FIRST REPORT

OF THE PUBLIC ACCOUNTS COMMITTEE ON THE FINDINGS BY THE AUDITOR GENERAL ON 2014 AND 2015 APPROPRIATION ACCOUNTS FOR MINISTRY OF INDUSTRY AND COMMERCE AND FUNDS UNDER ITS PURVIEW

FOURTH SESSION – EIGHTH PARLIAMENT

Presented To Parliament in November, 2016

[S.C 24 - 2016]

SPEAKER'S ANNOUNCEMENT: Thursday, 24th September, 2015.

That the Committee consists of the following: Hon. Chapfika D.; Hon. Cross E.; Hon. Dziva T. M.; Hon. Madondo T.; Hon. Mapiki J.; Hon. Maridadi J.; Hon. Marumahoko R.; Hon. Matimba K. M.; Hon. Misihairabwi-Mushonga P.; Hon. Mpariwa P.; Hon. Mufunga A.; Hon. Musundire A.; Hon. Nyamupinga B. B.; Hon. Pedzisai I.; Hon. Sansole T.W; on. Sibanda Z.; Hon. Simbanegavi Y.; Hon. Sithole G.; and Hon. Wadyajena J. M.

Hon. Mpariwa to be Chairperson.

ORDERED S.O. 16: There shall be a select committee consisting of Members from the National Assembly, to be designated the Committee on Public Accounts, for the examination of the sums granted by Parliament to meet the public expenditure and such other accounts laid before Parliament as the committee may thinks fit.

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1.0 INTRODUCTION

The Public Accounts Committee examined the Ministry of Industry and Commerce on the findings of the Auditor General on the Appropriation accounts for years ending December 31, 2014 and 2015 and the Trade Measures and the Standards Association Funds for the years ending December 2013 and 2014. The two Funds are administered by the Ministry of Industry and Commerce. The Standards Development Fund was established in terms of the Standards Development Fund Act *[Chapter 14: 19]* for the development and promotion of standardization and quality control of commodities and services. The Trade Measures Fund was established under the Trade Measures Act *[Chapter 14: 23]* for the development and maintenance of legal metrology services to industry and commerce and to ensure conformity with standards and requirements prescribed by international bodies.

It is of great concern to the Committee that the Ministry's Appropriation and Fund Accounts continued to receive qualified opinions. This shows that the Accounting Officer is not taking Audit processes seriously. Accounts for the Funds are lagging behind in clear violation of governing statutes. The Committee bemoaned the lack of specific sanctions where officials fail to perform certain responsibilities. This seems to perpetuate a culture of poor performance.

2.0 OBJECTIVES OF THE ENQUIRY

Section 299 of the Constitution of Zimbabwe Amendment No. 20 of 2013 states as follows:

(1) Parliament must monitor and oversee expenditure by the State and all Commissions and institutions and agencies of Government at every level, including statutory bodies, government controlled entities, provincial and metropolitan councils and local authorities, in order to ensure that-

(a) all revenue is accounted for;
(b) all expenditure has been properly incurred; and
(c) any limits and conditions on appropriations have been observed.

Section 309 (2) (a) of the Constitution provides for the functions of the Auditor General as follows:

> "to audit the accounts, financial systems and financial management of all departments, institutions and agencies of government, all provincial and metropolitan councils and all local authorities".

National Assembly Standing Order No. 16 mandates the Public Accounts Committee to examine the sums granted by Parliament to meet public expenditure and such other accounts laid before the National Assembly.

It is therefore, the duty of the Public Accounts Committee to report whether such public funds have been managed and expended as authorised by Parliament. In this context, the Committee examined the audited Appropriation and Fund Accounts for the Ministry

of Industry and Commerce as reported by the Auditor General in her Annual Report for the financial years ended December, 31, 2014 and 2015.

3.0 METHODOLOGY

The Committee held an oral evidence session with Mrs Shonhiwa, the Permanent Secretary and Accounting Officer for Ministry of Industry and Commerce. It requested written evidence which was then analysed and further this basis of the Report.

4.0 FINDIN`GS AND OBSERVATIONS BY THE COMMITTEE

4.1 APPROPRIATION ACCOUNTS FOR THE MINISTRY OF INDUSTRY AND COMMERCE FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015

4.1.1 Direct Payments made by Treasury on behalf of Ministry (2014)

During the year 2014, Treasury made direct payments totalling $196 193 to service providers on behalf of the Ministry. In 2013, the figure for direct payments stood at $955 973. The Ministry was advised by Treasury to obtain receipts from the respective service providers confirming payments made. The Audit found out that the Ministry did not have receipts supporting the payments and there were no reconciliations showing the invoices paid and the actual amount owed to each service provider. There was also a variance of $32 538 between the figure provided by Treasury and the figure shown on the Public Finance Management System (PFMS).

In the absence of reconciliations and confirmations of payments made to service providers, it will be difficult to establish whether payments were made against existing debts and also monitor the Ministry's obligations to service providers.

The Ministry acknowledged the audit observation and informed the Committee that corrective action had since been taken. The missing receipts were reported to have been with Treasury at the time of audit. The Ministry also highlighted that Tel One took time to submit confirmations for payments hence the delay in carrying out reconciliations. The Ministry submitted all the supporting documentation for the direct payments and the observation has since been addressed. Going forward, the Ministry indicated that there is now in place a register for commitments to all service providers. The observation was therefore addressed to the Committee's satisfaction.

4.1.2 Public Financial Assets (2014)

During the 2013 Audit, it was observed that the Ministry issued loans to Zimbabwe Steel Company (ZISCO) and Industrial Development Corporation (IDC) amounting to $12 658 331 without signing loan agreements. In 2014, the Ministry further issued $11 663 363 to the same parastatals again without loan agreements. In the absence of loan agreements, the legality of the advances could not be ascertained.

The Ministry informed the Committee that ZISCO Steel and IDC had contracted loans from the China Exim Bank and experienced challenges in servicing the loans. The Ministry then approached Treasury which in turn paid the amounts in question to the Bank in 2013 and 2014 on behalf of the parastatals. The Ministry indicated that loan

agreements between the Ministry and the respective parastatals were prepared following the audit observation. Signed copies of the loan agreements were availed for audit inspection and as a result, the audit observation has been cleared.

The Committee however, noted with concern the payment of over $24 million on behalf of ZISCO Steel and IDC without the corresponding record of the liability in national accounts reflecting these amounts owing to central government. It therefore, makes it difficult for treasury to adequately record the full extent of sums owing to government by parastatals.

4.1.3 **Absence of a properly constituted Audit Committee (2014)**

Section 84 of the Public Finance Management Act (PFMA) *[Chapter 22:19]* provides for the establishment of Audit Committees whose responsibilities are to liaise with external audit, supervise internal audit, and review annual accounts and internal controls. The Ministry is commended for taking steps to establish an Audit Committee. However, the Committee was made up of Ministry's employees contrary to the provisions of 84 of the Public Finance Management Act which stipulates that the majority of members should not be persons employed in the Ministry and the chairperson should not be a member of the Public Service. Given, the current composition, the independence of the Audit Committee is compromised and the internal controls may not be adequately evaluated.

In response, Mrs Shonhiwa, the Accounting Officer acknowledged the observation. She also advised that the existing Committee was an interim one, put in place as a stop gap measure to assist in the implementation of audit recommendations. Other Ministries were said to be in the same predicament. The Ministry indicated that it would continue to engage Treasury on the way forward regarding the setting up of the appropriate Audit Committee as provided for in Section 84 of the PFMA and in that regard, a letter was written to Treasury on 14 July 2016.

The Committee noted with concern that seven years after the PFMA was enacted, Ministries have failed to establish Audit Committees in the absence of PFM Regulations instructing Ministries and other public entities on how to implement the provisions of the Act. In the absence of Audit Committees, Ministries have not been able to follow through the recommendations made by the Auditor General hence the continued recurrence of issues.

4.1.3.1 ***The Committee recommends the Treasury should immediately issue the necessary guidelines on the setting up of Audit Committees by Ministries.***

4.1.4 **Absence of a Risk Management Policy (2014)**

In violation of the section 44 of the PFMA, the Ministry did not have a documented and approved risk management policy. As a result, risk assessments were not carried out. The Act require Ministries and other public entities to establish and maintain an effective, efficient and transparent system of risk management framework. This will assist the Ministry in identifying and responding to material risks effectively.

The Ministry acknowledged the audit observation and indicated that the Risk Management was now in pace. It also appointed a Risk Champion responsible for

overseeing the implementation of the policy. It was working on a Fraud Risk Policy which is part of the Risk Management Policy. The Committee expressed its satisfaction that the Ministry had taken appropriate action to address the audit observation.

4.1.5 **Management of Government Programmes- Milano –Expo Contract (2015)**

Zimbabwe accepted an invitation from the Italian Government to participate at the Milano-Expo 2015, a universal exhibition organised by Italy. It was held on the theme 'Feeding the Planet, Energy for Life' and dealt with the right to healthy, safe and sufficient nutrition for the entire planet, environmental, social and economic sustainability of the food chain as well as the safeguarding of food taste and culture.

The Ministry awarded a contract for €50,400 (US$56 952) on May 6, 2015, for kitchen management services and catering of food and beverage to Jihad El Badaoui (Jihad) for the Milano-Expo. The contract was made without following the tender procedures in contravention of the Procurement Regulations, Statutory Instrument 171 of 2002. Without going through the tender procedures, it could not be ascertained whether the Ministry got fair value from the contract. The service provider could inflate prices in the absence of competitive bidding resulting in a drain on the Ministry's resources.

Furthermore, the revenue received return that was submitted for audit indicated that revenue amounting to $49 980 (€36 740) was realised from sales at the Milano-Expo. However, the Ministry did not avail any supporting documentation in the form of receipts, cashbooks or registers for sales made and expenditure incurred in Italy on this program. In the absence of financial records, transparency and accountability in the use of public resources may be compromised and funds may be misappropriated.

Mrs Shonhiwa acknowledged the observation and highlighted difficulties the Ministry encountered in securing a service provider given the strict Italian rules and regulations. The Ministry brought to the attention of the State Procurement Board the peculiarities in terms of engaging a service provider at the expo. The cash receipts were said to have been retained by the Business Partner for payment of taxes to the Italian Government in accordance with the Italian Tax Regulations.

4.1.5.1 ***The Committee recommends that in future, the Ministry should obtain the necessary approvals to vary procurement rules and regulations and proper books of accounts should be maintained at all times to ensure full accountability of public resources.***

4.1.6 **Poor Management of Fuel (2005)**

For the second year running, the audit noted a laxity in fuel management. On March 10, 2015, a payment of $4 998 was made for the purchase of 3 660 litres of diesel from Redan Petroleum and on August 17, 2015, a payment of $9 996 was also made for the purchase of 7 460 litres of diesel. No record of these purchases were made in the fuel register although the bank statement showed that the money had been transferred into the supplier's account on March 19 and August 24, 2015 respectively. Furthermore, there was no evidence that the fuel was received by the Ministry as receipts from suppliers were not produced for audit. Follow ups on progress of the requisition were not done.

The Ministry informed the Committee that the outstanding 3 660 litres of diesel worth US$4 998 procured on March 10, 2015 was resolved and the coupons were collected and recorded in the register. Evidence in that regard was availed to the Committee. With regards to the 7 460 litres of diesel worth US$9 960.40 procured on August 17, 2015, the Ministry indicated that the coupons were collected on August 25, 2015. The 7 540 litres of diesel recorded in the register was attributed to the amount in question and the variance of excess 100 litres was ascribed to the change in price. The Ministry assured the Committee that tight control measures have been taken to guard against recurrence in future.

4.1.6.1 ***The Committee recommends that the Ministry should obtain confirmations from Redan Petroleum to facilitate reconciliations with the 7 560 litres of diesel recorded in the register by December, 31, 2016.***

4.2 STANDARD DEVELOPMENT FUND, 2013 AND 2014

4.2.1 Levy Income (2013)

Section 3 of the Standards Development Fund Act *[Chapter 14:19]* stipulates that the Minister may, by Statutory Instrument, impose a levy on such class or description of employers as may be specified by notice. The audit observed that the Fund had no comprehensive list of employers upon which the levy is imposed. The completeness and accuracy of the levy income figure of $12 846 938 disclosed in the financial statements could not be validated.

The Ministry indicated that the Fund employer's list is compiled from the inspectors' reports. The inspectors make physical visits to employers where employees are determined, registered or identified. The employers' list forms the database for the Standards Development Fund. The Ministry was in the process of computerising the employers' list as previously it maintained manual records. Evidence availed to the Committee showed that the client database is now in place and being updated regularly and as such the observation had been cleared to the Committee's satisfaction.

4.2.2 Poor recovery of debts (2014)

Audit observed an outstanding debt amounting to $$677 122 and a total amount of $676 306 (99.8%) had been outstanding for more than two years, with some balances back dating to 2009. This shows that the Ministry had serious challenges in recovering of debts and risk loss of revenue for the Fund.

The Ministry acknowledged the observation and highlighted that the figure of $677 122 was mostly made up of debts from local authorities which included rural district councils. Part of the debt was for Mutare Border Timbers which was under judicial management. Intense follow ups were done and reaped very few positive responses. Few of the local authorities made payment plans. Frantic efforts were still being done to clear the outstanding debts but due to the prevailing economic challenges, it has been fruitless. As regards the Border Timbers' debt, the Fund had attended creditors meetings where debts were ranked and are waiting for the court's decision. Evidence availed to the Committee showed that outstanding levy debtors were handed over to the

Civil Division through a letter written on July 20, 2016. A letter was also sent to the Ministry of Local Government, Public Works and National Housing on July 11, 2016 seeking assistance in the recovery of the outstanding debts from Local Authorities.

4.2.2.1 ***Recommendation***

In relation to the amount owed by Mutare Border Timbers, the Ministry should vigorously pursue the debt with the judicial manager and bring the matter to closure by 30th April 2017.

4.2.2.2 ***In view of the challenges faced by local authorities, government should closely look at the objects of the Fund vis-à-vis the challenges facing local authorities and may consider taking over the debt.***

4.2.3 **Unidentified Deposits (2013)**

The audit observed that the Fund was taking long to clear the figure for 'Unidentified Deposits' which amounted to $937 423 as at December 31, 2013. These were direct deposits in the Fund's bank account for levy fees but could not be directly linked to specific clients. By the time of concluding the audit, only $807 427 of this amount had been cleared and receipted. This will result in debtors being misstated.

The Ministry informed the Committee that unidentified deposits arise from deposits that have insufficient details for issuance of receipts despite the fact that the Fund has customized deposit slips. These deposit slips were now available at all CBZ branches countrywide. The $937 423 unidentified deposits for 2013 were cleared. However, the issue recurs every year but the figure for the unidentified deposits has been reduced significantly. The Ministry pointed out that the Bank had indicated that they have challenges with RTGS transfers made through other banks and the process takes a bit of time since most of the deposits will be in archives.

4.2.3.1 ***Though the unidentified deposits have been cleared, going forward the Ministry should ensure that any unidentified deposits are cleared timeously.***

4.2.4 **Interest on Investments (2013)**

Section 13 (2) of the Standards Development Fund Act *[Chapter 14:19]* states that any excess funds not immediately required for the purposes of the Fund may be invested after approval by the Minister responsible for Finance. Contrary to this provision, there was no evidence that the Ministry had taken steps to invest surplus funds of $6 647 649 that were in the bank account during the year. Consequently, the Fund had a nil balance on the 'interest on investments' item compared to the $588 657 that was received in the previous year.

The Ministry acknowledged the observation. The Permanent Secretary indicated that the authority to invest surplus funds is granted by Treasury and of late, Treasury has not been granting such authority due to pressing government commitments which resulted in Treasury recalling some funds to meet expenditures hence the nil balance for interest on investment in 2013.

In the Committee's view, funds are normally set for a specific purpose. One wonders whether the recalling of revenue generated under a Fund by Treasury would really justify the existence of such a Fund. Surplus funds of such magnitude might be an indication that the levy could be unjustifiably higher and at the end increase the costs of doing business.

4.2.4.1 ***The Committee recommends that Treasury going forward should allow part of the excess funds to be invested to allow the fund to earn more income in the form of interests from invested funds.***

4.2.42 ***In view of challenges facing local authorities in terms of paying the levies under the Fund, government should consider reviewing the levy levels to ensure affordability beginning the 2017 financial year.***

4.3 TRADE MEASURES FUND 2010 TO 2014

4.3.1 Absence of Financial Records

For four consecutive years, the Fund did not maintain books of accounts such as cashbooks, ledgers and registers in which financial transactions are recorded. This was in violation of section 35 (6) (a) of the PFMA. This is despite the fact that the Fund collected substantial amounts, for instance, in 2013 the total revenue was $132 213 against a total expenditure of $160 448; in 2014 the collections substantially increased to $230 125 while expenditure stood at $243 441 and in 2014 again collections increased to $267 226 and expenditure was $369 241. Financial statements were prepared from bank statements, sub-collectors' schedules and payment vouchers. The audit could not confirm whether all financial transactions were accounted for as payment vouchers were not numbered and monthly bank reconciliations were not performed.

Furthermore, the financial statements disclosed a suspense account with a balance of $33 840 which remained uncleared at the time of concluding the audit. As a result, the audit was not able to establish whether the financial statements were free from material misstatements. In such circumstances, fraudulent activities cannot be ruled out.

The Ministry indicated that it did not have personnel with accounting skills at the regional offices, and as a result, it relied on assistant clerks who in some cases recorded debtors incorrectly and they have to redo all the accounts for the years. The Committee is pleased to note that accounting records were now in place. However, the suspense account remained unresolved.

4.3.1.1 ***The Committee recommends that the Ministry investigate and clear the suspense account by December, 31, 2016.***

4.3.2 Procurement- Goods and Services not delivered

Since 2012, the Auditor General has from year to year raised concern over delays by the Fund in receiving goods and services from suppliers who would have been paid substantial amounts of money as deposits. There was no evidence that Fund officials followed up on outstanding orders. Applied Weighing Scales failed to meet delivery, installation and commission dates of four (4) weigh bridges in Harare, Gweru, Mutare

and Masvingo at a total cost of $496 340. The work was supposed to have been completed by September 30, 2014. As at September 14, 2015, the weigh bridges had not been delivered despite the fact that a deposit of $312 694 was paid in March 2013.

The Ministry admitted with regret that a considerable amount was paid to the contractor without a Bank guarantee and that no deliveries were made to date. Efforts to follow up on the deliveries with the contractor were fruitless. The Ministry did not satisfactorily explain why public funds of such magnitude were committed without adequate security. The Ministry indicated that it handed over the issue to the Attorney General's Civil Division for legal action in order to recover the deposit with interest thereof.

The Committee noted with concern that no due diligence was done in the procurement process hence a case of potential loss of public funds.

4.3.2.1 ***The Committee recommends that disciplinary action be instituted against officials who handled the transaction by December, 31, 2016. It also recommends that the Ministry should institute criminal proceedings against the Applied Weighing Scale Company for fleecing government resources by 31 December, 2016.***

4.3.3 Absence of Accounting Officer's Instructions

The Audit observed that the Fund was operating without Accounting Officer's Instructions contrary to the provisions of Treasury Instructions 0706 which stipulates that the Accounting Officer should issue detailed instructions governing the conduct of financial business and control of public monies and property for which they are responsible. The Ministry indicated that it had finalized the draft Accounting Officer's Manual and has since forwarded it to Treasury for approval. The Committee noted that the Ministry had taken corrective action and the observation has therefore, been addressed.

4.3.4 Debtors

The Audit observed that the Fund advanced $61 109 to the Parent Ministry during the year 2009 to use on expenditure ordinarily met under the Appropriation account. No documentation was produced as authority for this advance. The amount was supposed to be refunded when releases were received from Treasury. However, the Ministry in 2016 is yet to reimburse the money.

The Permanent Secretary informed the Committee that investigation revealed that the amount was overstated as it included $30 000 payments from Bid Funds. The Ministry had requested authority from Treasury to utilize the account for the Fund. The balance of $15 000 was used for payment of G15 subscriptions and they were making efforts to reimburse the Fund.

The Committee noted with concern another violation of a Fund Constitution whereby Ministry resorted to Fund revenue to support expenditures ordinary funded under the Appropriation account. There is a risk that Fund objectives will not be met as funds are utilized for unintended purposes.

4.3.4.1 ***The Committee recommends that the Ministry should submit evidence of the alleged errors, overstated amount of the debt and Treasury authority to utilize funds under the Fund by 31 December, 2016, failure to do so, the Ministry should reimburse the Fund by the same date.***

5.0 CONCLUSION

The Committee expressed deep concern on the reluctance of the Ministry to be up to date in terms of preparing and submission of accounts for Funds for purposes of auditing. In 2015, the Ministry was still reporting on 2013 and 2014 Accounts for the two Funds namely the Standard Development Fund and the Trade Measures Fund. This is a serious violation of the PFMA considering that the Funds are collecting considerable amounts of money. For instance, the Standard Development Fund had in 2013 a total revenue of $13 239 369 against expenditure of $20 310 472, in 2014 the revenue stood at $14 271 437 and expenditure of $14 352 941 and in 2014 had a total revenue of $14 543 662 while expenditure stood at $9 696 926. The Ministry also did not properly manage public resources considering payments made for undelivered weighbridges and lack of follow up thereof. The Committee concludes that the accounting officer's performance should be assessed within this context and given that the Ministry is key in revitalising the economy, government may need to revisit the employment contract for the accounting officer. Public officials charged with the responsibility of managing public funds should exhibit high level of competencies in the execution of this important mandate.