



ZIMBABWE

REPORT

of the

Auditor-General

for the

FINANCIAL YEAR ENDED DECEMBER 31, 2012

LOCAL AUTHORITIES

VOLUME III OF III

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ZIMBABWE

Ref: 2012 OAG LA-Report

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

April 25, 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 Local Authorities 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,

A handwritten signature in cursive script, appearing to read "mchiri".

M. Chiri (Mrs).
AUDITOR-GENERAL

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EXECUTIVE SUMMARY

This executive summary covers major audit findings which were noted during my audit of local authorities for periods 2009 to 2012. The issues highlighted in this report include; governance, procurement of goods and services, revenue collection, debt recovery and employment costs. Although some of the issues identified are common within the audited entities, the majority of the findings raised differ due to the nature, uniqueness and varying size of each local authority.

There was no uniformity in the preparation and presentation of financial statements by local authorities. All local authorities were using Council Fund Accounting as required by the Urban Councils Act [*Chapter 29:15*] and Rural District Councils Act [*Chapter 29:13*]. Ninety percent (90%) of the local authorities have no reporting framework and ten percent (10%) were reporting partially under the International Financial Reporting Standards (IFRS) and / or International Public Sector Accounting Standards (IPSAS). The IPSAS financial framework is considered useful both for accountability and for decision making purposes. It is therefore imperative, that all local authorities should adopt and report under the International Public Sector Accounting Standards framework to ensure consistency and comparability of financial statements as a result of the detailed requirements and guidance provided in each standard. The key findings are summarised below.

Governance

The majority of the local authorities' financial statements were not audited within 180 days after the financial year end as required by the Urban Council's Act [*Chapter 29:15*] sections 305 and 306 (3) and the Rural District Councils Act [*Chapter 29: 13*] sections 135 and 136 (3) because the Councils delayed in submitting 2009, 2010 and 2011 financial statements for audit. Some of these local authorities include; Bulawayo City Council, Harare City Council, Mutare City Council, Chitungwiza Municipality, Bindura Municipality, Plumtree Town Council, Lupane Local Board, Ruwa Local Board, Bikita Rural District Council (RDC), Binga RDC, Guruve RDC, Hwedza RDC, Matobo RDC, Makoni RDC, Mbire RDC, Mhondoro Ngezi RDC, Murewa RDC, Mutoko RDC, Muzarabani RDC, Pfura RDC and Zibagwe RDC.

Local authorities were operating without stands registers containing all the relevant stand sales details. The details which should be contained in the stands register include; total value of each stand, the size of the stand and the date a particular stand was sold. Notable examples are Harare City Council, Kadoma City Council, Kwekwe City Council, Mutare City Council, Bindura Municipality, Chinhoyi Municipality, Chipinge Town Council, and Mhondoro Ngezi RDC. In addition, Councils failed to provide information related to the sale of commercial and industrial stands. Most of the Urban Councils did not have an updated valuation roll contrary to the requirements of the Urban Councils Act , [*Chapter 29:15*] section 253(a)-(f).

Local authorities such as Epworth Local Board and Zvishavane Town Council were operating without an Estate Capital Bank Account as required by Section 300(2) of the Urban Councils Act, [*Chapter 29:15*]; which states that the monies received from sale of stands shall not be used for any purpose other than the purchase of land, or investment in terms of section 302, or servicing of stands and all other related costs and advances for

the purpose of financing any capital expenditure or for creation or replacement of an asset, repayable to the account at an interest.

A number of local authorities were struggling to honour statutory obligations to NSSA and ZIMRA due to liquidity challenges. Councils were not remitting statutory deductions on time. These Local authorities included Bindura Municipality, Chegutu Municipality, Norton Town Council, Epworth Local Board, Guruve RDC, Hurungwe RDC, Makonde RDC, Manyame RDC, Mutoko RDC, and Mwenezi RDC. Chimanimani Rural District Council was served with garnish orders totaling \$ 22 100. The Kadoma City Council was failing to remit taxes due to Zimbabwe Revenue Authority (ZIMRA). As a result an amount of \$40 670 from account number 082 and \$5 261 from account number 085 were seized by ZIMRA.

Some of the Councils did not have consolidated tender registers to document tenders issued during a financial period. A tender register is essential to ensure transparency in the tender process. The following were notable examples; Mutare City Council, Chitungwiza Municipality, Gokwe Town Council and Epworth Local Board.

Urban Councils such as Harare City Council, Mutare City Council, Kadoma City Council, Chitungwiza Municipality, Marondera Municipality, and Lupane Local Board were characterized by failure to prepare bank reconciliation statements from the year 2009 through to the year ending December 31, 2012. For instance, Ruwa Local Board failed to prepare bank reconciliations since the inception of the multi-currency in 2009. There were reconciling items on the Chitungwiza Municipality's bank reconciliation statement that did not have supporting documentation. An amount of \$32 615 appeared on the reconciliation statement as unidentified cash withdrawals. In addition an amount of \$944 021 was indicated as unidentified transfers. Treasurer's department failed to validate such transactions and they were not traceable as they had no audit trail.

Revenue Collection and Debt Recovery

Urban and Rural District Councils were failing to optimize revenue collections from rate-payers. Some occupants of Council rented properties were not being billed and as a result these were not paying rentals since 2009. Local authorities failed to come up with a comprehensive lease database for these tenants. The challenge facing most of the local authorities was failure to recover outstanding debts. However, these debts were all subsequently written off following the Local Government, Public Works and National Housing Ministerial directive on outstanding debts from the year 2009 to June 2013.

There were some fraudulent activities in a number of local authorities. Some of the fraudulent activities are highlighted below:

Billing employees at Harare City Council were issuing fake receipts using two anonymous computers. Fraudulent activities were being largely perpetrated at Cashier level within the City and had resulted in financial loss to the City assessed to be an amount of \$7 200 000. There were 1 386 receipts in the amount of \$3 251 180 which were observed to be fictitious. These receipts were in the form of missing receipts, cancelled receipts without supporting approval documentation and duplicated receipts. An audit carried out on selected machines revealed 11 244 duplicate receipts amounting to \$631 053 and 51 702 cancelled receipts amounting to \$6 956 494. No convincing reason was given for cancellation of these receipts.

Examination of the Kadoma City's bank reconciliation statement disclosed suspected fraudulent transactions. An amount totaling \$12 491 made up of ten (10) third party cheques were irregularly en-cashed at the City Council's rates Hall. Although copy deposit slips portray them as having been banked, scrutiny of the relevant bank statements did not acknowledge the banking.

The Chinhoyi Municipality lost \$555 158 as a result of non-banking, misrepresentation and unauthorised cash withdrawals from the main revenue office and bank accounts.

The Norton Town Council administration officer issued shop licenses but did not receipt the funds collected from the respective shop owners. The money for the licenses could not be traced to Council financial records. As a result Council suffered an estimated financial loss of \$28 651 which was yet to be recovered.

Procurement of Goods and Services

Irregularities were observed in the procurement of goods and services in some of the Councils. Mutare City Council awarded a tender to Westgate Investments of \$662 466 in respect of the supply of water pipes and fittings. This obligation was not honored although Council made 50% payment. Instances were noted, in Victoria Falls Municipality, where there were duplicate payment voucher numbers for the water account. Voucher numbers 173-202 with a value of \$38 739 were duplicated.

The Buhera Rural District Council management incurred unauthorized excess expenditure amounting to \$130 752. Full Council Meeting Number 16 passed resolution C244 (b) which authorised the construction of a sewer line and ponds in Murambinda by a private construction company at a cost of \$298 568. By year end, Council management had spent \$429 320, which was 44% way above the authorised limit of \$298 568.

Chipinge Rural District Council acquired three (3) vehicles from South Africa. There was no evidence to suggest that these acquisitions were done following proper procurement procedures. The trip also exceeded the budget by \$12 985. In addition, unsupported expenditure of \$20 086 was incurred.

Employment Costs

A number of irregularities were also noted in a number of councils. As at 31 December 2010, the Mutare City Council was overstaffed. A total of 1 865 employees were on its payroll when its maximum staff establishment was 1 250. There was no supplementary budget to cushion the increase in payroll costs. Budgeted staff costs were \$7 128 899 while actual costs were \$9 519 065 resulting in over expenditure of \$2 390 166.

The Epworth Local Board's Salaries and wages figure in the ledger could not be reconciled to the payroll. Management could not provide adequate explanations as to the cause of the variances. Comparisons of the financial statements balance of \$853 186 and payroll amounting to \$770 559 resulted in a variance of \$82 627.

Ruwa Local Board paid an annual bonus amounting to \$105 504 which was processed outside the payroll system. Management failed to explain why this payment was made outside the payroll. In addition this bonus was not taxed.

DEFINITION OF TERMS USED

“**Local Authority**” means a municipal council, town council, local board and rural district council established in terms of the Urban Councils Act [*Chapter 29:15*] or Rural District Council established in terms of the Rural District Councils Act [*Chapter 29:13*]. Local authorities are established with the overall mandate of governing respective council areas.

Local authorities are categorised into two groups, the rural district councils and urban councils, in which a local authority can either be classified as a **city, municipality, town council** and or **local board**.

Following an application to the Ministry of Local Government, Public Works and National Housing, a local authority may be conferred with a status of any of the above classes. The criteria for such classification may depend on size, complexity of services being provided, infrastructure and activities among other things.

CITY COUNCILS

EL LAWAYO CITY COUNCIL 2009

GOVERNANCE ISSUES

TRACTOR VEHICLES

Finding

There was no evidence to suggest that eight (8) earth moving equipment worth \$1 520 were registered with the Central Vehicle Registry (CVR). Council was unable to avail registration books to that effect.

Risk Implication

Council may have no recourse in the case of ownership wrangles.

Unregistered assets can be easily misappropriated.

Recommendation

Council is advised to register the earth moving equipment for record purposes.

Management response

We agree with the observation, the transport superintendent is attending the matter.

2. FIXED ASSETS REGISTER

Finding

The completeness of Council assets could not be verified as the fixed assets register was not being maintained. There was therefore no trail of acquisitions and movement of the Council's assets.

Risk/ Implication

Misappropriation of assets may occur and remain undetected as no complete record of assets exists.

Recommendation

A comprehensive fixed assets register covering significant asset groups should be established and maintained. This exercise should be undertaken after physical verification of all assets and adjusting for any discarded assets.

Management response

The observation is noted. Council is currently working on the preparation of the assets register.

1.3 PAYROLL

Finding

The payroll system had critical weaknesses. Salaries clerks had access to the master file and were able to amend banking details. This was worsened by the fact that there were no controls in place to detect such unauthorised changes.

Risk/ Implication

Fraudulent payroll payments may be made.

Recommendation

There should be effective authorisation and access control in the payroll system.

Management response

The large volumes of data make it difficult to check all input source documents before the payroll is run. It normally takes six Accounting Assistants two weeks to calculate and capture all the input, hence, making it impractical for the two accounting assistants to verify the accuracy of all input.

2. EMPLOYMENT COSTS

2.1 INDUSTRIAL ATTACHMENT EXPENSES

Finding

Industrial attachment expenses amounting to \$3 781 were paid without supporting documentation.

Risk/ Implication

Fraudulent activities and unauthorised expenditure may occur and remain undetected.

Recommendation

All expenses should be adequately authorised and supported by appropriate documentation.

Management response

In the past departments would submit payment vouchers without supporting documents. Currently the recommendation is being implemented.

GWERU CITY COUNCIL 2010 AND 2011

1. GOVERNANCE ISSUES

1.1 HUMAN RESOURCES DEPARTMENT

Finding

The City Council did not have an authorised staff establishment for the Housing, Health and Town Clerk Departments.

Risk/Implication

The absence of an authorised staff establishment may result in over employment which may negatively affect the financial performance of the City in terms of salary obligation sustainability.

Recommendation

Human Resources Department should have an authorised staff establishment.

Management response

The Human Resources section has been a victim of staff shortage for quite some time now. However, the new Promun version has a human resources module which they can use to update the employees database.

Audit Evaluation

Although the Council is going to have a database the staff establishment is required.

1.2 LEAVE DAYS

Finding

Council employees were accruing leave days beyond the designated ceiling of ninety-nine days for both junior employees and senior employees. Council has no standing policy on the treatment of excess leave days after the ceiling has been reached.

Below is a list of examples:

Employee dept	in	Number of leave days	Ceiling days	Variance (days)
	1185	229	99	130
	1185	212	99	113
	1185	222	99	123
	1185	211	99	112
	1154	211	99	112
	1163	265	99	166
	1163	224	99	125
	1163	229	99	130

1163	215	99	116
1163	243	99	144
1166	323	99	224
1166	261	99	162

Risk Implication

By allowing leave days to accrue beyond the limit, the organisation creates a huge liability for itself in the form of cash in lieu of leave.

Corrupt employees may have the opportunity to cover up corrupt deals.

Recommendations

The Human Resources department should always alert employees when their leave days are nearing the ceiling and the affected employees encouraged to go on leave.

The excess days are not authorised and therefore should be written off.

The Council's system should be configured to automatically cease further accumulation of excess days beyond the ceiling.

Management response

It has been council's policy to reduce staffing levels through 'natural wastage' that is non-replacement of leaving employees. This has resulted in very thin staff compliments and consequently staff not being able to go on leave when they should.

HARARE CITY COUNCIL 2009

As of April 25, 2014 Harare City Council had not certified the 2009 audited financial statements as required by section 307 (4) (a) of the Urban Councils Act [*Chapter 29:15*] read together with section 306 (5) of the same Act.

The Council's financial statements for the year ended December 31, 2009 were issued with a modified opinion due to the following issues:-

“i. Understatement of revenue

There are inadequate controls over the Council's billing and receipting cycle. There is room to create false receipts for genuine cash payments by customers on settlement of monthly bills. The Council does not have a central record of all computers used for billing and receipting. In these circumstances, I was unable to satisfy myself as to the completeness of revenue of the Council.

ii. Valuation of property and equipment

The valuation of the Council's assets in United States Dollars was not performed on all assets following the change in the Council's functional and presentation currency from Zimbabwe Dollars to United States Dollars in January 2009. Fixed assets registers were not up to date or were not yet there. I therefore did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation and completeness of property and equipment as at 31 December 2009.

iii. Inventory valuation as at 1 January 2009

There was no inventory valuation performed by the Council on 1 January 2009. The Council's records did not permit the application of alternative auditing procedures regarding the inventories. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence and valuation of inventories as at 1 January 2009.

iv. Allowance for credit losses

The allowance for credit losses of the Council as at 31 December 2009 is stated at USD94 084 280. I was unable to obtain an age analysis of the Council's debtors as at year end. The BIQ system used by the Council did not generate debtors aged analysis for management use. In these circumstances, I was unable to carry out all the auditing procedures I consider necessary to satisfy myself as to the adequacy of the allowance for credit losses.

v. Use of information technology platform that is itself work in progress or un-commissioned

The City Council uses the BIQ system for its operations. Although the system has been in place for more than four years it appeared dysfunctional as certain important functions

... performed manually. Some information was still being carried on diskettes from branch offices to Head Office and creating room for manipulation. Passwords were open to all users of the BIQ system amongst a host of problems indicative of an IT platform that is self work in progress.

Long outstanding bank reconciliations

The City Council operated multiple bank accounts and the bank reconciliations were long outstanding and the BIQ system was not in use in this accounting area.

Disclaimer of Opinion

“Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of City of Harare for the year ended 31 December 2009.”

GOVERNANCE ISSUES

FINANCIAL REPORTING

Finding

As at April 25, 2014, the 2011 and 2012 audits had not yet commenced because the books of accounts for the City Council were not up to date to the extent that the 2009 financial statements were audited in 2012.

Risk/ Implication

The absence of financial and other reports on a timely basis may compromise decision making and accountability by those charged with governance.

Recommendation

Management should ensure that records are maintained up to date at all times and ensure that periodic statutory audits are carried out at the end of each year. This should be done within three months of the preceding year end.

Management response

The delay in the finalisation of year-end accounts was occasioned by a number of reasons; chief among them was under staffing and lack of integration of reporting systems. The department lost more than half of its experienced accounting personnel over the years and no meaningful replacements were made as no trainees were also recruited during the period. The financial systems are under development with some processes still manual which makes the collation and consolidation of information a bit of a challenge. Council also experienced challenges in the valuation of its huge asset base, which was done progressively through expert and internal valuations. The delay in finalising asset values to be incorporated in the

accounts also negatively impacted on the finalisation of the accounts. Notably efforts are however, underway to ensure that financial reports are ready for audit at most three months preceding the audit.

1.2 BANK RECONCILIATIONS

Finding

Bank reconciliations were not being prepared in BIQ system on a monthly basis. Of the six (6) active bank accounts maintained by the Council, bank reconciliations were prepared for only three (3) accounts. Bank reconciliations for these three (3) bank accounts were prepared for the month of December only. There were no bank reconciliations that were prepared for City Water.

Risk/ Implication

Fraud and error may go undetected.

Recommendation

Management should ensure that bank reconciliations are prepared monthly, reviewed and signed as evidence of review by senior personnel.

Management response

Admittedly, monthly bank reconciliations for the period under review were done using the Tom Cat system and did not clear the BIQ balances. However, the following remedial action was taken and bank reconciliations are being prepared for all accounts:

The BIQ system developer has been engaged to develop an improved reconciliation process, which is more automated, documented and complete. The revised process must support accuracy, timely completion and improved ease of review, timely correction of errors and enhanced communication between the City and the banks;

Improved supervision to ensure reconciliations are completed accurately and timely and reviewed and signed off by senior personnel in the division;

Engage the Revenue division to resolve the reconciling items that have been outstanding for some time and establish procedures to resolve future reconciling items timely;

It is noted that a salaries account had been opened, which account has been inactive as the salaries were paid from the main account. The HCD-- Welfare Manager will capture the journal vouchers.

The reconciliations for the City Health account were done and the entries in the BIQ (JVs) were not captured in the system.

INTERNAL AUDIT DEPARTMENT

FINDING

The Internal Audit Department had no forensic tools to detect fraudulent manipulations of system transactions since the environment is susceptible to fraud and misappropriation of assets.

Risk/ Implication

Employees may collude and alter the receipted figures in the system for their benefit and this may not be detected during routine audit.

The Council may suffer financial loss as a result of fraud.

Recommendations

The Council should acquire digital forensic tools which will help the internal audit to acquire, analyse and report data through the use of computer forensics which will help them make the most of this investigative technique, as well as recover previously deleted documents that can determine whether a fraudulent activity took place.

Management should ensure that the Internal Audit department is trained on how to use the digital forensic tools.

Management response

Indeed the efficiency of the Internal Audit Division has over the years been greatly affected by the lack of requisite tools. The observation and recommendations are mostly acknowledged and will definitely go a long way in improving the efficiency and effectiveness of the Division.

- LAND BANK REGISTER

Finding

The BIQ ERP system module was not being used to maintain the Council's land bank register. Records of the Council property sold were maintained on separate sheets of paper and the information is not aggregated onto a single land bank register. This module however was not being utilised to capture and record such information of land sold and yet to be sold.

Risk/ Implication

Fraud or error may go undetected.

Recommendation

Management should ensure that land bought, sold and unsold is properly maintained centrally in the Council's BIQ land bank module.

Management response

Council is in the process of compiling a land bank Register as per Audit recommendations.

1.5 LEASE AGREEMENTS

Finding

Some of the Council's properties' lease contracts were entered into during the Zimbabwean dollar era and were denominated in Zimbabwean dollar currency. The contracts were not reviewed to capture the adoption of the multi-currency.

Risk/ Implication

It may be difficult to enforce the contracts in the event of a dispute. Council may collect lease rentals in multi-currency but the lease contracts remain un-updated leading to misappropriation of the collections.

Recommendation

The Council should review the lease contracts to capture the adoption of multi-currency.

Management response

Efforts are also underway to renegotiate all leases concluded prior to multi-currency era so as to align them to the prevailing currency.

1.6 TRANSFER OF INFORMATION

Finding

The City Council does not have Wide Area Network (WAN) to connect district offices to the head office. A WAN would have allowed districts to be online with the head office. Daily information on revenue collected was being transferred through the use of flash drives and discs from district offices into the BIQ system.

Risk/ Implication

This may result in incomplete records in the event of loss of flash drives and discs.
Manipulation of financial information may occur.
Fraudulent activities may occur.
Threat to destruction of information through viruses.

Recommendation

Management should consider connecting all district offices to the head office.

Management response

Plans to have a Wide Area Network (WAN) have been in the pipeline for quite some time, more so after the acquisition of a Potraz license to install a wireless WAN but this has been inhibited by funding constraints. Council is however going to adopt a phased approach to implementation.

COMPUTER SECURITY

Findings

User profiles of some former employees were still functional even though the employees were terminated by the Council.

It noted that the former Head of Information Technology's user profile was still active.

Employees were sharing passwords.

Risk/ Implication

This may create room for unauthorised access to confidential information. Fraudulent activities may occur.

Recommendations

Management should consider programmed controls that de-activate users once they are terminated.

Management should also ensure that the password confidentiality policy is enforced.

Management response

The Human Capital Director has been requested to periodically provide a schedule of people who are no longer in Council employment and those that would have terminated their services to facilitate the de activation of user profiles.

An updated Information Communication Technology policy is under compilation and this will have a confidentiality clause. It is the responsibility of the user to keep his/her password confidential and failure to comply would attract disciplinary action.

2. REVENUE COLLECTION AND DEBT RECOVERY

2.1 RECEIPTING SYSTEM

Finding

Billing employees were issuing fake receipts using two anonymous computers. The City of Harare failed to detect the computers that were being used to generate these receipts.

Risk/ Implication

This resulted in revenue leakages.

Recommendations

Management should ensure that proper controls are established when receipting.

The City Council should investigate this issue and consider having a digital tool that detects all malpractices before time runs out.

The City Treasurer should consider utilizing electronic monitoring tools or devices to assist in monitoring activities.

Management response

The receipting system has been upgraded to reduce loopholes that existed before by the introduction of pre-printed stationery with security features in place. The Town Clerk ordered an extension of depth test to be performed by the auditors using digital forensic skills by external audit. In addition measures have been taken to ensure that all receipting points are monitored on a daily basis through registers of receipts serial numbers and machine printed numbers. There is a facility to monitor the number of machines used on a particular day. Council had demonstrations from potential suppliers for the installation of CCTV; hence this is work in progress.

3. FINDINGS ARISING FROM EXTENDED AUDIT PROCEDURES ON REVENUE

Apart from the audit of financial statements for 2009 financial year Harare City Council requested Grant Thornton Camelsa to carry out extended audit tests in the form of forensic audit procedures to verify the completeness of revenue transactions covering four (4) receipting machines. The extended audit tests covered six (6) receipting machines for the period March 1, 2009 to December 31, 2012. The results of these tests are reported below:-

The extended procedures covered less than 4% (four percent) of the City's machines. In official reports the City had more than 800 (eight hundred computer machines for receipting). However, just about 134 (one hundred and thirty four) machines do exist.

The difference between 134 machines and the more than 800 machines were non-existent machines. The reason for the virtual machines appeared to have been to create capacity for the perpetration of fraud by the Cashiers working in cahoots with some IT staff.

Unrecoverable amount of US\$7 200 000 was lost through the scams.
The fraud in the City which resulted in financial loss to the City was being perpetrated
at Cashier level. Fraud may still be taking place.

The execution of the fraud was largely in three fashions, namely creation of fictitious
receipts, duplicating receipt numbers and pocketing the money, cancellation of receipts
which will have been credited and pocketing the cash.

FICTITIOUS RECEIPTS

Finding

The extended audit tests revealed that 1 386 receipts in the amount of USD 3 251 180
were fictitious. These receipts were in the form of missing receipts, cancelled receipts
without supporting approvals documentation and duplicated receipts.

A fake receipt has at least one of the following characteristics:

Does not use draft size 12 the standard font used for receipts, which is inbuilt in the
receipting module;

Is generated out of the standard receipting module using applications like Microsoft
Word;

The amount is not deposited into the bank account;

Has a receipt number that does not conform to a ten (10) digit receipting sequence and
format in use as represented by machine number (first three digits), day (second two
digits after machine number), month (two digits after the date) and year (last two digits in
the receipt number, for example. 0200037038

Is not recorded on the Daily Income Return (DIR) forms;

Is not recorded in the BIQ system;

Is generated by a machine number that is not on the list of approved receipting machines;
and issued at odd hours.

Recommendation

City of Harare Treasury should conduct a full forensic audit of its revenue collection
system that includes all the one hundred and thirty six receipting computer machines in
all City of Harare district offices, Harare Water (Old Mutual Offices) and Rowan Martin
Building. The audit will enable City of Harare to determine with precision the magnitude
of fraud, prevalence of fictitious receipts in BIQ system, factors inducing revenue
collection staff to commit fraud, and will expose weaknesses in internal control systems
that can be improved on for efficiencies.

3.2 FRAUDULENT RECEIPTS

Finding

City of Harare staff employed as cashiers, clearing officers and IT support and maintenance technicians took advantage of inadequacies in internal control systems in revenue collection and defrauded their principal through collection of cash from rate payers, converting such cash receipts to personal use and issuing fake receipts to the rate payers.

Recommendations

The City Council should consider conducting a forensic audit for its entire revenue collection system to be able to detect prevalence, and magnitude of fraud in the system. This will help to review the current internal control systems to mitigate against further exposure to fraud and thefts of revenue receipts.

The City Council should consider engaging the rate payer's community in anti-fraud education and awareness campaigns.

3.3 DUPLICATE RECEIPTING MACHINES

Finding

It was observed that machines that were stationed at different City of Harare's district offices were issuing receipts in the same number sequences during the period under review. Machines were being used interchangeably to receipt revenue and cover up fraud committed by cashiers and or clearing officers.

Recommendation

The City Council should institute a comprehensive investigation into all transactions processed by three receipting computers in the BIQ system. The City should investigate all receipts generated, processed and issued by these receipting machines at the different offices to establish authenticity of the receipts by these machines. Mechanisms should be put in place to do away with duplicating machines.

3.4 FICTITIOUS VIRTUAL RECEIPTING MACHINES

Finding

It was observed that the following receipting machines could have been fraudulently connected onto the billing system without known physical connection presence (virtual) and were used to process and issue out fake receipts with a total value of \$3 075 751.

Machine 43 issued forty (40) fake receipts amounting to USD83 303.

Machine 123 issued 2359 fake receipts amounting to USD571 031.

Machine 133 issued fake receipts amounting to USD1 024 795.

Machine 142 issued fake receipts amounting to USD1 188 275.

Machine 143 issued forty (40) fake receipts amounting to USD 108 082.

Machine 129 issued four (4) fake receipts amounting to USD18 800.
Machine 210 issued forty six (46) fake receipts amounting to USD81 465.

There is evidence that machine 129 was fraudulently used to create transactions for the non-existing machine 43.

Issue Implication

This environment exposes the City to weaknesses in internal control systems that result in fraud.

Recommendation

The City should report identified suspects to the law enforcement agencies as well as take disciplinary action in terms of its disciplinary code and the Labour Relations Act, Chapter 27:01.

NON RECONCILIATIONS OF REVENUE ACCOUNTS

Finding

The City's reconciliations of revenue accounts were not prepared for the period under investigation which could have resulted in loss of revenue. There was no formal list of the number of properties in each district covering the following categories: Church leases, billboards, commercial stands, guarded car parks, market fees, schools, residential houses, rented houses, beer-halls, home industries and PTC exchange.

Recommendation

All revenue accounts, bank accounts and debtors accounts should be reconciled on a monthly basis.

IT STAFF COULD BE REVENUE FRAUD AND THEFT SUSPECTS

Finding

Four (4) employees in the IT Department accessed the code maintenance module in the BIQ system in excess of their authority and illegally and fraudulently created virtual machines in the system. The employees could have committed fraud through acts of misconduct by commission and / or omission and contrary to employment terms and conditions with their principal.

Recommendation

IT Department should be sufficiently resourced with skilled personnel in areas such as IT Security.

City of Harare should consider training its personnel in IT Department and Internal Audit in programs such as IBM Series Information Systems Security and Audit respectively

The City's Internal Audit Department's ICT Audit personnel should be provided with the requisite audit software programs and training in computer forensics so that they can conduct substantive and comprehensive system based transaction audits in a proactive manner.

Activity logs in the Code Maintenance Module should be audited on a monthly basis. All receipting machine records in the Code Maintenance Module should be reconciled regularly with physical receipting machines and that all discrepancies noted should be investigated on a timely basis.

Policies guiding the ICT security operations should be formulated. ICT security procedures should be put in place to govern the operations of the ICT department.

The City should take the necessary action against the four officers if they were found to have committed acts of misconduct and fraudulent activities.

3.7 FRAUDULENT DIRECT BANKING / BANK TRANSFERS IN BIQ SYSTEM

Finding

After receiving cash from ratepayers, and converting such cash receipts to City of Harare, fraudsters would post direct banking entries into proof of bank transfers, deposit slips and corresponding deposited amounts appearing on City of Harare bank statements. The fraudsters leveraged on the defective and inadequate internal controls as there were no bank accounts and debtors' accounts reconciliations being done by respective City Treasurer departments.

Recommendations

The City Council should conduct a comprehensive and substantive audit to validate all direct bank payments or transfers by ratepayers over the period under review 2009 to 2012

The City Council should reconcile all bank accounts on a monthly basis as a measure to mitigate against risks of fraud and theft.

The City Council should review its bank accounts and corresponding cashbooks to ensure that one bank account has one corresponding cashbook for easy bank reconciliations.

3.8 DUPLICATE RECEIPTS NUMBERS

Finding

A review of the revenue entries in BIQ revealed that a significant number of receipt numbers were duplicated during the period under review. In this case, the same receipt number used for a particular cash receipt could then be used again and issued to another ratepayer. At the time of audit users were able to recall and edit posted receipts from the BIQ system. The system can also allow users to generate, process and post entries without adhering to logical sequence of receipt numbers

Forensic audit tests of the selected machines discovered 11 244 duplicate receipts amounting to USD631 053. There was duplication of receipts used as proof of payment for the machines selected. These receipts would be such that the same receipt number would be used on different customers with different amounts and different dates.

Recommendation

The City Council should ensure that user rights are disabled, and that any changes related to receipts already in the system be done through manually approved journal entries.

The system should be developed or fine-tuned to ensure that it does not allow duplicate entries.

DEPOSIT SLIPS APPEARING ON BANK STATEMENTS IN DUPLICATES OR IN TRIPPLICATES

Finding

Staff of Harare's Internal Audit clerks issue deposit slip booklets to user departments in abundance. However, the forensic audit team observed some deposit slips would appear on Harare bank statements in duplicate or triplicates for the same periods (day, month, and year) but bearing different amounts of cash deposited into the bank accounts.

There was no proper accounting, regular stocktaking, complete record keeping, reconciliations or even spot audits being done for the City's security items.

The City's bank accounts and corresponding cashbooks were not being reconciled on a regular basis as a compensatory measure for lapses in control systems.

Cash control department was not reconciling receipts issued with amount entries posted to BIQ system, as well as reconciling with actual cash received and banked and reflecting on bank statements received on a regular basis.

The table below shows a summary of the duplicate or triplicate deposit slips.

Period	Bank Account	Amount \$
2009	Kingdom Account 19131677	1 975 700
2009-2012	Kingdom Water & Sanitation Account 49103832	60 060 725
2010	Kingdom Main Account 49080597	1 471 689
2011	Kingdom Main Account 49080597	196 784

Risk/ Implication

City could be exposed to errors and fraud.

Recommendation

The Council should re-assign the custodianship and control duties of the security items department from Internal Audit department to Revenue's Cash Control department so as to avoid conflict of interest and allow sufficient independence in conducting audit duties. Effective controls should be put in place to improve the security items movements.

The City should carry out an audit of Security stationery stock movements over the period under review and a systems review audit with the objective of assessing internal control weaknesses.

In view of the likelihood of fraud occurring in City of Harare through the abuse of Security stationery, the City requests complete records of copies of all bank statements from all operational bank accounts for the period under review, copies of deposit slips, copies of bank transfer documents and carry out an investigation into all transactions with the aim of validating the documents and detecting fraudulent transactions either from within the banks or from City of Harare employees.

3.10 DELETED RECEIPTS

Finding

Using forensic recovery tools, I reconstructed deleted data on the duplicated hard drives of the machines under review. A total of 6 402 deleted receipts were recovered from the selected machines.

Recommendation

All deleted receipts pertaining to machine 043 that were recovered from receipting machine 129, should be investigated so as to quantify the amount of revenue loss suffered by the City through fraud and effect remedial action.

3.11 CANCELLED RECEIPTS

Finding

A total of 51 702 cancelled receipts amounting to USD6 956 494 were discovered from the forensic audit of the selected machines. No convincing reason was given for cancellation of these receipts.

Recommendation

Substantive audit should be done to authenticate all cancelled receipts, and that the receipts amounts were not fraudulently credited to rate payers' accounts in the BIQ system with corresponding cash or cheques, bank transfer amounts received into the City's bank accounts.

RECEIPTS

1.1.1

Analysis of the revenue receipt number sequence in BIQ showed that there were missing receipts that were not recorded in the system.

A total of 20,656 missing receipts were discovered from the forensic audit of the selected period.

1.1.1.1 Implication

Missing receipts could be used to conceal fraud in the form of stolen cash receipts from customers.

1.1.1.2 Recommendation

The City Council should further investigate all reported missing receipts in order to determine the receipts used for fraudulent activities by its staff.

INADEQUATE CONTROLS IN THE BIQ SYSTEM

Finding

There was inadequate system access controls over remote connections to the IBM server (QRMTSIGN) by some user profiles. System account users were bypassing the BIQ system controls in order to commit fraud. These controls include but are not limited to the following: password controls; auto configuration controls; and remote sign on controls.

Recommendations

Time interval before disconnecting jobs should be set to "null". Therefore, the value "0" should be set on the QDSCJOBITV on the operating system.

The system should be configured to reject remote sign on by disabling the QRMTSIGN object on the IBM server.

- USER RIGHTS AND INADEQUATE SEGREGATION OF DUTIES IN THE BIQ SYSTEM

Finding

Some members of staff have excessive rights to the system and if unmonitored they can access and use the system at any point in time. Technical staff members were using the developer's account QUILL to post transactions into the BIQ system. These transactions were not traceable to any individual.

There was inadequate segregation of duties in the BIQ system's maintenance and support duties in the ICT department. The system's maintenance and support user profiles shared similar super level access rights. Notable user profiles were; OSECOFR, quill, BIQ01, BIQ02, BIQ03, BIQ04, BIQ05, BIQ06, BIQ07, BIQ08, and BIQ09.

Recommendation

The City Council should ensure these user rights are disabled, and that any changes required on receipts already in the system be done through manually approved journal entries.

3.15 USER LOGS AND REMOTE ACCESS CONTROL

Finding

There was no evidence that the IT personnel were performing regular back-ups of the BIQ system logs. There were no complete records of system security violations, unauthorised system access or transactions by users.

Some BIQ system users were connecting themselves onto the system at odd hours and at times accessing accounts that do not belong to them. For instance, a fake user log was created at 03:29:50 am, which was a time when everyone else is out of the offices as well as logged out of the system.

Recommendations

Data back-ups should be done for all audit trails to ensure that they can be used in situations that need verification of system usage logs. The City Council should make sure that all systems meet the best practice preventative controls. No unauthorized staff members should be allowed to access and process any transaction in the BIQ system during odd hours.

Use of the QUILL user account should be restricted to the system developers only.

3.16 ALLOCATION OF RECEIPTING MACHINES – CODE MAINTENANCE

Finding

The following control weaknesses on the allocation of machines to revenue centers were observed:

There was no procedural and systematic way of numbering receipting computers on allocation by IT. The computers were being numbered from 001 up to 892 although there were only 135 receipting machines across all centers;

At the time of audit, an asset register of computers owned by the City Council was not being maintained. No department had taken up the specific responsibility of maintaining a register of IT assets;

There were no formal procedures being followed on the allocation of computers. User requests and authorization forms to this effect were not being completed and filed for reference; and

City of Harare inventory of workstations and system data input had not been reconciled during the period September 2011 to August 2012. The number of machines reported to

... in the records was differing from the number of the actual machines that
... on the ground.

... there was no record of the computers that had the receipting module installed
... were authorized to have this software.

Recommendations

... logs in the Code Maintenance Module should be audited on a monthly basis. All
... machine records in the Code Maintenance Module should be reconciled
... with physical receipting machines and that all discrepancies noted should be
... on a timely basis.

KADOMA CITY COUNCIL 2011

1. GOVERNANCE ISSUES

1.1 BANK RECONCILIATIONS

Finding

Bank reconciliation statements had a number of unknown bank debits resulting from erroneous debit postings by the bank. These debits represented money deducted from Council bank account but were not supported by payment vouchers or Council cheques. The following table shows some of the unexplained debits:

Date posted in bank statement	Amount \$	Reference
28/01/11	40	3160
08/01/11	88	00362
21/01/11	124	3035
07/02/11	25	003235
17/02/11	50	00355
22/02/11	87	00377
31/03/11	353	3537
03/03/11	35	638
24/03/11	400	Cash withdrawal
3/05/11	60	3961
29/07/11	263	004646
06/08/11	460	4521
18/08/11	500	4487

Risk/ Implication

Council funds may be exposed to fraud due to irregular transactions.

Recommendation

All unknown bank debits should be investigated and corrected.

Management response

The irregular debits were noted during reconciliations and the queries were raised with the bank. However, due to manpower shortages the cases were not brought to the attention of staff concentrated on clearing reconciliation backlogs. Follow ups with the bank are still in progress as some of the information is now in head office and requires more time to obtain.

CASH RECEIPTS

Finding

Information of the bank reconciliation statements disclosed suspected fraudulent transactions. Amount totaling \$12 491 made up of ten (10) third party cheques were regularly encashed at the City Council's rates Hall. Although copy deposit slips portray the cheques as having been banked, scrutiny of the relevant bank statements did not acknowledge the banking.

Risk Implication

The Council could have lost large sums of money through encashment of third party cheques.

Recommendation

The case involving third parties should be investigated. The practice of en-cashing third party cheques must be stopped.

Management response

The issues were also raised with the bank. Follow ups are also in progress. Management will speed up the follow-ups since the backlog has now been cleared.

HOUSING WAITING LISTS

Finding

It is part of Council requirement that stands are allocated to applicants on the waiting list. My examination of records revealed that eleven (11) stands were allocated to individuals who were not appearing on the waiting list. Explanations were not provided for the waiver of the Council's requirements.

Risk/Implication

The Council may have irregularly allocated stands.

Recommendation

Allocation of stands should be in terms of the Council's requirements for the purposes of transparency

Management response

Management has noted the deviation from the standard practice and will enforce this compulsory requirement. With immediate effect all information will be included with appropriate documents filed.

1.4 STANDS ALLOCATION REGISTER

Finding

A stand allocation register maintained by the Housing Department was not up to date.

The following table shows some of the stands which were allocated without any updates made in the allocation register:

Stand Number	Area	Type of Stand	Amount \$	Size
7122	Munhumutapa infill	Residential	\$1 252	312.5sqm
1292	Ngezi infill	Residential	-	
7120	Munhumutapa infill	Residential	-	
7116	Gudo Infill	Residential	-	200sqm
1297	Ngezi infill		\$1 200	200sqm
45	Vinyu	Residential	-	
47	Vinyu	Residential	\$1 250	200sqm
48	Bakare	Residential	-	
7048	Braiding Infill	Residential	Z\$1 200 000 000	300sqm

There was poor filing of stand records. Some of the stand owners' papers were in a box file with some loose papers which were prone to loss. The norm is to have suspension files for each stand owner.

Risk/ Implication

There may be double allocation of stands.

Stands records may be lost as a result of poor filing.

Documents may fail to be retrieved on time resulting in poor service delivery.

Recommendations

Allocation registers should be updated regularly to avoid double allocation.

Council should ensure maintenance of proper records for easy of reference.

Management response

Management realises the importance of updated records. Close supervision and regular checks of registers will be effected so as to improve the situation in the absence of the Housing Officer, one of the vacant posts. As for filing requests have been made for files and filing cabinets but due to financial constraints they have not been procured. Individuals have been asked to provide suspension files but this has proven a challenge. Council hopes to have them provided to stand beneficiaries to avoid misfiling of documents.

PROPERTY DEDUCTIONS (ZIMRA)

Finding

Council was failing to remit taxes due to Zimbabwe Revenue Authority (ZIMRA). As a result an amount of \$40 670 from account number 082 and \$5 261 from account number 085 were seized. This was for taxes which Council owed ZIMRA.

Risk Implication

Failure to remit taxes to ZIMRA may attract interest and penalties which may further affect cash flows of the Council.

Recommendation

Council should engage ZIMRA where it is not able to fulfill its payment plan.

Management response

Management has always been committed to abide by the agreed payment plans but sometimes expected cash flows do not materialise. If prolonged creditors fail to accept the challenges faced they garnish council accounts.

Management is implementing various methods to improve revenue collected.

2 REVENUE COLLECTION AND DEBT RECOVERY

2.1 DEBT COLLECTION

Finding

A number of Council debtors as at 31 December 2011 did not honour their debts. Council debtors are actually 11% more as compared to the Council's income. Even with the \$500 discount granted to most of the ratepayers, Council is still in a critical position of

mounting debtors which date back to 2009 that are crippling Council operations. Below is a list of examples:

Account number	Amount \$	receipts to date
00920250	4 852	-
00920400	6 837	-
00920450	6 422	-
00920520	7 387	-
00921090	5362	-
00921100	22463	-
00841100	824	-
00842550	1 716	-
00831500	825	-
00931140	10 286	500
00910080	6 223	-
00910300	9 030	-
00910510	3 490	200
00910600	4 206	25
00910420	3 272	-

Risk/ Implication

Council funds are tied up in debts and this hinders Council operations resulting in failure to provide service.

Recommendation

Council, through community leaders and representatives should engage residents and help them appreciate why they should own up their debts.

management response

While continuous engagement is required from community leaders, the efforts are hampered by inadequate water supply which is our main collection tool. Efforts to address the supply challenges are in place.

KWEKWE CITY COUNCIL 2010

1 GOVERNANCE ISSUES

1.1 FIXED ASSETS REGISTER

Finding

The assets register was prepared in a haphazard manner with some 2010 additions being recorded after 2011 additions. There was no sequence in recording the asset additions. This shows that the additions were not recorded in the assets register as and when they were bought. In addition, the assets register lacked some important information such as asset location.

Risk/ Implication

Assets may be misappropriated.

Recommendation

In keeping with best practice, a fixed assets register should be maintained by Council in order to keep track of details of each fixed asset to reflect the date of acquisition, cost, serial number, location and date of disposal; ensuring control and to prevent mismanagement.

Management response

The assets register is maintained by the cost and budget accountant. However procurement is done through the buyer, expenditure office and central stores. These three (3) have not been communicating effectively with the officer who maintains the register when asset acquisition was done. The communication lines will be improved. Another factor is that the register was put in place recently so we still have some teething problems. I will keep on improving it.

1.2 TRAVELING AND SUBSISTENCE FORMS

Finding

There were Travelling and Subsistence allowances that were paid out to staff members but there were no claimants' signatures to acknowledge the receipt of the allowances. Though the amounts are immaterial it is the practice which needs to be corrected. Instances were identified where the claim forms were not signed by the claimant:

Payment Voucher Date	Payment Number	Voucher	Details	Amount \$
22/01/10		3217	Ordinary meeting of the Executive -Mutare	249
26/03/10		3962	Good governance training	282
26/03/10		3963	Good governance	282

		training	
11/10	3218	Mutare Meeting	249
11/10	3219	Mutare Meeting	249

Implication

It is difficult to verify whether the rightful claimants received the money.

Recommendation

Travelling and subsistence allowance claimants should sign the claim forms in acknowledgement of receipt of their allowances.

Management response

The observation was noted. The cash is at times collected by the Central Administration Secretary on behalf of councilors. Council will liaise with Central Administration Department so that the Secretary signs for them at the time of collection.

MASVINGO CITY COUNCIL 2009

1. REVENUE COLLECTION AND DEBT RECOVERY

1.1 BANKING —

Finding

Inspection of Council receipt books and bank deposit slips revealed that Council had not deposited all its collections from February to mid-2009. Council only started banking later during 2009.

Risk/ Implication

Council cash may be misappropriated.

Recommendation

All cash collected must be receipted and banked at the earliest possible time and the supporting documents filed accordingly. Any withdrawals from cash collected must be avoided.

Management response

The recommendation was noted. There was uncertainty from February to April 2009 at the inception of multi currencies. As the situation stabilised Council began to bank its revenue collections.

URUGARE CITY COUNCIL 2010 AND 2011

GOVERNANCE ISSUES

FINANCIAL STATEMENT STATUTORY DEADLINE

Finding

The audit of the financial statements for the two financial years ended December 31, 2010 and 2011 were undertaken 180 days after the end of each financial year which is against the stipulated period in the Urban Council's Act [*Chapter 29:15*] Sections 305(b) and 316 (3).

Risk Implication

The absence of financial and other reports on a timely basis may compromise decision making and accountability by those charged with governance.

Recommendation

The Council should prepare its financial statements timeously so as to facilitate audit within the stipulated 180 days after the end of each financial year as required by statute.

Management response

The observation is noted. This is attributed to absence of key personnel. The issue should be addressed once the key posts are filled.

ACCOUNTING PROCEDURES MANUAL

Finding

The Council was operating without an updated accounting procedures manual. This was supposed to have been updated following the introduction of multi-currency.

Risk/ Implication

There is no uniformity and consistency in treating accounting transactions in the absence of an updated accounting procedures manual.

Recommendation

Accounting procedures manual should be updated and staff be trained on how to apply such procedures and policies.

Management response

Urban Councils Association of Zimbabwe is drafting an accounting policy and procedures manual for all local authorities. Council will adopt the same once it is