	Staff bus fares	F120005	280
20/01/12	Transport for the school kids	F120200	670
18/02/12	Rent and Rates	F120497	1076
16/02/12	Transport hire	F120453	1000
29/02/12	February salary	F120715	2500
28/02/12	Repairing expenses	F120689	1500
09/03/12	Rent and rates	F120909	1500
02/04/12	Nov 2011 salaries	F121352	1905
05/04/12	Lectureship fees	F121409 B	600
Total			**$12 431**

Risk/Implication

Cash requested may not have been fully utilised for intended purposes in the absence of suppliers invoices and receipts.

Recommendation

Payment vouchers should be supported by suppliers' invoices and receipts.

Management Response

Procurement and Finance Department have been advised to raise payments with relevant supporting documents attached. Further verification should be done by Internal Audit on these documents to substantiate their authenticity. Besides the above the controls, there has been a schedule introduced to double check accuracy and validity of invoices in place.

3 REVENUE COLLECTION AND DEBT RECOVERY

3.1 CASH MANAGEMENT

Finding

I observed that cash receipted by the Institute was not being banked intact as shown in the table below:

Month	Amount Receipted $	Amount Deposited $	Amount not Banked $
December 2012	9 883	-	9 883
November 2012	54 731	16 720	38 011
October 2012	76 960	23 010	53 950
September 2012	17 641	4 200	13 441
August 2012	74 980	34 800	40 180
July 2012	25 088	7 600	17 488
June 2012	72 225	27 240	44 985
May 2012	9 198	2 038	7 160
April 2012	38 306	28 791	9 515
Total	**$379011**	**$144 399**	**$234 612**

Risk / Implication
Cash is susceptible to misappropriation.

Recommendation

The Institute should bank its receipts intact.

Management Response

The observation is noted, the amount not banked need to be verified by Internal Audit and Finance Department has been advised to comply with the recommendations.

3.2 MISSING RECEIPT BOOKS

Finding

I could not verify the accuracy of cash collections due to failure by the Institute to produce used receipt books of the ranges listed below. These receipt books were signed for in the security items register.

Book Number	Receipt Range	Date Issued	Department	Issued to
SR 47	18401-18800	14/3/12	Hotel	Hotel Clerk
SR 55	21601-22000	19/4/12	Hotel	Hotel Clerk
SR 42	16401-16800	No date	Accounts	Accounts clerk
SR 41	16001-16400	20/12/11	Hotel	Hotel Clerk

Risk/ Implication

Cash collections may not have been fully accounted for.

Recommendation

The Institute should investigate the circumstances surrounding the missing used receipt books.

Management Response

Management will ensure, whereabouts of the receipt books above be established by assistance of Internal Audit unit and appropriate action taken.
In addition to above security item register should be updated and checked regularly.

4 EMPLOYMENT COSTS

4.1 SALARY ADVANCES

Finding

An amount of four thousand six hundred and eighty seven dollars ($4 687) was taken by the Finance Manager as detailed below over a period of thirteen (13) days in February 2012 as salary advance without the approval of the Senior Official.

Date	Payment requisition number	Salary advance $
04/02/12	Petty cash 0270	400
06/02/12	Petty cash 0317	300
11/02/12	Petty cash 0377	200
13/02/12	Petty cash 0378	330
14/02/12	Petty cash 0432	700
16/02/12	Petty cash 0635	1068
16/02/12	Petty cash 0465	1000
17/02/12	Petty cash 0535	189
17/02/12	Petty cash 0814	500
Total		**$4 687**

Risk/Implication

The payments may have been manipulated for personal gain.

Recommendation

The Institute should investigate the above transactions.

Management Response

Observation is noted. Internal Audit to verify details above and management will ensure appropriate action is taken.

ZIMBABWE INVESTMENT AUTHORITY (ZIA)

BACKGROUND

The Authority was established through an Act of Parliament of Zimbabwe, the Zimbabwe Investment Authority Act [*Chapter 14:30*] of 2006. The Export Processing Zones Authority established in terms of the Export Processing Zones Act [*Chapter 14:07*] and the Zimbabwe Investment Centre established in terms of the Zimbabwe Investment Centre Act [*Chapter 24:16*] transferred their assets, rights and obligations, to the Authority upon its incorporation, and the two latter acts were repealed. The main objective of the Authority is to promote and co-ordinate investment in Zimbabwe

1. GOVERNANCE ISSUES

1.1. PENSION CONTRIBUTIONS

Finding

Contributions to the Authority employees' pension scheme were not being remitted during the period under review.

Risk / Implication

Employees may not obtain meaningful benefits in the future as their contributions will not be invested timeously to earn extra income.

Recommendation

Management should ensure that pension contributions are remitted timeously towards the employees' pension scheme.

Management Response

Agreed. Pension contributions were not spared due to cash flow constraints. Each time the payroll is run, only the net salary bill is paid.

ZIMBABWE MINING DEVELOPMENT CORPORATION (ZMDC) 2011

BACKGROUND

Zimbabwe Mining Development Corporation is wholly owned by the Government of Zimbabwe. The main business of the Corporation and its subsidiaries, which are incorporated in Zimbabwe, is that of minerals extraction and sales.

1. GOVERNANCE ISSUES

1.1. JOINTLY CONTROLLED ENTITIES

Finding

The Corporation signed joint venture agreements with a number of partners for the development of mineral resource claims. Some of the joint venture companies are operating and some of them are developing the mines. However, the interest in Todal Mining (Private) Limited was not recorded in the Corporation's accounting records. In addition, the Corporation had no mechanism to monitor whether the joint venture partners had invested the agreed amounts.

Risks / Implications

Material misstatement of financial statements as recorded investments may be incomplete.

Joint venture partners may not invest the agreed amounts prejudicing the Corporation of its mineral rights.

Recommendation

The investments should be valued and accounted for to ensure fair presentation of financial statements.

Management Response

Noted. Follow up is being made for Anjin (Private) Limited to avail the 2010 and 2011 audited financial statements. Currently Anji does not have audited financial statements for two years.
We are going to engage Todal Mine to give us audited financial statements for 2009, 2010 and 2011 so that our associate investment is accounted for.

1.2. SALE OF SHAREHOLDING

Finding

As per the shareholders' agreement between ZMDC and Glassfinish Investments (Pvt) Ltd dated 2 February 2010, the parties agreed that ZMDC was to cede 80% of its investment in the joint venture company for $40 million and it would retain 20%. ZMDC ceded its shareholding to Glassfinish Investments (Pvt) Ltd but it had not been paid the $40 million for the sale of its shareholding.

Risk / Implication

Financial loss if payment is not received for the mining rights sold.

Recommendation

The Corporation should be paid for the shares sold to Glassfinish Investments as per their agreement.

Management Response

Observation has been noted. The US$40 million was accrued in 2010 financial statements. Follow up through letters have been made. A shareholders meeting is pencilled for the third quarter in order to map the way forward.

Evaluation of the management response

Considering the amount involved management should have come up with a specific strategy for recovering what was due to them. There is no real commitment to take action.

1.3. BOARD REPRESENTATION

Finding

The Corporation did not have board representations on the boards of joint venture companies as per the joint venture agreements. The following are the joint ventures and expected board representation;

Joint venture	ZMDC shareholding	Number of appointed members	Expected board representation
Anjin (Pvt) Ltd	10%	0	4
Mbada Diamonds (Pvt) Ltd	50%	1	2
Diamond Mining Company	50%	0	4

Risk / Implication

The interest of the Corporation may not be protected.

Recommendation

As a major shareholder, the Corporation should be actively involved in managing the joint ventures to protect its interests as per the agreements. Representatives should be appointed to stand for ZMDC on every board of each joint venture.

Management Response

Board members are appointed by the Honourable Minister of Mines and Mining Development. Representations have been made and ZMDC is awaiting ministerial guidance.

1.4. STATUTORY COMPLIANCE

Finding

ZMDC, its subsidiaries and joint ventures had been remitting their corporate tax and royalties to the Ministry of Mines instead of remitting to ZIMRA and MMCZ respectively .The Income Tax Act requires that corporate tax be remitted on a quarterly basis on the Quarterly Payment Dates to the Zimbabwe Revenue Authority (ZIMRA). ZMDC received dividends from its subsidiaries and joint ventures which they claimed to contain a portion of corporate tax and royalties which were subsequently remitted to the Ministry of Mines. Examples of transactions that were incurred by the Corporation in 2011 are as follows:

Unit	**Income tax paid through ZMDC $**	**Royalties paid through ZMDC $**
Mbada Diamonds (Private) Limited	21 610 088	25 935 288
Marange Resources (Private) Limited	3 742 333	10 675 366

Marange Resources (Private) Limited's tax liabilities from the 2010 financial year were not paid in the year under review. Unpaid tax liabilities accrue interest and penalties. There was a corporate tax liability of $3 152 820 and a VAT payable of $663 931 as at 31 December 2011.

Risks / Implications

There may be financial loss due to penalties and interest.

There may be misappropriation of third party funds.

Recommendations

Taxes should be paid directly to the tax authority by the individual companies.

Taxes should be paid on time.

Management Response

The risk identified does not accrue to ZMDC. It accrues to the diamond producers

Noted. Final tax computation was done by a tax consultant and submitted to ZIMRA in 2012. We are going to engage ZIMRA to mitigate the penalties and interests.

1.5. DIVIDEND PAYOUT

Finding

The Corporation paid dividends in 2011 to the Ministry of Mines and Mining Development without a Board resolution. The Act requires the Corporation to pay dividend out of the surplus or profit to its shareholders as the Board may determine in relation to that year.

Risk / Implication

There may be financial distress if dividends are paid without considering the ability of the Corporation to fund critical obligations.

Recommendation

Board resolution should be sought before payment of any dividend to the shareholders.

Management Response

Due to the requirements of the Treasury, dividends are paid as and when the diamond producers pay ZMDC its dues. The resolution of the Board will be done at year end in retrospect.

1.6. INFORMATION TECHNOLOGY ENVIRONMENT

Finding

There was no expert on Information Technology representation at board or executive level to ensure adequate coverage of Information Technology Governance issues of the Corporation.

More so, the Internal Audit department had no designated Information Technology auditors with the relevant qualifications to carry out Information Technology audits. Given the complexity of the networks introduced and sensitivity of ZMDC's operations, this was a critical function.

There were isolated cases of networked computers that could be accessed remotely without use of passwords. Some of the users' machines had sensitive data and the machines were accessible through any computer that was connected to ZMDC network.

Risks / Implications

A weak password policy can make it possible for unauthorised access to the Corporation's data.

There may not be proper strategic alignment of IT initiatives with the business objectives. There is risk of setbacks in the approval of IT policies, appropriate monitoring as well as reporting and trend analysis.

IT and related reviews (including but not limited to data integrity, network security, application software and database integrity) may be inadequately done in determining the extent to which the information systems safeguard assets; that is maintain data integrity, confidentiality and availability and ensure the achievement of company goals.

Recommendation

There should be an IT representation at Board level so as to effectively harmonise efforts and align information technology matters with the corporate strategy.

The company should consider the internal audit setup with the information systems audit function performing adequate data analysis, application reviews and network reviews. The function would immensely assist with on-going reviews and recommendations to build and maintain a robust environment for the company.

Management should ensure that access to all networked devices is properly authorised and authentication be granted on least privilege basis. Individuals should only access what they need to know or need to use to preserve data integrity and confidentiality.

Management Response

ICT Manager now sits in executive management. Proposal for representation in board was made.

The Internal audit Department is being trained on the acquired SAP audit package.

Domain controller being setup for access control on machines over the network.

1.7. TRANSFER OF ASSETS

Finding

Marange Resources (Private) Limited's assets with a carrying amount of $ 771 136 as at 31 December 2011 were distributed to other subsidiaries within the ZMDC group.
There was no system in place for the transfer of assets from Marange Resources and hence there was no supporting documentation for the transfer of plant and equipment.

Risk / Implication

Misappropriation of assets may occur.

Recommendation

All asset transfers should be authorised and properly recorded using sequentially numbered documents.

Management Response

The risk has been identified and a group policy is being crafted to mitigate the risk of losing the movable assets.

1.8. JENA MINE BOARD

Finding

The Jena Mine (Private) Limited's board of directors had three directors and there were no board committees. The board of directors met three times in 2011. Corporate governance best practices require that the size of the board of directors be sufficient to form board committees and members should meet as often as required to fulfill their duties, preferably at least four(4) times per annum.

Risks / Implications

The board's oversight role may be undermined as a result of not being able to focus on specific policy issues of the business, an opportunity otherwise afforded by subcommittees.

The board may fail to hold regular meetings as a result of difficulties in raising a quorum due to the size of the board.

Recommendation

The board size should be appropriate for the board of directors to form committees to facilitate the efficient and effective functioning of the board so as to comply with the best practices of corporate governance.

The board of directors should meet regularly and at least quarterly.

Management Response

Board members are appointed by the Honourable Minister of Mines and Mining Development. The board through the Chairman has made representations to the Ministry and is awaiting Minister's guidance. There was no quorum to allow the board to sit.

1.9. SANDAWANA DIRECTORS' MEETINGS

Finding

The Sandawana Mine Board of Directors was yet to conduct a Board of Directors meeting in 2012. This was a cause for concern considering the state of operation in which the mine was in and given that the Board was effectively charged with directing the strategy and operations to build sustainable business.

Risk / Implication

The mine may be deprived of the necessary strategic guidance and vision.

Recommendation

The board should meet regularly to enable it to effectively monitor the performance of the mine and provide the necessary guidance.

Management Response

The board was waiting for feedback from the main ZMDC board regarding their resolutions from their board meeting in October 2011 so that they could hold another meeting mapping the way forward.

1.10. EMERALD SALES

Finding

The global emerald industry achieved revenues of $200 000 000. Sandawana Mines has not been able to tap into this lucrative market over the last couple of years, whilst other countries in the region are experiencing a boom.

Risk / Implication

The company could be forced to prematurely curtail emerald mining and lose out on revenues from the emerald industry which is experiencing growth. The going concern of the mine could be uncertain.

Recommendation

The mine should engage emerald producing companies and aggressively market its emeralds.

Management Response

We budgeted for three gem fares in 2012 to try and market the emeralds. Over and above the mine has gone into evaluation of other minerals, for instance tantalite, gold and iron ore. Currently these projects are under way.

1.11. TAX DECLARATION

Finding

The company incurred a tax liability of between $8 640 and $10 800 as a result of not declaring output tax on motoring benefits and cell phone allowance for its employees respectively in accordance with the Value Added Tax Act section 17 paragraph 3. The liability is analysed in the table below:

Number of motor vehicles	12
Motoring benefit	$200 – $300
Cell phone allowance	$200
Total taxable fringe benefits	$400 - $500
Estimated High end VAT taxable services	$72 000
Estimated Low end VAT taxable services	$57 600
Estimated High end VAT liability @15%	$10 800
Estimated Low end VAT liability @ 15%	$8 640

Risk / Implication

There is risk of financial losses through penalties and interest.

Recommendation

Benefits must be subjected to VAT.

Management Response
All taxable benefits will be declared for VAT purposes.

1.12. INTERNAL CONTROL

Finding

Jena Mine's creditors reconciliation accounts had long outstanding deposits which were not accounted for in the ledger. The total of un-posted invoices amounted to $49 232.

Some payments made by Head Office on behalf of Sabi Mine had not been acknowledged by the suppliers. These payments had been outstanding for a long period and there was no evidence of consistent follow up made with Head Office and the suppliers to determine the status of those payments. The following are examples:-

Supplier	**Payment Date**	**Amount Paid**	**Period Outstanding**
ZESA	28.12.2010	$58 613	1 year
Bergom	31.12.2010	$15 625	1 year

Risk / Implications

Fraudulent activities and errors may go undetected.

Suppliers may refuse to provide goods or services due to non-settlement of accounts when the payments have already been made.

Recommendation

Creditor's reconciliations should be done and reconciling items should be resolved timeously in the company's ledger.

Payments made by Head Office to Sabi Mine suppliers must be communicated promptly to the mine and the supplier must be notified so that outstanding amounts are reconciled and correctly allocated in time.

Management Response

The invoices have not yet been received, however effort has been made verbally to obtain the invoices in question but suppliers are not cooperating. To be corrected in 2012 financial year

Communication with head office was being done by way of telephone calls and e-mails. In future hard copies of this communication will be filed. Further, the Assistant Accountant will in future refer any outstanding issues to either the Mine Secretary or Mine Accountant. This anomaly will be corrected in 2012 financial year.

1.13. STATUTORY DEDUCTIONS

Finding

Jena Mine was not remitting National Social Security Authority and Mining Industry Pension Fund (MIPF) contributions timeously resulting in a 58% increase in payroll liabilities, from $205 912 to $324 925 in 2011.

Risk / Implication

Financial losses may be incurred as a result of penalties for not remitting statutory deductions.

Not remitting employee contributions, for example MIPF, may result in employees forfeiting benefits that they have subscribed to.

Recommendation

Payroll deductions should be remitted timeously.

Management Response

Due to cash flow problems, the mine could not manage to remit payroll deductions on time. However, this anomaly is going to be corrected in 2012 financial year.

1.14. ENVIRONMENTAL REGULATIONS

Finding

The Environmental Management Act requires the entity to monitor and remove the growth of destructive plant species. However, during the audit tour of Jena operations I noted that considerable portions of land had been occupied by *Lantana Camara (invasive plant).*

Risk / Implication

Inability to control invasive plants is an offense under the Environmental Management Act and may lead to fines or imprisonment of Jena's management.

Rehabilitation costs for the mine may be increased if the area occupied by *lantana camara* is not contained in time.

Recommendation

A plant monitoring program should be put in place to inhibit the growth of invasive species.

Management Response

A program will be put in place to ensure the eradication and control of invasive plants.

1.15. SAFETY HEALTH AND ENVIRONMENT OFFICER

Finding

The Safety Health and Environment (S.H.E) officer at Kimberworth Investments (Private) Limited resigned in September 2011. Since then there had been no substantive replacement for this position.

When audit toured the mine's operations, there were no inductions or briefings on the mine's safety procedures by an officer from the SHE department before the team went underground and around the plant operations.

Risk / Implication

The safety of the workers may be compromised.

Uncoordinated responses in the event of an emergency may lead to injury or loss of life.

Employees may not be properly briefed on safety procedures.

Recommendation

A substantive replacement for the SHE officer must be sought.

The SHE department should be responsible for ensuring proper induction for all new employees including visitors on the mine's safety procedures.

Visitors should be informed of the mine's safety procedures and how they are expected to conduct themselves on the mine to reduce the risk of accidents.

Management Response

Observation has been noted. Although induction is carried out for new employees, management accepts this omission and intends to correct it. We are in the process of recruiting a SHE Officer.

1.16. UNDERGROUND MINING ENVIRONMENT

Finding

The locomotives that were being used at Kimberworth Investments (Private) Limited's underground eighth level had no functional braking systems and had no headlamps. The locomotives were being stopped using gear lever systems and the locomotive operator's cap lamp was being used for visibility. According to the Mining Regulations (Amendment) of 1978, these are mandatory and must be functional on all locomotives used in mining operations.

Risk / Implication

The locomotive operators may not be able to stop the locomotive in the event of an emergency.

The locomotive operator's visibility of the track-ways may be greatly reduced thus exposing the locomotive to greater risk of accidents.

Recommendation

The locomotives must be fitted with headlamps to improve visibility in the underground tracks and also to comply with mining regulations.

The locomotive braking systems must be serviced to ensure that they are operational.

Management Response

Management has noted this concern and will push the supplier (Shepco) to expedite repair of the said equipment.

1.17. ANNUAL GENERAL MEETING

Finding

Elvington Mine (Private) Limited did not convene an annual general meeting in 2011. This is in contravention of the Companies Act Chapter (24.03) which requires that a company should hold one Annual General Meeting within a period of 15 months.

Furthermore, Elvington Mine (Private) Limited did not prepare a financial budget for the 2011 financial year. The company did not have achievable goals to which its performance could be measured.

Risk / Implication

There may be lack of transparency and accountability.

It may be difficult to monitor and control expenditure levels to ensure the objectives of the entity are met.

Recommendation

The company should hold an Annual General Meeting as per the requirements of the Companies Act Chapter (24.03) and the financial budget should be prepared.

Management Response

It has been very difficult to find agreed dates for the board members to convene for a board meeting since August 2011 to date.

1.18. EXPLORATION PERFORMANCE

Finding

The Sandawana Mines (Private) Limited was engaged in intensive exploration for minerals on its claims. Exploration and drilling activities were being outsourced to third party companies instead of using their internal exploration department at a lower cost. The exploration costs incurred were $548 670.

Risk / Implication

The cash flow position may be adversely affected by huge expenditure on outsourcing these mining explorations and drilling activities as compared to expenditure that could have been incurred if the work was done by the Corporation's internal department.

Recommendation

The mining exploration services should be performed from within the group in order to reduce costs.

Management Response

ZMDC is resuscitating the MPC (Mining Promotion Company) to do the exploration projects for the group. The required personnel has already been hired for that.

2. REVENUE COLLECTION AND DEBT RECOVERY

2.1. LEASE AGREEMENTS

Finding

The Corporation had no lease agreements with tenants occupying properties at Mhangura and Lomagundi Mines. Rental income from the properties was being recorded on cash basis at the rates verbally agreed with the tenants, resulting in audit being unable to verify the completeness of revenue recorded.

Risk / Implication

In the absence of lease agreements, there may be loss of financial resources if legal disputes are raised by tenants.

Recommendation

Lease agreements must be drawn and signed by both parties for all properties that are on lease as evidence of agreement.

Management Response

Observation is noted. To be regularized in 2012.

2.2. OUTSTANDING DEBTS

Finding

ElvingtonMine (Private) Limited **e**mployees were given cash advances for travel, accommodation and to purchase medical supplies. The expenditure incurred was supposed to be supported by invoices for the goods and services purchased on behalf of the company. Supporting invoices were not produced hence the amounts were debited to the employees' staff accounts. Audit could not verify whether the employees actually purchased the goods and services they were supposed to purchase.

The policy regarding cash advances stated that receipts should support expenditure incurred and any surplus cash should be returned to the company within seven days of obtaining the cash advance, failure of which the cash advanced and not supported with invoices is deducted from the payroll of the following month. The money advanced was however not being deducted from the payroll for the individuals concerned.

Risk / Implication

Fraud may be perpetrated due to the weak internal controls.

Recommendation

Cash advances should be used for intended purpose and supporting invoices should be availed.

Deductions should be made in full from the payroll of the following month for cash advances without supporting documents.

Management Response

There are notable discrepancies in the data capturing time frames resulting in distortion of year on year figures. However, fraudulent activities cannot be ruled out as evidenced by a forensic audit report for the said period which is still under further investigations.

3. PROCUREMENT OF GOODS AND SERVICES

3.1. PURCHASING FROM NON VAT REGISTERED VENDORS

Finding

Jena Mine (Private) Limited transacted with non-Value Added Tax (VAT) registered vendors thereby incurring an opportunity cost estimated at $260 512 as a result of both not deducting withholding taxes from payments to suppliers not registered for VAT and not being able to claim input tax on the transactions. The opportunity cost was analysed as follows:

Value of transactions with none registered suppliers	$1 042 050
Potential opportunity cost as a result of dealing with non-registered suppliers at standard rate	$156 307
Penalty from not withholding VAT at 10%	$104 205
Total opportunity cost	**$260 512**

Risk / Implication

There may be difficulties in controlling cash flows and costs emanating from inability to take advantage of input tax deductions and penalties from tax authorities.

Recommendations

The company should comply with the VAT Act in order to prevent penalties.
The entity should ensure that it sources goods and services from approved suppliers.

Management Response

Due to cash flow problems, the mine ended up dealing with suppliers who were willing to give credit to the mine. A supplier listing will be drawn in 2012.

ZIMBABWE NATIONAL ROAD ADMINISTRATION 2011

BACKGROUND

The Zimbabwe National Road Administration was established in 2001 to administer the fixing, collection, management and disbursement of road funds. The fund consists of road user charges collected. The funds are disbursed to Local Authorities, Department of Roads and District Development Fund for the purpose of road maintenance, rehabilitation and construction.

1. GOVERNANCE ISSUES

1.1 AUDIT COMMITTEE

Finding

The Administration was operating without an Audit Committee to assist the main board in fulfilling the organization's goals and objectives. As a result Internal Audit department was reporting both functionally and administratively to the Chief Executive Officer.

Risk / Implication

The main Board may end up spending time on issues that could have been deliberated at committee level instead of focusing on strategic issues.

The objectivity of the internal audit department may be compromised.

Recommendations

The Board should set-up an Audit Committee.

Management Response

The matter will be presented to the Board to establish the Audit Committee in line with the audit observation.

However there was no Audit Committee for the Internal Audit to have a dual reporting structure. Once the Audit Committee is in place the recommendation will be implemented in line with good governance practises.

1.2 INFORMATION TECHNOLOGY STEERING COMMITTEE

Finding

ZINARA operated without an Information and Technology (IT) Steering Committee. According to good practice, IT Steering Committee is a key component of IT Governance that provides the strategic alignment required to fulfil the organization's goals and objectives and also to oversee the information systems function and activities. It also acts as a mechanism that ensures the IT section is in harmony with corporate mission, goals and a two way communication between business and IT.

Risk / Implication

The IT goals and objectives may not be aligned with those of the organization.

Recommendation

ZINARA should put in place an IT Steering Committee to enhance strategic alignment of goals and objectives.

Management response

Audit observation noted. Consultations were being done to make sure the IT steering committee is in place.

1.3 POLICY DOCUMENTS

Findings

ZINARA had no risk management policy that could have provided a framework for the identification of risks, assessing the identified risk and setting out mitigatory measures.

There was no policy on loans to staff members. Although ZINARA granted interest free loans to its employees, the loan benefit was not taxed in terms of section 8 paragraph (f) of the Income Tax Act [*Chapter 23:06*].

Risks / Implications

New and emerging risks may not be covered by internal controls.

In the absence of the loan policy the facility may be abused. ZINARA may be charged penalties by ZIMRA due to non-compliance with the Income Tax Act.

Recommendation

Management should put in place a risk management policy.

A policy covering staff loans should be put in place and the loan benefits should be taxed in terms of section 8 paragraph (f) of the Income Tax Act [*Chapter 23:06*].

Management Response

Audit observation noted. We are an organization which operates in the parameter of an act of parliament which is ordinarily risk averse. We will look at how best we can review and implement your recommendation.

We have engaged an HR Consultant who is currently working on HR Policies to be in place. The observation is noted.

1.4 INTERNAL CONTROL

Finding

Bank reconciliations for the 2011 financial year were prepared in June 2012 contrary to good practice that bank reconciliations should be prepared monthly.

Creditors control accounts were not reconciled to suppliers' statements for the year ended 31 December 2011. In addition, I noted instances where payments were made without appropriate supporting documents such as suppliers' invoices. Below is a sample of such payments made without invoices.

Date	Voucher number	Amount	Issue
07/07/11	M1137	$3 360	No invoices
02/06/11	M1067	$1 920	No invoices
05/07/11	M1129	$2 000	No invoices
15/05/11	M1097	$4 000	No receipt
01/06/11	M1065	$5 000	No invoices
15/12/11	2329	$1 500	No invoices

Risk / Implication

Errors and omissions may go undetected.

If suppliers' statements are not periodically reconciled to the payables control account, there is risk that material misstatements may not be detected or prevented timeously.

Recommendation

Bank reconciliations should be prepared on a monthly basis, be reviewed and signed as evidence of review by a senior officer.
Creditors' reconciliations should be prepared monthly to prevent the above risk.

All supporting documents should be attached before payments are processed.

Management Response

Observation noted and being addressed.

Observation has been noted. We have suffered from office shifting when we moved from 47 Central Avenue to the new office and we lost most or quite a reasonable amount of information. We will guard against and uphold your observation.

2 PROCUREMENT OF GOODS AND SERVICES

2.1 SUPPLIERS OF GOODS AND SERVICES

Finding

ZINARA purchased goods and services from some suppliers who were not registered on the state procurement approved list contrary to the State Procurement Regulations.

Risk / Implication

Non compliance with state procurement regulations may attract penalties from the State Procurement Board.

Recommendation

ZINARA should procure from approved suppliers in compliance with the state procurement regulations.

Management Response

Observation has been noted. The procurement will be directed to follow procurement regulations in terms of the Act.

3 REVENUE COLLECTION AND DEBT RECOVERY

3.1 BANKING

Finding

Cash receipted at the Head Office was not being banked intact. From a sample of receipts examined there were variances between amounts receipted and banked as follows:

Date	Revenue Stream	Receipt numbers	Receipted Amount $	Total amount banked $	Shortfall $
28/01/2011	Vehicle licence	032234-032239ZZ	1 710	-	1710
27/07/2011	Vehicle licence	027250-027257ZZ	634	460	174
19/07/2011	Vehicle licence	027249ZZ	45	-	45
14/04/2011	Exemption tickets	032832ZZ	10	-	10
10/06/2011	Abnormal fees	Master Receipt 871	2 464	2,324	140
04/10/2011	Exemption tickets	Master receipt 972	410	390	20

There was no satisfactory explanation for the variances in receipting and banking.

Risk / Implication

Cash might have been misappropriated.

Recommendation

The shortfalls should be investigated and corrective action taken.

Receipts should be banked intact to enhance internal control.

Management Response

Observation noted. The additional staff has been able to rectify the anomalies. The situation has been addressed.

ZIMBABWE PARKS AND WILDLIFE MANAGEMENT AUHORITY 2011

BACKGROUND

The Authority was established in 2004 by an Act of Parliament, Parks and Wildlife Management Act [*Chapter 20.14*]. The mandate of the Authority is sustainable conservation and management of wildlife.

1 GOVERNANCE ISSUES

1.1 SUSTAINABILITY OF SERVICE DELIVERY

Finding

The Authority reported losses as follows;

Year Ended	**Loss before tax ($)**	**Accumulated Loss ($)**
31/12/2009	1 843 511	1 843 511
31/12/2010	1 441 505	3 285 016
31/12/2011	1 168 402	4 453 418

The Authority used a monthly overdraft facility of $300 000 as an additional source of finance to meet its employee wage bill averaging $1 000 000 per month.

The Authority's man to ground ratio deteriorated to below the standard of 1:10 square kilometres per day to over 1:43 square kilometres per day.

Risk/Implication

The Authority may not be able to sustain its operations.

The adverse man to ground ratio may compromise service delivery and exposes wildlife to the risk of poaching.

Recommendation

The Authority should come up with turn-around strategies to mitigate against continued losses and should implement robust policies to raise revenue for its operations.

The Authority should take steps to ensure that wildlife is not exposed to poaching.

Management Response

The Authority has taken over some of the concessions as strategy of enhancing the generation of more revenue. It may be difficult under the current economic environment for the Authority to break-even in general as it still has a lot of conservation and protection work that is not paid for. Management will continue to lobby the Government to fund part of the statutory obligations.

1.2 LEASING OF PARK ESTATES

Finding

The Authority leased land for residential accommodation, commercial and social infrastructure purposes such as churches at Tanganda Halt, at the junction of Chiredzi, Mutare and Birchenough Bridge in violation of Parks and Wildlife Management Act *[Chapter 20:14]*. I was informed that in 2006, Chipinge Rural District Council made an error by demarcating land falling within Parks Estate, Chipinge Safari Area for residential purposes. A site plan was drafted by the department of physical planning, Mutare Provincial Office.

The site plan included approximately the following number of stands:
62 – 70 residential stands
20 - 23 Commercial stands/ Social gathering stands

Parks and Wildlife Management Authority took over the management of this "location" and continued with the plans of the Local Authority as indicated by the continued allocation of stands and collection of revenues from tenants on monthly basis and drafting lease agreements for the tenants.

Risk/Implication

The land which was meant for wildlife conservation may be parcelled out for unintended purposes.

Recommendation

The Authority should comply with the provisions of the Parks and Wildlife Management Act [*Chapter 20:14*].

Management Response

Management will look into the issue with a view of rectifying the anomaly so that all the issues raised comply with the relevant pieces of legislation.

1.3 INTERNAL CONTROL

Finding

There was no fuel register at Zambezi National Park. The responsible officials used loose scripts of paper to record fuel issues and these scripts were not properly filed.

Risk/Implication

The fuel may not be fully accounted for.

Recommendation

The Authority should ensure proper maintenance of fuel records and registers for accountability.

Management Response

Management has noted the observation. The fuel register is now in place and is being properly maintained.

1.4 RECORD OF GAME SKINS: HWANGE MAIN CAMP AND ZAMBEZI CAMP

Finding

There was no record for game skins which were under the tanning process at Hwange Main Camp and Zambezi Camp. Inquiries conducted revealed that the skins and hides were recorded after being tanned.

Risk/Implication

Misappropriation of skins and hides may occur in the absence of records of received quantities.

Recommendation

Skins should be recorded before and after processing.

Management Response

Management has noted the observation. A book will be opened to record skins received before preservation. Another book will be maintained at the storeroom to record skins that will be transferred from the skin shed.

ZIMBABWE REVENUE AUTHORITY (ZIMRA)

BACKGROUND

The Zimbabwe Revenue Authority (ZIMRA) started operations on September 1, 2001 and is constituted in terms of the Zimbabwe Revenue Authority Act [*Chapter 23:11*] of 1999. Its core business is the generation of revenue for the Government of Zimbabwe, administration of tax laws and the facilitation of trade and economic development in the region and beyond.

1. GOVERNANCE ISSUES

1.1. BOARD COMPOSITION

Finding

The composition of the board was reviewed to ten (10) members from seven (7) during the year under review. However, the review was not implemented. As a result, the three (3) non-executive members serving on the board were rotating in the three committees.

Risk / Implication

The current board members may be overwhelmed with responsibilities thus impacting on their ability to effectively exercise their oversight role.

Recommendation

The review should be implemented considering the size, diversity of the Authority and the need to comply with the provisions of the enabling Act.

Management Response

We agree with the Audit observation. The Revenue Board is equally concerned about the delayed appointments as the increase in numbers can only but enhances its ability to observe good corporate governance principles through mixing of diverse skills and added different ideas and deliver on the board mandate.
On its part, the Board deliberated on the issue at its 56th Board meeting held on 31 January 2013 made a resolution recommending certain capable individuals to be appointed to the Board by the Minister. The same day, the Board Chairman signed a letter addressed to the Minister which was duly dispatched in which he was recommending that such appointments be made upon due consideration. A reminder has since been done and we are awaiting a response on the way forward.

2. REVENUE COLLECTION AND DEBT RECOVERY

2.1. RECOVERY OF OUTSTANDING REVENUE

Finding

The Authority had long outstanding debts of over $240 million from clients dating back to 2009.
The age analysis data was being made redundant by having clients with receipts that were not being posted to their respective accounts as the system was allowing a client to have two (2) business partner numbers for the same tax head.

Risk / Implication

The outstanding revenue may not be recovered.

Recommendation

The Authority should intensify their debt recovery processes.

Management Response

Cases mentioned are at different levels of recovery and ZIMRA will continue to intensify efforts to recover the debts. ZIMRA is now monitoring progress on recoveries on both the current and old debt. In addition we now also have targets in terms of expected recoveries on a quarterly basis. It should however be noted that our clients are facing financial difficulties due to the economic environment. This has compounded the challenges being faced during the recovery of debts.

ZIMBABWE SCHOOL OF MINES

BACKGROUND

Zimbabwe School of Mines is a non-profit making organisation incorporated in Zimbabwe through a Charter established in terms of the Mines and Minerals Act, [*Chapter 21:05*]. The objects of the school are:

to promote as well as providing technical education and training relevant to the mining industry,

to develop and administer the distance learning facility in courses relevant to the mining industry, and

to provide and maintain premises, equipment and amenities necessary for the purposes of the School.

1. GOVERNANCE ISSUES

1.1. BOARD OF MANAGEMENT

Finding

The School operated without a Board during the year under review after its term expired in December 2011. The Board of Management is responsible for the management and administration of the affairs and operations of the School.

Risk / Implication

Policy formulation and oversight role may be compromised.

Recommendation

Board must be appointed on time by the responsible authority.

Management Response

Observation is noted:
The School will make all necessary steps to advise the Minister of Mines & Mining Development through the Permanent Secretary who is the ZSM Board Chairman of the risk associated with the delay in the appointment of the Board.

To apprise the Chairman of the Board so that he can advise the appointing officer who is the Minister of Mines and Mining development.

1.2. INTERNAL AUDIT

Finding

The school had no internal audit function for the 2011 and 2012 financial periods.
In the past, organizations within the mining sector provided internal audit services to the School.

Risk / Implication

The School's internal control systems might not have been effectively monitored.

Recommendation

The School should consider establishing its own internal audit function.

Management Response

Plans are underway to have a full functional Internal Audit Section as the School grows and expands operations. The School's Strategic Review Process also recommended the start of the internal audit section. To be sent to AHR and have the Board approve the inclusion of the audit section in the staff establishment.

2. PROCUREMENT OF GOODS AND SERVICES

2.1. PAYMENTS TO SUPPLIERS

Finding

The School made payments into personal bank accounts of some suppliers rather than the company's bank account as reflected on the supporting documents. From a sample of transactions examined the following table has details where payments were processed into the supplier personal bank accounts.

Reference	**Amount Paid $**
PTY07-87	2 323
PTY06-67	1 000
PTY05-36	100
PTY06-10	1 800
PTY06-09	2 200

Risk / Implication

Fraud may be perpetrated if payments are made into individual bank accounts.
Recommendation

The school should ensure that payments are made to suppliers of goods and services detailed in the supporting documents.

Management Response

The above observation is noted.
The stated suppliers of goods and services had the most reasonable prices and provided quick delivery periods. Most of them did not have company banking accounts in place and some are providers of specialist individual skills. The said service providers requested that the amounts be deposited in their personal bank accounts. Where possible, management will in future ensure that all suppliers have company bank details.

To notify all the above suppliers to open Organization bank accounts. Individual providers of specialist services will be required to provide written undertakings that they are personal specialist service providers and provide personal banking accounts.

ZESA ENTERPRISES (PRIVATE) LIMITED (ZENT)

BACKGROUND

ZESA Enterprises (Private) Limited, is incorporated under the Companies Act (Chapter 24:03) and the Electricity Act [*Chapter 13:19*] and is 100% owned by ZESA Holdings. It is mainly involved in the manufacture and repair of power and distribution transformers and line material; design, construction and commissioning of high voltage substations, power lines, civil and mechanical works; provision of transport logistics; supply and distribution of high quality hardware, domestic and industrial electrical equipment; provision of information technology and support services.

1 GOVERNANCE ISSUES

1.1 MATERIALS AGREEMENT

Finding

ZESA Enterprises **(**ZENT) entered into a technology transfer agreement with PME India in 2010. However, the agreement did not cover the supply of raw materials by PME India. The following challenges have been experienced due to the lack of a separate raw materials agreement:

Raw materials in excess of items ordered were being sent and this led to the creation of the consignment warehouse.

Goods worth $8 682 116 for the EPC projects, were received from PME and did not have purchase orders.

Delays in sending both the raw materials and the respective supporting documentation.

Delivery of sub-standard raw materials, which forced ZENT to find alternative suppliers eventually being expensive for the company.

PME India was engaged to do rehabilitation work on the completed projects to amend faults.

Over and above these challenges, PME India seemed to have been overcharging ZENT on the supply of raw materials. Below is a table showing difference in price when PME is compared to alternative supplier:

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Order Number	Description	Price / Unit $	% Price Difference
6840	Triple paper covered conductor (other supplier)	13.31	92%
5554	PME Multi paper covering conductor	25.53	

The above raw material is crucial in the manufacture of the 33kV and 11kV and huge quantities are required.

Risk / Implication

The price differential may ultimately reduce ZENT's competitiveness as the end product becomes more expensive.

The entity may be forced to perform rehabilitation work on projects completed using substandard raw materials.

Recommendation

Management should ensure procurement of transformer raw material through adjudicating three (3) quotations where the economical one is chosen.

Management should consider negotiating a separate agreement with PME for the supply of raw materials.

Management should engage component manufactures and they should be identified as preferred suppliers of component parts for transformers, as they are cheaper than the assemblers (PME).

Management Response

The PME Technology Transfer Agreement focuses on the transfer of Technology. Separate Tripartite agreements had been done in the past (PME, ZENT and ZETDC) to secure material for ZETDC orders at agreed material prices and sales prices for annual ZETDC transformer requirements. Tripartite Agreements ended in 2011.
The mode of operation was to procure raw materials based on individual ZETDC sales orders which would have been issued.
PME did not adhere to orders and multiple communications were done to discourage the practice. This was ignored which led the setting up of the consignment warehouse.
All risk and rewards of such stocks were retained with PME and this was communicated to the same in writing. All stakeholders which include the ZENT Board, ZESA Holdings and Group Audit and Performance were notified of the unordered deliveries and ZENT's treatment of such stock.

Pricing has been of concern and ZENT had started to adjudicate as with the 2012 SNEL orders and the recent 2013 ZPC order. A number of suppliers are now on the suppliers list for future procurement. The ultimate goal is to procure from manufacturers as this will maximise profit margins.
The use of PME was mainly due to the availability of a 90 day facility for material supply which assisted the currently tight local market liquidity conditions. Management expressed concern on the pricing of their material which is considered to be high and has requested working capital funding from the Shareholder to assist with cash procurements from other suppliers.
Material quality has been raised as and when issues arise and PME have given guarantees to rectify all faults. It is agreed that this is ideally not the best scenario as initial delivery of quality equipment is preferred.
A separate material agreement will resolve a number of the issues raised and management will pursue this option.

1.2 OVER-RELIANCE ON ZIMBABWE ELECTRICITY TRANSMISSION AND DISTRIBUTION COMPAPANY (ZETDC)

Finding

ZENT recorded a turnover of $37 802 435 for the year ended December 2012. About 80% of this amount was entirely from sales to ZETDC. ZETDC constituted about 90% of all the trade receivables of $17 824 115. ZETDC placed fewer orders during the 2012 financial year, which significantly contributed to the 23% decline in revenue. These statistics clearly indicate a huge over reliance on ZETDC by ZENT.

Risk / Implication

Declining revenues when ZETDC cuts its demand may slow the entity’s growth targets.

Recommendation

Management should ensure that the Marketing department develop strategies to fully exploit targeted markets and reduce dependency on a sole customer.

Management should diversify its customer base through suitable marketing strategy.

Management Response

This issue has been of concern to Management and the Board. Current plans are underway to engage a Business Development Manager at a very senior level to spearhead growth. Initiatives on local third party business and regional marketing have seen the securing of orders from other local corporates, SNEL (DRC), Lesotho Electricity Company, Eskom (Malawi) and ZESCO of Zambia.
Of importance to note is that selling in the region is price sensitive. ZENT has to ensure that the pricing is competitive which is dependent on the cost structure.

Currently regional sales are being done at market entry pricing which is not profitable. ZENT has to restructure its costs to complement sales volume increases. Proposals have been considered at Board level with various initiatives on how to provide a competitively priced quality product in Zimbabwe and the region.

APPENDIX A

ACCOUNTS NOT SUBMITTED FOR AUDIT AS AT SEPTEMBER 30, 2013

Name of entity	Years in Arrears
Air Zimbabwe	2010-2012
Anti-Corruption Commission of Zimbabwe	2011 -2012
ARDA	2011-2012
Judicial College of Zimbabwe	2012
National Biotechnology Authority	2010-2012
National Handcraft Center	2009-2012
National Libraries	2009 - 2012
National Museum and Monuments	2012
State Lotteries	2012
ZARNET	2011-2012
Zimbabwe Electoral Commission (ZEC)	2012
Zimbabwe National Road Administration	2012
Zimbabwe Parks and Wildlife Management Authority	2012
Zimbabwe United Passenger Company	2012

APPENDIX B

AUDITS IN PROGRESS OR BEING FINALISED

Name of entity	Years being audited
Allied Health Practitioners Council	2012
Allied Timbers Zimbabwe (Private) Limited	2012
Anti-Corruption Commission of Zimbabwe	2010
Broadcasting Authority of Zimbabwe (BAZ)	2012
Civil Aviation Authority	2012
Environmental Management Agency (EMA)	2012
Forestry Commission	2011-2012
Health Professions Authority	2012
Lake Kariba Fisheries Research Institute	2012
Litefold Engineering private limited	2012
Medical Laboratory Clinical Scientists Council	2012
Medical Rehabilitation Practitioners Council	2012
National Aids Council of Zimbabwe	2012
National Gallery of Zimbabwe	2012
Nurses Council of Zimbabwe	2012
Radiation Protection Authority	2009-2012
Rural Electrification Agency (REA)	2012
Small Enterprises Development Corporation	2012
State Lotteries	2009- 2011
State Procurement Board	2009-2011
UDCORP	2012
University of Zimbabwe	2012
ZBC (Pvt) Limited	2011-2012
Zimbabwe National Water Authority	2012
Zimbabwe Open University	2011
Zimpost(Private) Limited	2012
Zimbabwe Statistical Agency (ZIMSTATS)	2011