OAG ZIMBABWE
Office of the Auditor-General

REPORT

of the

Auditor-General

for the

FINANCIAL YEAR ENDED DECEMBER 31, 2021

ON

LOCAL AUTHORITIES

Presented to Parliament of Zimbabwe: 2022

OAG ZIMBABWE
Office of the Auditor-General

Office of the Auditor-General of Zimbabwe
5th Floor, Burroughs House
48 George Silundika Avenue
Harare, Zimbabwe.

The Hon. Professor M. Ncube
Minister of Finance and Economic Development
Mgandane Dlodlo Building
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 as read together with section 10(1) of the Audit Office Act [*Chapter 22:18*], for the year ended December 31, 2021.

Yours faithfully,

M. CHIRI,
AUDITOR-GENERAL.

HARARE
June 17, 2022.

OAG Vision

To be the Center 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, motivated, customer focused and well trained staff with the aim of improving accountability and good corporate governance.

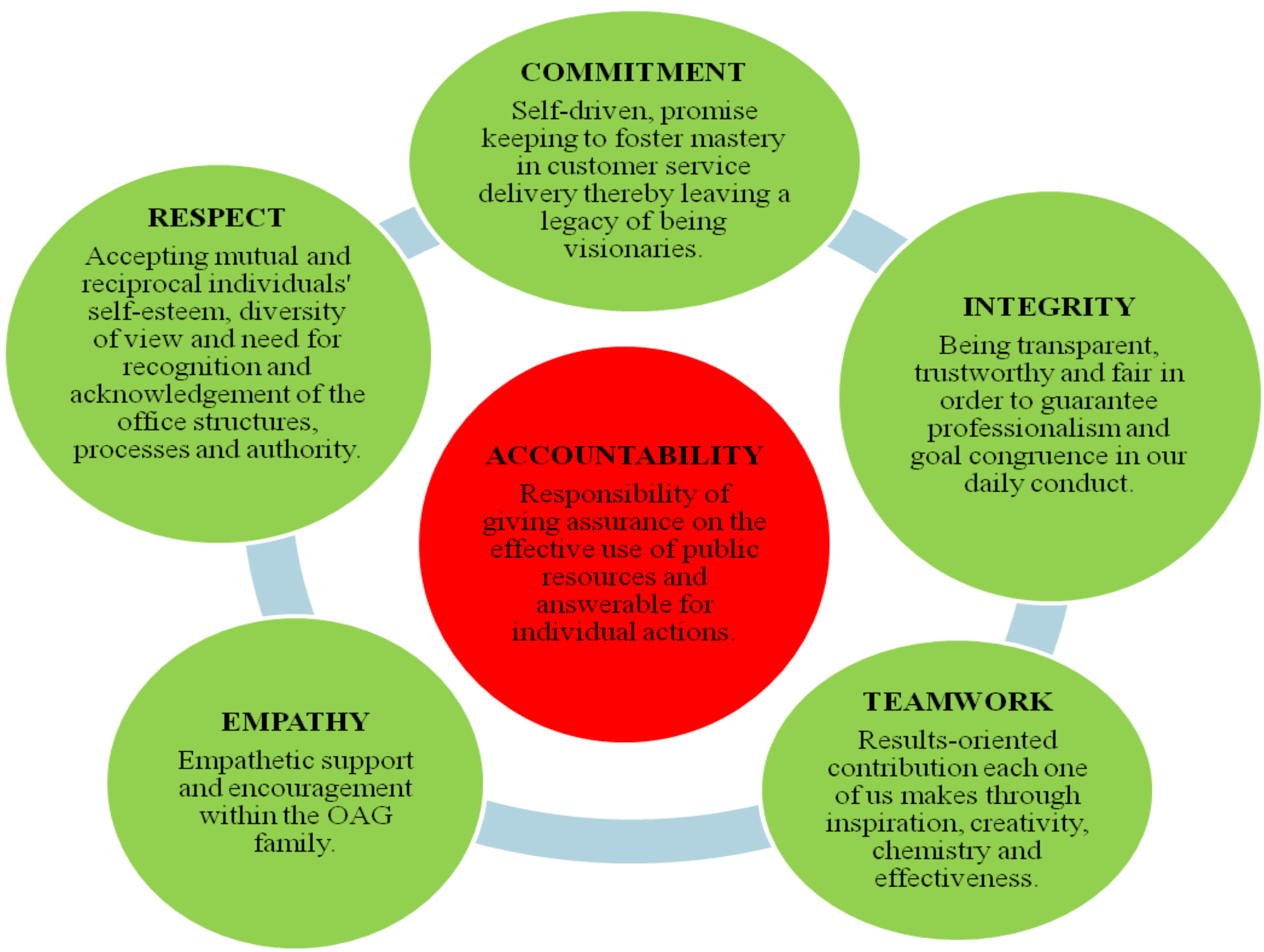


TABLE OF CONTENTS

LIST OF ACRONYMS

1. BIQ – Business Intelligence Quotient
2. CEO- Chief Executive Officer
3. EIA – Environmental Impact Assessment
4. EMA- Environmental Management Agency
5. IGTF- Inter-Governmental Transfer
6. IPSAS- International Public Sector Accounting Standards
7. LAPF- Local Authorities Pension Fund
8. NEC- National Employment Council
9. NSSA- National Social Security Authority
10. OAG- Office of the Auditor-General
11. PAYE- Pay As You Earn
12. PFMA – Public Finance Management Act
13. PSIP- Public Sector Investment Programme
14. SDL- Standards Development Levy
15. SLB- Service Level Benchmarking
16. UCPF- Urban Councils Pension Fund
17. UNICEF- United Nations Children Education Fund
18. VAT- Value Added Tax
19. ZIMDEF- Zimbabwe Manpower Development Fund
20. ZIMRA- Zimbabwe Revenue Authority
21. ZINARA- Zimbabwe National Roads Agency
22. ZINWA- Zimbabwe National Water Authority
23. ZRDCWU- Zimbabwe Rural District Council Workers' Union
24. ZUCWU – Zimbabwe Urban Councils Workers Union
25. UDCORP- Urban Development Corporation

DEFINITION OF TERMS

"Local Authority" means a municipal Council, town Council and local board 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 which are:

A) Rural District Councils and

B) Urban Councils, in which a Local Authority can either be classified as a:

i) City Council,

ii) Municipality,

iii) Town Council and

iv) Local Board.

PREAMBLE

Introduction

The primary purpose of financial statements is to provide relevant and reliable information to users about a reporting entity's financial position and financial performance. In the public sector, the users of financial statements include the Parliament, development partners and the public at large. The objectives of a financial statements audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework but also include service delivery issues.

Mandate

My Office is mandated by the Constitution of Zimbabwe as amplified in the Audit Office Act [*Chapter 22:18*] to report to Parliament my findings on the examination of accounts of all public entities. In fulfilling this mandate, I do contract from time to time, some of the audits to public auditors registered in terms of the Public Accountants and Auditors Act [*Chapter 27:12*] as stated in section 9 of the Audit Office Act [*Chapter 22:18]*. Accordingly, I have included audit findings from such auditors in this report.

Audit approach

I conducted my audits in accordance with the International Standards on Supreme Audit Institutions (ISSAIs) and the International Standards on Auditing (ISAs). These Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. My audit approach was designed to enable me to express an opinion on the public entities' financial statements.

All aspects of the entities' activities and procedures may not have been examined. I consider maintenance of adequate internal controls to be the responsibility of management. My work cannot therefore, be expected to identify all weaknesses in the systems and procedures, which a special investigation directed at those areas might reveal. As to the possibility of fraud, I plan my audits to have a reasonable expectation of its disclosure if the potential effects of the fraud would be material in the financial statements. However, there are many kinds of fraudulent activities, particularly those involving defalcation, forgery, collusion and management override of controls, which would be unreasonable to expect the normal audit to uncover. The principal objective of my audit procedures is to enable me to express an opinion on the truth and fairness of the financial statements as a whole. An audit opinion is based on the concept of reasonable assurance. It is not a guarantee that the financial statements are free of misstatements.

Financial reporting framework

The Public Accountants and Auditors Board (PAAB), the regulator of the Accountancy Profession in Zimbabwe prescribed the International Public Sector Accounting Standards (IPSASs) for use in Zimbabwe on the 1st of March 2019 through Statutory Instrument 41 of 2019. IPSASs have been adopted by the Government of Zimbabwe as the financial reporting framework for Local Authorities and all are expected to have fully implemented the standards by the end of the transitionary period on December 31, 2025. I appreciate the efforts being made by the Local Authorities in the adoption and implementation of these standards.

Report structure

The report outlines material audit findings noted during the audits of the financial statements of Local Authorities. Also included under each audited client are possible risks/ implications associated with the audit findings, audit recommendations, management responses in respect of the findings, auditor’s comments to management responses where necessary.

EXECUTIVE SUMMARY

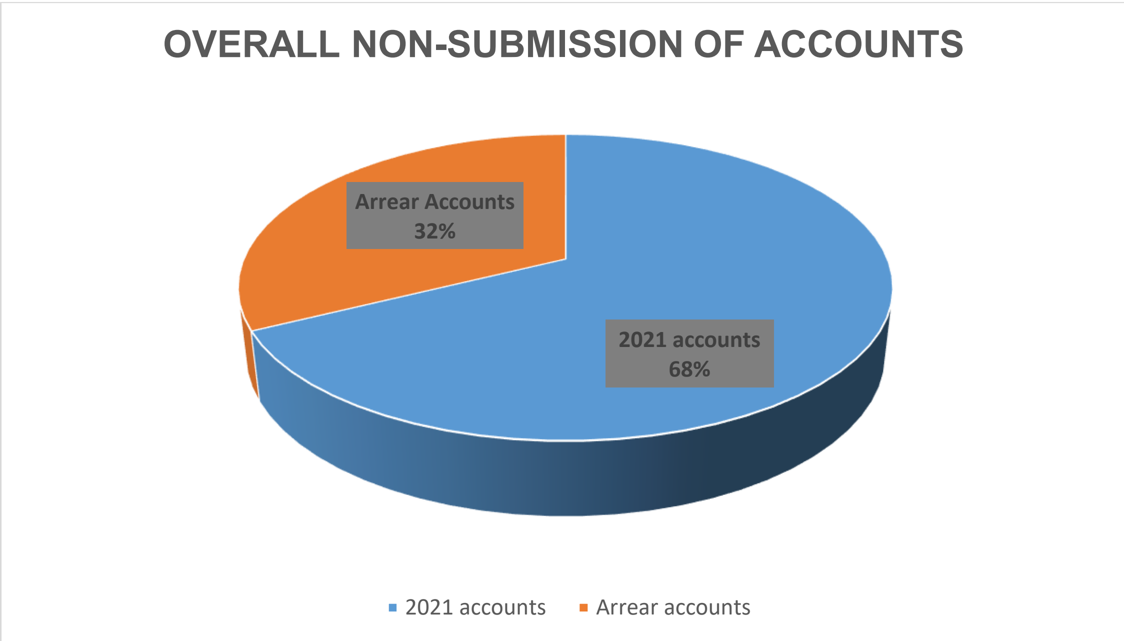
This report contains the findings from the annual audits of Local Authorities. The effects of the unprecedented COVID-19 pandemic continued to affect both the auditees and the auditors for the audit of 2021 financial statements. Despite the peculiar challenges witnessed, I take this opportunity to report my audit findings on the Local Authorities for the 2021 financial year. Modified opinions (Qualified and Adverse) for the years 2018, 2019 and 2020 were mainly due to non-compliance with IPSAS 4/ IAS 21 "The effects of changes in foreign exchange rates" and other issues.

Progress of the audits

I wish to acknowledge the Ministry of Local Government and Public Works, Zimbabwe-Anti Corruption Commission and the Public Accounts Committee (PAC) which have made concerted efforts in advocating for transparency and accountability among Local Authorities.

Although there are indications of improvement in bringing the audits of Local Authorities up to date, there is still need for more effort and determination on timely submission of financial statements in order to enhance transparency and accountability, **Annexure D** refers.

The overall status of non -submissions is shown in the pie chart below;



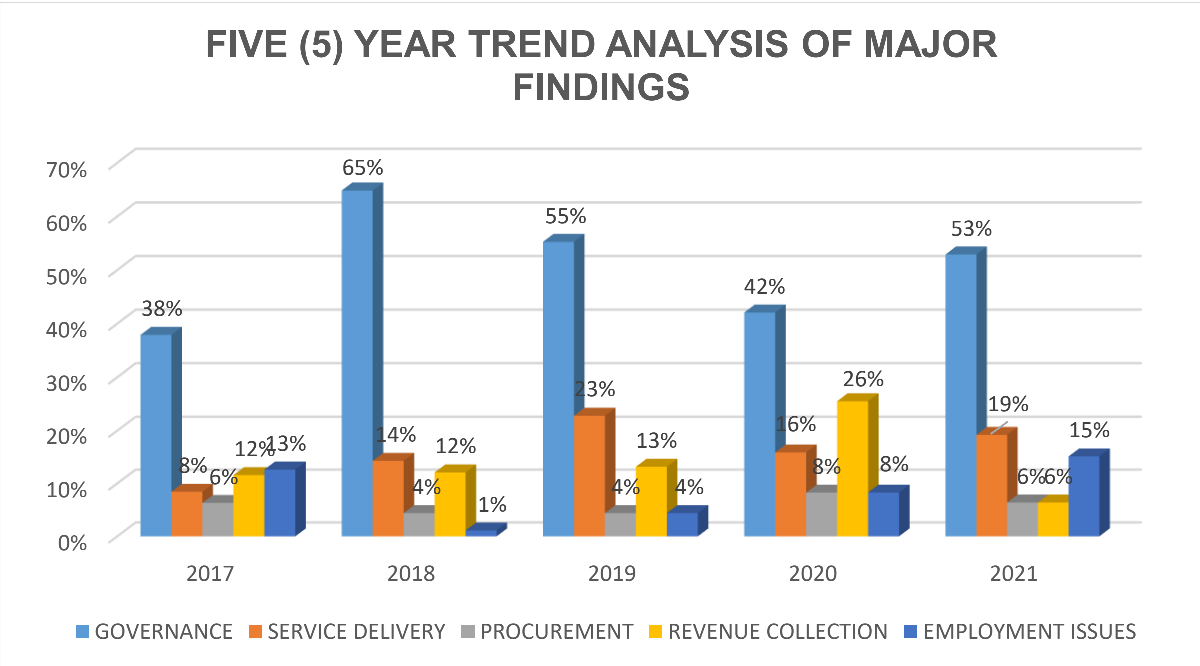
Out of the ninety-two (92) Local Authorities, twenty-one (21) had current (2021) financial statements submitted for audit, whilst seventy-one (71) had not submitted their accounts as at May 31, 2022. However, as previously highlighted, the audit engagements were hampered by the COVID-19 pandemic challenges and as such a total of sixty-eight (68) Local Authorities audits which includes arrear accounts were in progress at the time of concluding my report, **Annexure B** of this report is relevant.

Analysis of findings

Governance issues dominated major findings as there was a 11% increase from 2020 (42%) to 2021 (53%) and the same have remained high in all my reports over the last five years. Employment issues surged from 8% in 2020 to 15% in 2021 thus showing signs of weakening payroll management systems and non-compliance with recruitment policies and procedures.

The number of reported service delivery issues has been rising over the years, with a 13% increase witnessed from 2020 to 2021. It is my concern to note an increase in such issues against the backdrop of Inter-Governmental Transfer (IGTF) released to Local Authorities towards financing of service delivery capital projects. A notable improvement was on the reduction in findings on revenue collection, management and debt recovery issues with a 20% reduction from 26% to 6% in 2021. Findings on procurement of goods and services decreased by 2% from the 2020 results.

My analysis of reportable issues by category is illustrated as follows:



Report highlights

The 2021 annual report had governance issues that I have perennially reported on and these include absence of key policies, non-compliance with laws and other regulatory provisions, poor contract management and mismanagement of assets.

Redcliff Municipality irregularly procured motor vehicles and equipment worth US$847 962, through a twenty-one (21) hectares land swap deal with a company in the business of chrome processing.

Mutare City Council circumvented procurement procedures by acquiring four (4) pre-owned motor vehicles through its subsidiary, Pungwe Breweries (Pvt) Limited. In addition, the City has not been preparing consolidated financial statements despite owning a subsidiary 100%.

A number of local authorities made advance payments for goods which were not delivered. Marondera Municipality made an advance payment for the purchase of 20 drums of catmix and only 8 drums were delivered. Karoi Town Council paid US$109 000 for the supply of a refuse compactor truck in 2018 which was yet to be delivered. Marondera RDC also paid suppliers of a tipper truck and a tractor backhoe loader in full and has not taken delivery of the equipment.

Marondera Municipality and Karoi Town Council entered into agreements with third parties for the provision of traffic management systems among others. No sufficient controls were put in place before collection of revenue in pursuant of the agreements as a result, the Councils were not benefiting from the arrangements. In addition, the Marondera Municipality contractor did not adhere to the agreed terms by not providing the initial investment capital as was required.

Two (2) motor vehicles belonging to Matobo RDC were sent for repairs to a local company in 2007, but 14 years later, the vehicles had not been returned.

Mwenezi RDC received a donation of 16 411kgs of game meat from a local conservancy which was sold for ZWL$93 418 but was not accounted for as per the donation conditions. In addition, fuel benefits for Heads of Departments was being processed outside the payroll thereby not being subjected to tax.

In my report, common findings cutting across most local authorities were in respect of unsupported expenditure, valuation of assets and failure to account for infrastructure assets, land reserves and stands inventory in the financial statements. The majority of Local Authorities were still not obtaining traditional beer sales schedules from the brewers in order to ascertain the sales volumes as a basis for computing beer levy received from commercial brewers of traditional beer. This constituted non-compliance with the requirements of the Traditional Beer Act [Chapter 14:24].

I also noted with concern that Councils were not practicing effective solid waste management as they did not have engineered landfills. Masvingo City, Marondera Municipality, and Chipinge Town Council were among the Councils using illegal dumpsites for their solid waste disposals.

Prior year audit findings and recommendations

I followed up on progress towards addressing prior year audit findings and implementation of recommendations. In the current year (2021), out of one hundred and forty-one (141) findings reported in the prior year (2020), nine (9) were fully addressed, twenty-three (23) were not addressed, eighty (80) were being followed up (audits in progress) and twenty-nine (29) were yet to be followed up because financial statements had not been submitted for audit at the time of concluding my report.

Conclusion

The audit findings warrant the attention of management and those charged with governance. The audit revealed that most weaknesses related to governance, procurement, revenue collection and debt management. There is room for improvement in accountability and transparency in all the Local Authorities. This can be achieved if among other things, audit recommendations are implemented.

Acknowledgements

My special tribute goes to the various audit firms, UDCORP and our valued clients who made it possible for me to submit my report for the year under review. I also extend my indebtedness to our development partners for their unwavering financial and technical support and to our printers for their invaluable co-operation. Finally, I extend my sincere gratitude to my management and staff for their continued commitment and dedication to duty. Without all this support, the production of this report could not have been possible.

CITY COUNCILS

KADOMA CITY COUNCIL 2018

I have audited the financial statements of Kadoma City Council for the year ended December 31, 2018 and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly the financial position of Kadoma City Council as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

Non-compliance with International Public Sector Accounting Standard (IPSAS) 4 "The effects of changes in foreign exchange rates"

The Council did not comply with the provisions of International Public Sector Accounting Standard (IPSAS) 4 "The Effects of Changes in Foreign Exchange rates" as Statutory Instrument 33 of 2019 precluded the Council from applying an independent assessment of functional currency as required by the accounting standard and in terms of the guidance provided by the Public Accountants and Auditors Board (PAAB). The need to account for these effects emanated from the 'multi-tiered' pricing environment that was prevailing during the year under review, where settlement of transactions was dependent on the mode of payment, whether USD cash, RTGS, bond notes and mobile money. This multi-tiered pricing environment resulted in transactions bearing similarities to what one would expect with transactions that are undertaken in different currencies to which IPSAS 4 would apply. Had Council complied with the requirements of IPSAS 4, many elements in the financial statements would have been materially affected. As a result, the impact of the Council's inability to comply with IPSAS 4 has been determined as significant. The effects on the financial statements are considered material and pervasive to the financial statements as a whole.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Segregation of duties

Finding

The I.T System Administrator was working as the Human Resources Officer responsible for senior payroll since the Council had not filled the vacant post. This scenario creates a control weakness as there will be no segregation of duties over access to payroll master file information which may be subject to manipulation.

Risk / Implication

Financial loss due to fraud.

Recommendation

The Council should ensure effective controls over its processes.

The Council should fill in the vacant position of the Human Resources Officer.

Management response

The position of Human Resources Officer was filled. The Human Resources Officer assumed duty on 1 December 2020. The stated duties are still to be transferred to the Human Resources Section. The transfer will be done by 31 July 2021 as recommended.

1.2 Business continuity

Finding

The Council was operating without a documented disaster recovery policy. Data back-ups were being done on site using external hard drives. I was not availed with evidence of monitoring and checks on whether such onsite backups were being done consistently.

Risk / Implication

Business continuity may be compromised.

Recommendation

The Council should put in place a disaster recovery policy and consider offsite backup.

Management response

Issue noted. The plan is currently being crafted and should have some inputs budgeted for in 2022.

1.3 Separation of damaged and expired stock.

Finding

The Council did not have records for expired drugs and damaged inventory. This inventory was stored in the same warehouse with current stock and was not clearly marked or separated from the rest of the inventory.

Risk / Implication

Overstatement of inventory as obsolete inventory maybe included.

Expired drugs may be issued to patients.

Recommendation

The Council should have a record of obsolete inventory and stored separate from other Stock items.

Management response

We take note of the observation. The relevant lists will be compiled and maintained. Expired drugs and damaged inventory will be separated.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Beer levy revenue

Finding

Council received a total of US$152 602 from Delta Beverages as beer levy during the year under review. However, no sales schedules were obtained from the brewer contrary to the Traditional Beer Act [*Chapter 14:24*], which requires local authorities to collect levies from breweries within their jurisdiction.

Risk / Implication

Financial loss to the Council due to potential under-declarations.

Recommendation

Management should continuously engage commercial brewers of traditional beer to obtain the sales schedules which are used as a basis for calculating the levy.

Management response

Efforts to engage the company have been made but no declarations have come.

Efforts to contact them will continue to enable us to get the requested information.

3.0 EMPLOYMENT ISSUES

3.1 Manpower- staff vacancies

Finding

The Council was operating six (6) clinics. I noted that according to the Council's organogram, the clinics must be manned by six (6) sisters in charge and thirty (30) registered general nurses. However, at the time of audit, I noted that there were vacancies for sixteen (16) nurses and four (4) sisters-in-charge.

Furthermore, posts of Director Housing and Community Service, Assistant Accountant, Human Resources Officer, Workshop Foreman, Rates hall Supervisor, Billing Supervisor, Electrician, and Community Services Officer, Housing Officer and Accounts Clerks were vacant.

Risk / Implication

Compromised service delivery.

Low staff moral due to fatigue.

Recommendation

Council should ensure that vacant posts are filled.

Management response

Ministry has approved posts for employment but Council is failing to attract new nurses as they prefer working for organisations paying in US Dollars. Council has reviewed salaries and locum rates but is still unable to attract locum or contract nurses due to competition from the said organisations. Efforts to look at non-monetary benefits will be investigated.

An advert for Sisters in Charge is running and will close on 27 May 2021.

4.0 SERVICE DELIVERY

4.1 Service delivery equipment

Finding

The Council had inadequate equipment for service delivery. In 2018, the Council had one ambulance which made it difficult to attend to all ambulance requests. Further, Council had one fire tender with a capacity of 1820 litres which is equal to 5 minutes supply of water. At initial attendance of fire brigade at an incident, Book 11 Practical Fireman-ship 1 states that two (2) fire tenders must be present. Ideally, there should be a water carrier with a full water tank to refill the fire tender when there is need. The Council has no water carrier for backup purposes.

In terms of the Hydraulic and Water Supply book 7 page 82 the Council should ensure that there are fire hydrants for every 90-180m in every settlement and at business, institutional and industrial buildings. However, there were no water hydrants in high density areas and some buildings in town.

Risk / Implication

Service delivery may be compromised.

Loss of life and property.

Recommendation

Council should ensure that adequate ambulances and fire tenders are provided.

Management response

Council has 3 fire tenders which have all become limited runners. One has since been repaired is currently in service. Council had 2 ambulances, one is down while the other has been accident damaged. Council had resolved to buy a combi for conversion but twice failed to secure a successful bid. A tender is now in progress to procure a new ambulance which had been budgeted to be funded by devolution funds.

4.2 State of buildings

Finding

I observed that some Council buildings were in a deplorable state as tabulated below;

Place	State
Rimuka clinic	Cracked floor tiles. Clinic storeroom has no window.
Chemukute clinic	Damaged roofs and cracked walls.
Rimuka rates hall	Doors do not lock and ceiling in a state of disrepair.
Chemukute rates hall	Ceiling in a state of disrepair and might fall any time.

Risk / Implication

Health and safety of the occupants and the public is compromised.

Recommendation

Council should maintain its buildings in a habitable state.

Management response

Due to cash flow challenges and inadequate human resources, maintenance of buildings was delayed. Work on buildings was mainly for repairs and they were limited in scope. Efforts to repair the identified and other properties will be made in a phased manner.

4.3 Availability of medical drugs

Finding

One of the Council's responsibilities is to provide health services to its residents including medical drugs. During my audit in July 2021, I observed that at Rimuka, Ngezi and Chemukute clinics there were shortages of drugs for TB, Epilepsy, Psychiatric and HIV & AIDS patients.

TB, Epilepsy, Psychiatric and HIV & AIDS patients are not supposed to default in taking their medication.

Risk / Implication

Residents' health is compromised.

Lack of confidence in Council clinics.

Recommendation

Council should ensure its clinics have adequate medical supplies.

Management response

All the drugs available at Natpharm are always in stock. However, shortages occur when Natpham runs out of stock. These are not available on the market and Council has not been buying these.

Council will have to budget for the medicines which are more expensive in private pharmacies. The cost will need to be recovered as the clients get them free because they are being availed from Natpharm.

4.4 Water and sewer systems

Finding

The Council sold unserviced stands in the high-density area of Victory Park and the beneficiaries occupied their stands. However, the area did not have sewer and water reticulation systems or boreholes. As a result, the residents resorted to use of pit toilets and shallow wells.

Risk / Implication

Exposure of residents to water-borne diseases.

Recommendation

Council should ensure availability of necessary infrastructure before occupation.

Management response

The servicing process was on course until 2019 when Council failed to get forex allocation for the dozer and other equipment intended for servicing. However, the servicing is now on course with the main sewer and sewer ponds under construction. The adopted parallel servicing strategy was meant to enable occupation with water and sewer services complete. Management will continue to work on servicing of the projects. Funds for servicing were actually eroded by inflation while Council waited for forex allocations and procurement of essential materials. To date the Estates account holds quite a significant amount of funds even though Council uses almost all of its monthly collections for service delivery related expenditure.

5.0 PROGRESS TOWARDS ADDRESSING AND IMPLEMENTATION OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS

The Council is still to address the audit findings raised in the previous audit report as indicated below:

5.1 Valuation roll

Recommendation

The Council should update the valuation roll in order to enable timely and accurate billing of rateable properties.

Progress made

Plans of updating the valuation roll are in progress.

5.2 Beer Levy

Recommendation

Management should ensure that commercial brewers submit returns for beer sales and remit beer levy according to the provisions of the traditional beer Act.

Progress made

Not yet implemented.

MASVINGO CITY COUNCIL 2020

I have audited the financial statements of Masvingo City Council for the year ended December 31, 2020 and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Masvingo City Council as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

i. Opening balances translated at an inappropriate exchange rate

The prior year financial statements did not comply with the requirements of IPSAS 4 "The Effects of Changes in Foreign Exchange Rates", as the City Council had not been able to use an appropriate exchange rate on change of functional currency. The City Council translated its comparative financial statements using the interbank rate that came into existence on February 22, 2019 through Exchange Control Directive RU 28 of 2019 issued by the Reserve Bank of Zimbabwe.

The City Council used January 1, 2019 as the date of change in functional currency and translated its foreign denominated balances to ZWL at a rate of 1:1 per Statutory Instrument 33 of 2019 which prescribed that all assets and liabilities that were denominated in US$ before February 22, 2019 be deemed to be RTGS dollars at a rate of 1:1 and all transactions subsequent to February 22, 2019 at interbank rate. The City Council's inability to assess the appropriateness of using the interbank rate in achieving fair presentation was primarily due to the need to comply with SI 33 and the fact that there were no official exchange rates between October 2018 and February 2019 due to lack of an observable foreign exchange market. In that regard, the City Council's 2020 opening balances have an impact on the current year financial statements.

ii. Non-compliance with IPSAS 17- Property, plant and equipment

The Council disclosed property, plant and equipment of ZWL$454 334 371. The Council did not carry an assessment of the economic useful life of its assets contrary to IPSAS 17 paragraph 67 that requires that the useful life of assets be reviewed at least once at each annual reporting date. In addition, the City Council did not perform a revaluation of its property, plant and equipment (PPE) in the last nine (9) years, except for motor vehicles. This was contrary to the requirements of IPSAS 17 paragraph 49, which requires that assets may be revalued once every three or five years. Had management carried out an assessment of the useful life of the property, plant and equipment and revalued the assets, the amounts disclosed in the financial statements would have been materially affected. I was therefore not able to determine the extent of misstatement on the financial statements and any necessary adjustments that could have been made.

iii. Valuation of construction work-in-progress

The Council disclosed construction work-in-progress of ZWL$12 260 602 which included a sewer trunk project worth ZWL$10 444 228. The project was started in 2013 and was at 64% completion level as at December 31, 2020. However, the amount disclosed was only for the construction costs incurred in 2019 and 2020 excluding the total cost incurred on the construction of the sewer trunk from 2013 to the year 2018. I was not provided with any documentation for the costs incurred on the project since 2013. Had management been able to ascertain the previously incurred costs, the value of the work-in-progress disclosed would have been materially affected. Therefore, I was not able to verify the total costs incurred on the project since inception and determine any necessary adjustments.

iv. Transfers from Government and other entities

The Council disclosed revenue from Transfers from Government and other entities of ZWL$21 559 187. The Council did not account for all donations received in kind in form of property, plant and equipment and inventory, resulting in misstatement of revenue. I could not verify the completeness and accuracy of goods and services donated by various entities and groups in the absence of the donations register and values of the donations received. Consequently, I was not able to determine the extent by which revenue was misstated and any adjustments that could have been necessary.

v. Revenue

The Council did not perform properties valuation and assessments in order to update the valuation roll to ascertain the values of additional stock of properties used as a basis in the billing of assessment rates. The number of commercial properties in the City Council's jurisdiction increased by 525 from 14653 to 15178 between 2016 and 2020. The 525 additional commercial properties were not billed for assessment rates during the year under review as the values of the properties could not be ascertained in the absence of a valuation exercise. I was therefore, not able to determine the extent by which revenue was misstated and any adjustments that could have been necessary.

vi. Land reserves

The Council did not maintain a record of its land reserves. As a result, it did not account for land reserve in the financial statements. I was therefore not able to determine whether any adjustments to the land value could have been necessary.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Valuation of property, plant and equipment

Finding

The Council disclosed property, plant and equipment (PPE) at a carrying amount of ZWL$88 915 675. Valuation of assets was last done in 2011, except for motor vehicles, and no assessment of the economic useful life of such was carried out during the year under review. This was contrary to IPSAS 17 paragraph 67 "… the useful life of an asset shall be reviewed at least at each annual reporting date…" As a result, I could not satisfy myself with the valuation of property, plant and equipment.

In addition, the Council was not maintaining a comprehensive asset register indicating acquisition dates for all assets acquired prior to 2019, hence depreciation was being charged on the aggregate cost of each asset class. Furthermore, the Council did not have an approved asset management policy.

Risk / Implication

Financial statements may be materially misstated.

Misappropriation of assets as they are not properly accounted for.

Recommendation

Management should ensure that the asset management policy is approved for implementation and a comprehensive asset register is maintained.

Management should comply with the requirements of IPSAS 17.

Management response

Noted and agreed. Council has already engaged the Department of Public Works to carry out the asset revaluation of assets. The exercise is set to commence anytime soon. The revaluation exercise will help to address the issue of global depreciable amounts. We are also engaging our systems provider so that our PROMUN system can be customised to cater for all details needed to properly manage assets through the electronic asset register.

1.2 Work in progress - Mucheke trunk sewer

Finding

The City Council engaged a contractor (Mutual Construction Pvt Ltd) in 2013 for the construction of the Mucheke 7,46km trunk sewer at a total contract value of US$2 157 692. According to the contract, the project was supposed to be completed in eight (8) months from the date of engagement. The City Council borrowed funds from NSSA amounting to US$3 000 000 (2014: US$2 100 000 and 2015: US$900 000) to fund the project. However, at the time of my audit in 2021, the project was still to be completed contrary to the initially set timelines.

In 2019 and 2020 a total of ZWL $10 444 228 mainly from devolution funds was incurred and the assessed completion stage was 64% at the end of 2020 when in 2018 the same project was declared to be at 65%. I was not availed with the feasibility study report and details of all project costs incurred from 2013 to 2018.

Risk / Implication

Financial loss due to misappropriation of project funds and cost overruns.

Service delivery may be compromised.

Financial statements may be misstated.

Recommendation

Council should ensure effective project management for the benefit of the community.

Management should ascertain the total cost of the project to date.

Management response

Completion rate remained at 65% since there was no physical progress in the implementation of the project in 2019 and 2020 as funds expensed were only channelled towards procurement of materials. It was mainly procurement of materials from the devolution funds. The 64% indicated in the devolution report was erroneously captured. The WIP component is only limited to expenditure incurred in 2019 and 2020 and we hope to ascertain the accurate value of the project through the revaluation exercise.

1.3 Donations received

Finding

The Council did not have a donations policy and was not maintaining a donations register during the year under review. As a result, various items donated for clinics, water and sewer plants, building materials and consumables were not accounted for. No effort was made to ascertain the value of the donations received in kind. This was in contravention of the object of the Public Finance Management Act [*Chapter 22:19*] which seeks to ensure transparency, accountability and sound management of the revenues, assets and other resources of public entities.

In addition, Council made donations amounting to ZWL$583 094 whose basis I could not ascertain.

Risk / Implication

Donated items may be misappropriated.

Financial statements may be materially misstated.

Recommendation

The Council should ensure a donations policy is put in place to provide guidance on donations made and received.

Management should adhere to the requirements of section 3 of the Public Finance Management Act.

Management response

Noted, we are going to introduce the donations register right away and by the end of the year 2021 we will be having an updated comprehensive register. We are also going to develop a policy that guides the receiving and granting of donations by the Council in line with the regulations. The policy shall be in place by 31 December 2021.

1.4 Land reserve

Finding

The Council did not maintain a record in relation to its land reserve. As a result, it did not account for land reserve in the financial statements. This was contrary to the object of the Public Finance Management Act [*Chapter 22:19*] section 3 which states that a public entity should ensure transparency, accountability and sound management of its assets.

Risk / Implication

Misstatement of property plant and equipment.

Financial loss due to errors and fraud that may occur.

Recommendation

Management should keep a record of its land reserve and account for it in the financial statements.

Management response

Management agrees with the audit observation. The omission emanated from the transition from cash accounting to accrual basis of accounting. Management has already started working on establishing a database and valuation of its land reserve with an aim of producing the fundamental record by December 2021. The process involves undertaking surveys and valuation hence the long time required to establish the record.

1.5 Maintenance of stands register

Finding

The Council did not account for the value of stands inventory contrary to the requirements of IPSAS 12 "Inventories". There were fourteen (14) stands records with incomplete information and I was unable to follow through the sequence of the stand numbers as some were omitted. The master records of stands should clearly show opening balances, new creations, allocations during the year and the resulting closing balances.

Risk / Implication

Misstatement of stands inventory.

Fraudulent allocations of stands might go undetected.

Recommendation

The Council should maintain a comprehensive stand register for effective accountability.

Management response

Noted. Once the land reserve has been established, we will be in a position to establish and manage stands register and we hope to have addressed the issue by December 31, 2021. Council has been maintaining the allocations register.

1.6 Impounded vehicles

Finding

The Council was not following due processes on impounded vehicles as required by its by-laws. As a result, there were nineteen (19) unclaimed vehicles which were impounded between 2016 and the first half of 2020. In terms of the Council's Prepaid Parking Disc, Clamping and Tow-away By-laws of 2015, the Council is required to publish a list of vehicles impounded within thirty (30) days notifying the owners to claim their vehicles and if the vehicles remain unclaimed the Council has a right to auction the vehicles.

During my physical verification of the impounded vehicles at the workshop, I could not physically locate a Honda Fit on the list provided. In addition, six (6) vehicles at the workshop were not recorded. Furthermore, I was not availed with supporting documentation for the release of five (5) vehicles during the year under review.

Risk / Implication

Financial loss due to revenue leakages and potential litigation from vehicle owners.

Recommendation

The Council should ensure that impounded vehicles are handled in accordance with the By-laws.

Management response

Management acknowledges the need to enhance controls and record keeping on impounded vehicles. Appropriate systems and procedures are being put in place and should be fully functional by 1 November 2021.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Assessment rates and valuation of properties

Finding

The Council did not have a valuation officer to ascertain the values of the additional stock of properties used as a basis in the billing of assessment rates contrary to the requirements of section 237 of the Urban Council Act [*Chapter 29:15*]. As a result, 525 additional commercial properties from 2016 were not billed for assessment rates during the year under review.

Risk / Implication

Financial loss due to non-billing of rateable commercial properties.

Recommendation

The City Council should appoint a valuation officer in compliance with the Urban Council Act [*Chapter 29:15*].

The Council should ensure that all rateable commercial properties are billed.

Management response

Noted and agreed. Council is in the process of reviewing the organogram and the post of Estates and Valuations officer has been included in the new structure. We expect to have recruited the Valuations Officer by 30 June 2022.

2.2 Business licenses

Finding

The Council did not maintain a security items register for business licenses. During the year under review, the Treasury department issued 400 business license copies to the Health Department and Revenue Section and a total of 412 business licenses were subsequently issued to operators resulting in a variance of 12. Inquiry with management revealed that the variance was emanating from prior year disbursements. However, I could not substantiate the variance in the absence of records showing the opening balances, movements for the year and the closing balances as at year end. In addition, the business licenses were not serialized and did not have other security features.

Risk / Implication

Loss of revenue through fraudulent issue of business licenses.

Recommendation

Management should maintain a comprehensive register for business licenses

The Council should ensure that business licenses have sufficient security features.

Management response

Serialised licences would be introduced for the 2022 licensing period. The old licensing form will be decommissioned and recalled from issuers to ensure they cease functioning. The current security features on the licences are the official stamp, receipt number and G-number that is generated once. A comprehensive register of business licence will also be established to enable tracking of licenses.

3.0 EMPLOYMENT ISSUES

3.1 Segregation of duties

Finding

There was no segregation of duties between the revenue function and the systems administration function. The systems administrator was performing incompatible duties of billing, creation of ratepayers' accounts in addition to the I.T functions which included changing the codes of the payroll and creating user profiles for the PROMUN system.

Risk / Implication

Financial loss due to overriding of controls.

Recommendation

Management should separate the incompatible roles and responsibilities of billing from systems administration

Management response

Noted. This scenario was created when the major function of IT personnel was data capturing. Council has now realised that the IT function has grown necessitating changes to their roles and functions. A review of the organisational structure that is in progress will separate billing functions from the IT functions. The creation of users will remain in the IT function as it will require setting of credentials which can be done by super users while creation of payroll codes will be cascaded to users of the payroll module, while consumer accounts will be created by those in the revenue section. The process involves the restructuring of the Finance department and recruitment of manpower hence we expect to have completed by April 2022.

4.0 SERVICE DELIVERY ISSUES

4.1 Water works- treatment plant capacity

Finding

The City Council was not able to produce and supply adequate portable water to the residents. This was attributable to the fact that Bushmead water treatment plant was designed and commissioned 50 years ago with an optimal production capacity of 30 mega litres against current population demand of 60 mega litres per day.

In addition, according to the City planning, the City is set to incorporate another suburb in the near future of which water connections have since started and this will exert more pressure on the incapacitated water plant. Although the City has the water argumentation plans in its strategic plan document, it has been unable to mobilise enough funds to finance this capital-intensive project estimated to cost US$75 million.

Risk / Implication

Poor service delivery as a result of inadequate supply of portable water to the community.

Recommendation

The Council should explore viable funding models for the implementation of water augmentation plan.

Management response

The Water Augmentation Project is on top priority for Council on water supply issues. The technical and financial feasibility studies had been conducted and Council was still looking for funding. The Government had been approached to assist Council in sourcing funds for the project. IDBZ had offered to source funds and also to become the financial advisors to Council for the project, discussions are ongoing in that regard. The project documents had been submitted to the Zimbabwe Investment Development Agency to look for project partners. The project is capital intensive as noted by the auditor and will require long-term loan funding to enable Council to spread the interest and principal loan repayments over a long period to residents. Council will continue to put effort in the search for funding for this critical project.

4.2 Non-Revenue Water (NRW)

Finding

The City Council pumped a total of 7 688 659m^3 treated water to the reservoirs, however, 5 215 604m^3 were billed to consumers giving a variance of 2 473 055m^3 (32%) as non-revenue water during the year under review against a standard of less than 25% according to the World Bank. Water losses were as a result of aged infrastructure along the distribution network. In addition, the City had no electronic devices such as "geophones" that would have enabled detection of underground water leakages before severe water losses.

Risk / Implication

Financial losses due to high Non-Revenue Water.

Recommendation

The City Council should come up with strategies to mobilise adequate funding to replace the aged water distribution infrastructure.

Management response

Council has provided for leaks detectors in the 2022 budget. Council will also apply for PSIP funds for 2022 to repair the water mains. Consideration will also be made to the audit recommendation to fund the project from Public-Private Partnership.

4.3 Solid waste generation, collection and disposal

Finding

Solid waste collection was being done once per week against the expected daily collections. The City Council had eleven (11) refuse collection vehicles which have out-lived their economic life-span of five (5) years according to the Council's policy. I noted that only three (3) trucks were runners, one truck was awaiting repairs and eight (8) trucks which were non-runners had been assessed for decommissioning.

Risk / Implication

Compromised service delivery on refuse collection, transportation and solid waste management due to lack of adequate vehicles and equipment.

Recommendation

The Council should put in place an asset replacement policy and come up with strategies to mobilise funds to replace refuse collection trucks.

Management response

Management acknowledges lack of the asset replacement policy. The policy will be in place by April 2022. The policy to cover all assets such as land, buildings, vehicles, farms, refuse trucks and many others. Council has made a commitment to procure a refuse compactor every year beginning 2021 in a bid to increase its fleet of service delivery equipment. Beginning January 2022, Council will channel at least 10% of collected revenue towards capital development.

4.4 Compliance and solid waste management

Finding

The Council had no scientifically engineered landfill and the main method of waste disposal of the Council is the unregistered dumpsite established in 1998. For the past twenty-one (21) years, the City Council has not been able to develop/ transform its dumpsite into a standard scientific engineered landfill citing funding challenges. As a result, basic waste hierarchy of waste prevention, reduction, recycling was not being practiced and the Council has been levied penalties for non-compliance.

On-site management was not up to the required standards by Environmental Management Agency (EMA) and international best practices as the Council had no equipment such as dozer and a compactor for the proper management of waste at the site.

In addition, there was no fencing (physical security) at the dumpsite as a restrictive measure to un-authorised access or entry.

Risk / Implication

Financial losses due to fines and penalties levied by the Environmental Management Agency for non-compliance.

Probable health hazards to the community.

Recommendation

The Council should consider establishment of compliant engineered landfill that is commensurate to the City's population density and waste generation volumes.

Management response

The construction of a new engineered landfill was in progress at the time of the audit. If everything goes according to plan, the first cell will be ready for use in January 2022. It is important to note also that the unplanned sprouting of a settlement in the peri-urban Victoria ranch, put pressure on Council to move the disposal site from the current location.

The capital improvement plan being developed by Council will also address strategies for the acquisition of equipment for the maintenance of the landfill.

4.5 Health services provision

Finding

The Council received an ultra-sound scanning machine for its clinic as a donation. However, the ultrasound machine was lying idle as the City Council was yet to hire the services of a radiographer in order to put the machine into use and benefit the community.

Risk / Implication

Service delivery may be compromised and the ultra sound machine may become obsolete without being put to use.

Recommendation

The Council should consider recruiting a qualified fulltime or part-time radiographer and put the machine to use to benefit the community.

Management response

Noted and agreed. Council will engage a part time radiographer on Locum.

5.0 PROGRESS TOWARDS ADDRESSING AND IMPLEMENTATION OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS

The Council is still to address the audit findings raised in the previous audit report as indicated below:

5.1 Beer levy revenue

Recommendation

Management should ensure commercial breweries submit return for beer sales and remit beer levy according to the provisions of the Traditional Beer Act [*Chapter 14:24*].

Progress

Not implemented as the Council was yet to obtain the sales schedules for reconciliation of income received.

5.2 Delivery of purchased bitumen

Recommendation

The Council should continue to pursue the matter with the Master of High Court and in future carry out due diligence before paying for goods and services.

Progress

Not implemented, as the funds are yet to be recovered.

MUTARE CITY COUNCIL 2020

I have audited the financial statements of the Mutare City Council for the year ended December 31, 2020 and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matters described in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects the financial position of Mutare City Council as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

i. Opening balances translated at an inappropriate exchange rate

The prior year financial statements did not comply with the requirements of IPSAS 4 "The Effects of Changes in Foreign Exchange Rates", as the Council had been unable to use an appropriate exchange rate on change of functional currency. The Council translated its comparative financial statements using the interbank rate which came into existence on February 22, 2019 through Exchange Control Directive RU 28 of 2019 issued by the Reserve Bank of Zimbabwe.

Mutare City Council used February 22, 2019 as the date of change in functional currency and translated its foreign denominated balances to ZWL at a rate of 1:1 per Statutory Instrument 33 of 2019 which prescribed that all assets and liabilities that were denominated in US$ before February 22, 2019 be deemed to be RTGS dollars at a rate of 1:1 and all transactions subsequent to February 22, 2019 at interbank rate. The Council's inability to assess the appropriateness of using the interbank rate in achieving fair presentation was primarily due to the need to comply with SI 33 and the fact that there were no official exchange rates between October 2018 and February 2019 due to lack of an observable foreign exchange market. In that regard, the Council's 2020 opening balances misstatements have an impact on the current year financial statements.

ii. Consolidation of investment in subsidiary

Mutare City Council wholly owns Pungwe Breweries (Private) Limited. The Council did not account for its investment in its subsidiary in the separate financial statements as required by IPSAS 34 "Separate financial statements". IPSAS 34 Paragraph 12, requires that an entity prepares separate financial statements and that it should account for investments in controlled entities. Council did not consolidate its wholly owned subsidiary (Pungwe Breweries). This was a non-compliance with IPSAS 35 "Consolidated financial statements" paragraph 5 which requires a controlling entity to present consolidated financial statements.

iii. Assessment of impairment on investment properties

Council disclosed investment property at a carrying value of ZWL$110 807 064. Council did not assess its properties for impairment in terms of IPSAS 21 “Impairment of Non-Cash Generating assets” despite the investment property having indications of impairment. I was not able to determine whether any adjustments were necessary.

iv. Unreconciled revenue

There was an unreconciled variance of ZWL$21 024 771 on revenue from business license fees. Total invoices amounted to ZWL$61 362 222 while the ledger had revenue amounting to ZWL$40 337 451. I was not able to satisfy myself on the completeness and accuracy of revenue from business license fees and to determine whether any adjustment was necessary.

v. Stands inventory

Council did not account for inventory of stands in the financial statements in terms of IPSAS 12 “Inventory” and I could not quantify the stands inventory through alternative means. As a result, I was unable to determine whether any adjustments were required to the financial statements arising from the stands inventory not accounted for.

vi. Non-compliance with IPSAS 17 “Property, plant and equipment”

The Council was operating without a land bank register for effective accountability of its land reserves. As such, the Council did not recognise the value or disclose the size land. Council land qualifies as an asset in terms of IPSAS 17, which should be accounted for as an item of property, plant and equipment in the statement of financial position. I was not able to determine whether any adjustments were necessary to the financial statements arising from the land not accounted for.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Accounting for subsidiary

Finding

Mutare City Council wholly owns Pungwe Breweries (Pvt) Limited. According to IPSAS 35, Pungwe Breweries (Pvt) Limited qualifies as a subsidiary. In addition, IPSAS 35 paragraph 38 requires a controlling entity to prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

The investments in the subsidiary was not disclosed in the separate financial statements of the Council. In addition, the Council did not prepare consolidated financial statements to account for its interest in the subsidiary.

Risk / Implication

Financial statements may be materially misstated.

Non-compliance with IPSAS 35, ‘‘Consolidated and Separate Financial Statements’’.

Recommendation

The Council should consolidate all its subsidiaries to comply with IPSAS 35, ‘‘Consolidated and Separate Financial Statements’’.

Management response

Pungwe is behind with audits hence Council could not consolidate and by year end 2021 the same could be consolidated.

The investment in Pungwe was not valued since the inception of the USD era since Council had a backlog in having its books audited.

Council intends to conform to the provisions of IPSAS 35 by urgently revaluation of its interest in Pungwe by engaging a registered valuer by 28 February 2022. The valuation should be done following Procurement regulations and a Council resolution should be secured on or before 31 January 2022.

1.2 Impairment of investment properties

Finding

The Council did not assess its properties for impairment in terms of IPSAS 21 “Impairment of Non-Cash Generating Assets.” The standard requires an entity to assess at each reporting date whether there is an indication that an asset may be impaired. I noted that no assessment was conducted despite indicators of impairment on the properties.

The walls, trusses for the rented properties showed physical damage and ceilings were falling out which were indicators of impairment. The properties included; Guest house, View house, Matida, Mcgregors, Murahwa Old Townships (O/TS) and Chisamba singles.

Risk / Implication

Investment property maybe overstated.

Potential safety risks to tenants.

Recommendation

Council should put in place a mechanism to enable it to carry out impairment assessment.

Management response

Management is going to address the impairment of assets for the year 2021.

1.3 Accounting for land

Finding

The Council was operating without a land bank register to account for its land reserves hence the value of the land was not disclosed in the financial statements. In addition, the value of land on which buildings were constructed was not separately disclosed. Land qualifies as an asset in terms of IPSAS 17 paragraph 52 which requires land to be disclosed as a separate class.

The table below shows a sample of land unaccounted for;

Description of Land	Size (ha)	Proposed Development
Kentucky Farm remainder of Kentucky	10.13330	Industry
Kentucky Farm Lot 5	9.8135	Industry
Kentucky Farm Lot 4	9.175	Industry
Dangamvura area 16	4040	Unknown
Fern Valley remainder of stand 9	2.549	Unknown
Kentucky Farm	120	Industry
Dangamvura Golf Course	49.4	Residential
Lot 1 of Lot 2 of Hillandale	12.5	Industry
Chikanga land opposite show ground	12	Future expansion of show ground
Dangamvura Stadium	12	Stadium
Kentucky Lot 3	9.7	Industry
Dangamvura 7901	7.6	Unknown
Hobhouse remainder of stand 141	3.85	SME site
Chikanga remainder of Devonshire	Unknown	Unknown
Chikanga 2 shopping center	Unknown	Unknown
Chikanga remainder of stand 7167 of stand 52	Unknown	Unknown

Risk / Implication

Council land may be misappropriated in the absence of records.

Financial statements may be materially misstated by the value of land unaccounted for.

Recommendation

A comprehensive land bank register should be put in place for effective land accountability.

The Council should ascertain the size, value its land and fully account for it in the financial statements.

Management response

Noted the Council shall come up with the value of its land and account for it by December 31, 2022.

Noted, Council will engage the government valuers for doing valuation separating land and buildings on or before December 31, 2022.

1.4 Stands inventory

Finding

Council did not account for stands inventory in the financial statements**.** Unsold stands qualify as inventory according to IPSAS 12 "Inventory." Council maintained two copies of manual stands register. One (1) register had all stands planned and handed over to housing while the other register had list of stands approved for allocation showing those already allocated. There was no reconciliation of the two stands registers to determine stands inventory for inclusion in the financial statements at year end. In addition, Council was not utilizing the housing module in the PROMUN accounting system which allows recording of the planned stands and allocations there from. From the records availed there were at least 140 unsold stands.

Risk / Implication

Assets maybe materially understated.

Financial losses due to possible fraud involving stands.

Misappropriation and dual allocations of stands.

Recommendation

Council should record all planned stands and all allocations done in the PROMUN housing module to ensure an accurate, complete and transparent record of stands inventory.

Management response

Noted. Council shall have a thorough exercise on identifying its land bank and land held for sale and account for it properly in the 2021 final accounts.

1.5 Approval of 2020 supplementary budget

Finding

The Council spent funds for the month of September to December 2020 without approval. The supplementary budget covering the period of September to December 2020 was submitted on November 5, 2020 for approval by the Minister. However, I was not availed with the approval letter supporting the supplementary budget. This was contrary to the provisions of section 288 (7) of the Urban Councils Act [*Chapter 29:15*] which states that "a Council shall not expend any moneys unless such expenditure has been covered by estimates or supplementary estimates approved in terms of this section".

Risk / Implication

Non-compliance with the budget approval requirements leading to unauthorized expenditure.

Over-expenditure may be incurred due to spending of public funds without approval.

Recommendation

The Council should ensure its budget estimates is submitted and approved on time and no expenditure should be incurred without an approved budget.

Any supplementary budget(s) should be submitted and approved prior to the period to be covered.

Management response

In future Council would ensure the adherence to ministerial Budget submission deadlines.

1.6 Vehicle registration

Finding

The Council acquired eight (8) pre-owned vehicles from local car dealers during the year under review. However, these vehicles were still to be registered in the Council's name at the time of audit in 2022. This was against the provision of the Registration and License Act which require that in case of purchase, change of ownership should be effected within 14 days after purchase.

Risk / Implication

Council vehicles may be misappropriated.

It may be difficult to prove ownership in the event of disputes.

Recommendation

Council should ensure that all Council vehicles are registered in its name.

Management response

Noted. The registration is in progress it is expected to be completed on or before February 28, 2022.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Business licensing

Finding

There was an unreconciled variance of ZWL$21 024 771 on revenue from business license fees. Total invoices amounted to ZWL$61 362 222 while the ledger had ZWL$40 337 451 representing actual receipts.

In addition, businesses which intended to pay for business licenses in foreign currency were given a 20% discount on invoicing contrary to Council resolution on the same which required the 20% discount to be given on settlement or payment of their outstanding dues. Council did not maintain individual accounts and reconciliations of payments to invoices were not done.

Risk / Implication

Revenue from business licenses maybe understated.

Financial losses due to inaccurate invoicing and fraud.

Recommendation

Council should investigate the difference between total license revenue as per invoices and total license revenue as per ledger and take appropriate action.

Management should implement Council resolutions correctly to safeguard interests of the Council.

Management response

There was a mix up of invoices duplicated as a result of the approval of the supplementary budget and as a result invoices were inflated. In future Council shall issue quotations to those inquiring about license fees and issue invoices when the fees are to be paid. Council is maintaining separate ledgers for permanent licenses and trading licenses. Discounts were offered to clients paying in USD and there was no financial prejudice to Council on recording the discount on a USD invoice and in future invoices shall be given to those clients making a payment and not for quoting.

2.2 Parking discs

Finding

I noted that the Council's parking discs had no security features such as water marks. In addition, I observed that the parking marshals did not use a record of parking discs sold when inspecting parking to ensure parking discs displayed by vehicle owners were purchased from Council.

Risk / Implication

Financial losses due to fraud.

Recommendation

Parking discs should have security features such as water marks and parking marshals should use record of parking discs sold when inspecting parking.

Management response

Council is at an advanced stage of digitalizing the parking disc. Council had run out of stock and engaged a supplier as a stop gap measure.

However, Council had engaged Print flow to do the parking discs which had the security features. To have an order of parking discs with security features. Instantly the parking discs with no security features would be sealed before selling them.

3.0 EMPLOYMENT ISSUES

3.1 Employment costs overrun

Finding

The Council budgeted a combined total of ZWL$131 205 950 (original and supplementary budgets) for the year under review to cater for its employment costs. However, the Council incurred a total annual employment cost of ZWL$255 171 490 presenting an over expenditure of ZWL$123 965 540 (94%) above the budgeted amount. This was despite the fact that the Council had a supplementary budget during the last quarter of the year in order to account for the impacts of market forces and the hyperinflation on payroll costs.

Risk / Implication

Financial loss due to override of budgetary control.

Service delivery may be compromised as more funds are channelled to meet unbudgeted payroll costs.

Recommendation

Council should improve its budgetary control and operate within budget.

Management response

Negotiations were done with employees due to micro economic conditions which increased the wage bill.

There was no correct expenditure in real time since Council had a backlog in the preparation of financial statements but Council is now up to date.

In future Council would ensure accurate and reasonable projections which should be guided by up-to-date variance analysis reports.

3.2 Organizational structure

Finding

The Council was operating without an approved organisational structure. As a result, the Council was making reference to three different unapproved organograms. The organograms had proposed staff establishment of 1124 (2016), 1022 (2018), 1105 (2019).

Council had a total of 1136 permanent employees, 395 contract workers and 42 students on attachment. This presented an over-employment above all the three (3) proposed establishments. My inquiry with management indicated that the position to use the three proposed structures was a transition arrangement awaiting final approval.

Risk / Implication

Financial losses due to use of an unapproved establishment.

Recommendation

The Council should prioritize the finalization and approval of the ideal structure.

Management response

The draft structure has been concluded and is expected to be adopted by 28 February 2022.

3.3 Stores department

Finding

The stores department had one (1) employee who was responsible for receiving goods delivered, updating bin cards, issuing out stock and managing the movement of inventory. The department should be manned by a chief stores officer and two (2) stores clerks. As a result, there was no segregation of duties.

Risk / Implication

Financial losses due to theft of stock.

Recommendation

Council should ensure segregation of duties.

Management response

The issue would be corrected by the new organogram to be adopted by 28 February 2022 and one stores man would be recruited on or before 31 March 2022.

4.0 PROCUREMENT OF GOODS AND SERVICES

4.1 Procurement of vehicles

Finding

The Council circumvented procurement procedures by acquiring motor vehicles through its subsidiary Pungwe Breweries (Pvt) Limited. In its resolution dated January 9, 2019; the Council authorized Pungwe to procure vehicles amounting to ZWL$130 000 as part settlement for a debt of ZWL$487 000.

The resolution did not specify the type and quantities of vehicles to be purchased. As a result, on January 22, 2019 Pungwe Breweries purchased four pre-owned vehicles, (Toyota Hilux, Nissan Hardbody, Toyota Allion and Toyota Vitz), which were transferred at a total value of ZWL$169 860. This amount could not be substantiated and was ZWL$39 860 in excess of the approved amount as per the resolution.

Furthermore, at the time of audit in January 2022, the Council had not changed ownership of the Toyota Vitz vehicle registration number AFA 6210 which was still registered in the name of Pungwe Breweries (Pvt) Ltd.

Risk / Implication

Misappropriation of assets.

Financial loss due to irregular procurement processes.

Recommendation

Council should follow proper procurement procedures.

Council should recover the difference of ZWL$39 860.

Council should ensure that the ownership of the Toyota Vitz (AFA 6210) is transferred to Council.

Management response

Vehicles were accepted as a form of repayment and procurement procedures was a responsibility of Pungwe Breweries. Management shall ensure that the ZWL$39 860 variance is ratified through a Council resolution. The registration of the Vitz has been affected by its involvement in an accident and the delay in its inspection which resulted in the registration book being held by VID for a long time.

4.2 Dangamvura water pipeline

Finding

In 2010, a local contractor (Westgate Investments) was contracted for the construction of the Dangamvura water pipeline and was paid a total contract value of US$3 264 620 against initial project cost of US$3 000 000. However, I noted that by the time of audit in January 2022, the pipeline was yet to be completed. Inquiry with management indicated that the contractor failed to supply the materials in full despite being paid. I was not availed with supporting documents from the inception of the project in order to ascertain the original planned time for the project completion.

Risk / Implication

Misappropriation of project funds resulting in compromised service delivery.

Lack of sound project management.

Recommendation

Management should provide all supporting documents for the project for audit.

Council should ensure that the long overdue project is completed without further delays.

Management response

The issue was resolved by reporting to the police and perpetrators were brought before the courts.

5.0 SERVICE DELIVERY ISSUES

5.1 Water losses

Finding

There were significant water losses from the rented properties in Sakubva (Murahwa Old Townships (O/TS), Chimoio Municipal quarters and Chisamba singles). The major losses were as a result of the water leakages through broken underground pipes, dysfunctional water taps and showers which were either damaged or stolen. Enquiries with residents in the rented properties revealed that the water losses had been experienced for more than ten (10) years. There was no evidence of requisition for work orders to maintain the broken and dysfunctional water taps.

Risk / Implication

Financial loss due to excessive water losses.

Compromised service delivery in the provision of water.

Recommendation

The Council should replace or repair all identified broken underground pipes connecting water to properties and dysfunctional water taps and showers.

Management response

There is extreme vandalism in Sakubva suburb and now replacing with plastic water meters as well as welding of brass taps to avoid theft.

Council has budgeted for augmentation of old water pipes through devolution funds budgeted for maintenance of water pipes through own funding as a long-term solution.

5.2 Bulk water meters

The Council did not have bulk water meters to record water distributed and identify any water losses between the pumping point and consumption point. This was contrary to best practice in relation to water management.

Risk / Implication

Decision making and service delivery may be compromised in the absence of water statistics.

Recommendation

Council should consider installation of bulk water meters between the pumping point and consumption point.

Management response

Noted. Council has no bulk water meters at most of its reservoirs. Council intends to buy 5 bulk water meters this year with the help of a development partner and 2 using own funds. It is Council's plan to procure bulk water meters over 2 years, 2022 and 2023.

5.3 Matida flats and Mcgregors hostels

Finding

I noted that Matida and Mcgregor rented properties had inadequate water supply. Water for cleaning toilets was being carried from ground floor to fourth floor using buckets. In addition, the two (2) properties had a total of 620 rooms and accommodating over 800 families. Each room was being shared by two (2) families for the Matida flats.

Risk / Implication

Exposure of residents to health hazards.

Social ills due to poor living conditions.

Recommendation

Council should ensure provision of habitable housing and an adequate supply of water.

Management response

The water is not getting to the last floor due to vandalism mainly by scrap metal dealers. Council shall come up with a by-law criminalizing the sale of Council scrap metal composed of Council infrastructure such as water pipes and taps in order to curb the rampant vandalism of infrastructure.

5.4 Odzani Water Works

Finding

I noted that there was no motor vehicle or motor cycle allocated to service Odzani Water Works, which is situated 36km from the City. This was further worsened by inadequate communication facilities, to enable an effective operation of the facility.

In addition, the Water Works staff had no protective clothing such as work suits, gloves, and safety shoes to safeguard employees from chemicals used in water processing.

Risk / Implication

Operational inefficiencies.

Health hazard due to exposure to chemicals.

Recommendation

Management should consider allocating a vehicle or motor cycle to service Odzani Water Works.

Management should consider providing communication facility and protective clothing to staff at Odzani Water Works.

Management response

Council budgeted for the procurement of an all-terrain vehicle. Supervisors were given airtime for their personal phones for communication. Landline at Odzani was not feasible as they are affected by veld fires and lighting.

Council will procure cellphones to be stationed at Odzani Water works which will be stored at safe place.

All section heads should ensure that all employees get in the workshops in their uniforms/personal protective equipment.

Uniforms to be provided to workers as per their conditions of service.

5.5 Meter replacement

Finding

Water consumption was being billed based on arbitrary estimates in the absence of functional water meters. During the year under review 11 058 out of 37 000 water meters (30%) were non-functional and no action plan was in place to replace the non-functional water meters. Council by-laws stipulates that water meters are Council property.

Risk / Implication

Financial losses due to under estimation of water consumption.

Recommendation

Council should repair or replace non- working water meters.

Council should design a standard operating procedure clearly outlining the course of action once a non-working water meter has been identified.

Management response

Council to have a Standard Operating Procedure on the replacement of faulty water meters.

A tender of 5000 water meters was awarded and waiting for payment and delivery of the meters. Council budgeted to have a section of water meter repairs in the 2022 budget.

6.0 PROGRESS TOWARDS ADDRESSING AND IMPLEMENTATION OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS

The Council is still to address the audit findings raised in the previous audit report as indicated below:

6.1 Consolidation of financial statements

Recommendation

Management should consolidate Pungwe breweries to comply with IPSAS 35.

Progress

Not yet implemented.

6.2 Provision of water

Recommendation

Management should ensure that all non-functional water meters are repaired or replaced so that residents are charged actual bills.

Progress

Not yet implemented.

VICTORIA FALLS CITY COUNCIL 2020

I have audited the financial statements of Victoria Falls City Council for the year ended December 31, 2020 and I issued a qualified opinion.

Qualified Opinion

In my opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion section of my report, the financial statements give a true and fair view of the financial position of Victoria Falls City Council as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Qualified Opinion

Opening balances translated at an inappropriate rate

The prior year financial statements did not comply with the requirements of IPSAS 4 "The Effects of Changes in Foreign Exchange Rates", as the Council had been unable to use an appropriate exchange rate on change of functional currency. The Council translated its comparative financial statements using the interbank rate which came into existence on February 22, 2019 through Exchange Control Directive RU 28 of 2019 issued by the Reserve Bank of Zimbabwe. The Council used October 01, 2018 as the date of change in functional currency and translated its foreign denominated balances to ZWL at a rate of 1:1 per Statutory Instrument 33 of 2019 which prescribed that all assets and liabilities that were denominated in US$ before February 22, 2019 be deemed to be RTGS dollars at a rate of 1:1 and all transactions subsequent to February 22 at interbank rate. The Council's inability to assess the appropriateness of using the interbank rate in achieving fair presentation was primarily due to the need to comply with SI 33 and the fact that there were no official exchange rates between October 2018 and February 2019 due to lack of an observable foreign exchange market. In that regard the Council's 2020 opening balances misstatements have an impact on the current year financial statements.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Employee safety

Finding

During the time of my audit, one of the Council employees was attacked by a hippopotamus. I noted that staff in the waterworks and refuse collection departments had shifts starting from six (6) am and six (6) pm. This required the employees to leave home or work station during dark hours. However, the Council was not providing transport for such employees putting them at risk considering that Council is in a game area

Risk / Implication

Loss of life due to attacks by wild animals.

Recommendation

Council should consider providing transport to its employees.

Management response

There may be need for a staff mini bus and a night duty/standby driver to address this problem. Council will consider it in the 2022 budget.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Beer levy revenue

Finding

The Council did not have an official responsible for inspection of records in respect of traditional beer sales in its jurisdiction as required by section 14 and 15 of the Traditional Beer Act [*Chapter 14:24*]. As such Council did not receive any money from commercial brewers during the year under review and no follow-ups were made.

Risk / Implication

Potential loss of revenue.

Recommendation

Management should continuously engage the commercial brewers of traditional beer.

Management response

Follow ups were difficult due to the fact that people were in and out of offices due to covid-19. The account is being handled by Fairbridge Bulawayo who have promised to get back to us with the schedules for the beer levy.

3.0 SERVICE DELIVERY

3.1 Schools

Finding

I noted that the City, had two (2) Council schools one (1) primary and one (1) secondary) which were both operating on hot sitting basis. It is the responsibility of Council to provide adequate education facilities to its residents.

Risk / Implication

Compromised service delivery in terms of provision of adequate educational facilities.

Recommendation

Council should consider the construction of more schools easily accessible to residents.

Council should draw a roadmap to decongest schools in line with growing population.

Management response

Over and above the 1 Primary School run by Council, the city also hosts 2 Government Primary Schools namely, Baobab and Chinotimba Primary Schools. Council has already set aside land for the development of a secondary school in Mukhosana Township so as to decongest Mosi oa Tunya High School and reduce the distance travelled by learners to and from school. The project is expected to commence next year subject to availability of funds. On the other hand, Central Government is currently constructing Chamabondo 2 Primary School which is expected to reduce congestion at the Council run Chamabondo Primary School. Enrolment is scheduled for January 2022.

3.2 Security of Council properties

Finding

I observed that the Council's properties were not well secured considering that they are situated in a game area. Table below refers:

Location	Status
Zambezi River Pump Station	No perimeter fence at the river site, inadequate lighting
Elephant Hills Water Treatment Plant	No perimeter fence at staff housing
Chinotimba Sewer Ponds	No perimeter fence
Chinotimba Dump Sites	No perimeter fence
Chinotimba Clinic	No secure perimeter fence, no security guard

Risk / Implication

Employees and the public may be exposed to dangerous wild animals.

Damage to properties.

Recommendation

Council should consider securing its premises.

Management response

Zambezi River Pump Station, the station has just been handed over to Council and works on improving lighting and fencing is in progress.

Caravan Park Pump Station, concerns fencing the area will be prioritised in the future when funds are available.

Waste water treatment plant, the concerns are noted, Council could not be able to carry out the project of fencing the area due to lack of funding. Fencing of the area

was supposed to be done through the WASH project that was going to involve also the upgrading of the treatment plant, however funding has been a challenge for the implementation of the project since its inception in 2016.

3.3 Provision of water

Finding

The Council was facing water challenges. Upon inquiry, management indicated that this was due to old water infrastructure that had not been upgraded to cater for the expansion of the town hence the need for the upgrade of the raw water abstraction pump station. In addition, Council lost 1 558 401m^3 through non-revenue water.

Furthermore, the Council had treated water reservoirs with a total capacity of 20 320m^3. This capacity was not enough to cover the whole city as a result Mkhosana suburb was getting water through direct pumping and hence no water supply during power outages.

Risk / Implication

Service delivery may be compromised.

Recommendation

Council should consider upgrading its infrastructure assets.

Management response

The River pump station was handed to Council in 2021 and US$150,000 is required for initial repairs and US$1m is needed to upgrade the pump station. Currently Council has done electricity and lighting.

Council is still sourcing funding for the Water and Sewerage Infrastructure upgrade. The project was done from feasibility stages to detailed design stages and is expected to address challenges faced with water supplies of the City. However, Council has also started implementing most critical sections of the project through Devolution Funds.

4.0 PROGRESS TOWARDS ADDRESSING AND IMPLEMENTATION OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS

The Council is still to address the audit findings raised in the previous audit report as indicated below:

4.1 Housing policy

Recommendation

The Council should expedite the approval process of draft policies.

Progress made

Housing policy still at draft stage.

4.2 Valuation roll

Recommendation

Council should update the valuation roll to enable it to bill its rateable properties accurately or come up with a supplementary valuation roll to cater for new properties and improvements made after 2000.

Progress made

Valuation roll not yet updated.

4.3 Locomotion expense

Recommendation

Locomotion should only be paid to compensate for wear and tear for using personal vehicles for Council business.

Progress made

The engineer repaid.

4.4 Housing

Recommendation

Council should ensure adequate servicing of land is performed for new residential areas.

Council should engage relevant authorities to secure land for expansion.

Progress made

Council still to waiting for response from the Ministry.

MUNICIPAL COUNCILS

GWANDA MUNICIPALITY 2016 – 2019

I have audited the financial statements of Gwanda Municipality for the years ended December 31, 2016, 2017, 2018 and 2019 and I issued qualified opinions for 2016-2018 and an adverse opinion for 2019.

Qualified Opinion 2016

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Gwanda Municipality as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

Trade receivables

The Council did not carry out month-end and year-end cut-off procedures. There was no adequate system of internal control over trade receivables on which I could place reliance for the purpose of the audit and there were no satisfactory alternative audit procedures that I could adopt. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation, allocation, and rights pertaining to debtors of US$11 855 344.

Qualified Opinion 2017

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Gwanda Municipality as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

Trade receivables

The Council did not carry out month-end and year-end cut-off procedures. There was no adequate system of internal control over trade receivables on which I could place reliance for the purpose of the audit and there were no satisfactory alternative audit procedures that I could adopt. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation, allocation, and rights pertaining to debtors of US$12 951 658.

Qualified Opinion 2018

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Gwanda Municipality as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

Trade receivables

The Council did not carry out month-end and year-end cut-off procedures. There was no adequate system of internal control over trade receivables on which I could place reliance for the purpose of the audit and there were no satisfactory alternative audit procedures that I could adopt. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation, allocation, and rights pertaining to debtors of US$13 441 550.

Adverse Opinion 2019

In my opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly the financial position of Gwanda Municipality as at December 31, 2019, and the financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

Non-compliance with IFRSs: International Accounting Standard (IAS) 21- "The Effects of Changes in Foreign Exchange Rates" and IAS 8 – "Accounting Policies, Changes in Accounting Estimates and Errors"

The entity changed its functional and reporting currency from United States Dollars (US$$) to Real Time Gross Settlement Dollars (RTGS$) on February 22, 2019 in compliance with Statutory Instrument 33 of 2019. I however believe that the change occurred on October 1, 2018 in terms of IAS 21 given the significant monetary and exchange control policy changes witnessed in Zimbabwe from 2016 through to 2019. My audit opinion for the year ended December 31, 2019 was therefore modified as management prospectively applied the change in functional currency from US$ to RTGS $ from February 23, 2019.

The correct approach would have been a retrospective restatement as a prior period error in terms of IAS 8–Accounting Policies, Changes in Accounting Estimates, and Errors. The matter continues to impact Retained earnings of the financial position which still comprise material amounts from opening balances, as well as cost of sales and income tax expenses on the statements of profit or loss and other comprehensive income.

The entity translated foreign-denominated transactions and balances to ZWL using the interbank exchange rates for the period. (This includes the period between March and June 2020 when the exchange rate was fixed at US$1: ZWL$25). Subsequent to 23 June 2020, management translated foreign-denominated transactions and balances to ZWL using the weighted average auction exchange rates for the period 23 June 2020 to 31 December 2020. The exchange rates used for the translation do not meet the definition of spot exchange rates as per IAS 21, as they were not available for immediate delivery for the first half of the year and were not always accessible for the remainder of the year. However, owing to the lack of information on the spot exchange rates available to the entity, it is not possible to quantify the impact of this departure from IFRS. My opinion was also modified in respect of this matter in the prior year. The effects of the above departures from IFRS are material and pervasive to the financial statements.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Year-end cut off procedures

Finding

The Council did not carry out month-end and year-end cut-off procedures. There was no adequate system of internal control over trade receivables of US$11 855 344 (2016); US$12 951 658 (2017); US$13 441 550 (2018) on which I could place reliance for the purpose of the audit and there were no satisfactory alternative audit procedures that I could adopt.

Risk / Implication

Financial statements may be misstated.

Recommendation

The Council should implement year end procedures. Cut off procedures can be done on a monthly basis and not at year end alone.

Management response

These are now being done.

1.2 Statutory obligations

Finding

The Council was not remitting statutory deductions to relevant authorities during the year under review. As at December 31, 2019, the Council had a total outstanding balance of ZWL$1 278 193 owed to various authorities namely; ZIMRA (ZWL$508 259), NSSA (ZWL$46 435), LAPF (ZWL$643 901) and ZIMDEF (ZWL$79 578).

Risk / Implication

Financial loss due to fines and penalties.

Employees may fail to access benefits upon termination of employment.

Recommendation

The Council should arrange payment plans with the authorities to clear the outstanding balances.

Management response

The audit observation is noted. These arrears arose due to the prevailing financial challenges at the time. Council shall clear these arrears by improving revenue. ZIMRA was supposed to be paid through debt swaps at the Ministry of Finance.

1.3 Stores building

Finding

The Council was making use of a dilapidated building for repairs and storage of Council inventories. The same building was condemned by EMA several years ago however, Council still utilized the facility as its prime processing and storage facility.

Risk / Implication

Employees are exposed to unsafe working environment.

Financial loss resulting from theft of inventories and or probable payments towards worker's compensation.

Recommendation

The Council should refurbish the facility to acceptable standards.

Management response

The audit observation is noted. This building is awaiting the availability of funds so that its reconstruction takes place. It shall be done in phases when the funds become available.

1.4 Valuation roll

Finding

The Council did not have an updated valuation roll in compliance with requirements of Urban Councils Act [*Chapter 29:15*] section 253(a)-(f). In the absence of an updated valuation roll, I could not determine the basis used in charging assessment rates.

Risk / Implication

Potential loss of revenue.

Recommendation

The Council should maintain an updated valuation roll.

Management response

The audit observation is noted. Efforts have been made to have the valuation roll updated in the last few years but the costs involved have been prohibitive. This

culminated in the Municipality seeking help from the parent Ministry's valuers who shall assist in the preparation of this valuation roll.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Unbilled stands

Finding

In 2019, I noted that there were twenty-seven (27) Municipal stands sold to the public several years ago that were not in the billing system.

Risk / Implication

Loss of revenue.

Recommendation

The Council should ensure that all stands are captured into the billing system.

Management response

The audit observation is noted. Council has commissioned an exercise targeting un-billed properties. This, together with the valuation roll, will see all properties being accounted for in the billing system.

3.0 EMPLOYMENT ISSUES

3.1 Staff benefits

Finding

In 2019, the Municipality awarded to its employees benefits in the form of cellphone allowance, fuel allowance, water allowance, electricity allowance and school fees allowances that were not taxed. These benefits constitute gross income in the hands of the employees as per the provisions of the Income Tax Act [*Chapter 24:03*]. I noted that such staff benefits were not being processed through the payroll system.

Risk / Implication

The Municipality may be charged penalties by the tax authority resulting in a financial loss.

Recommendation

All deemed benefits awarded to employees should be subjected to tax as per the Income Tax Act.

Management response

The audit observation is noted. Fuel allowance was given to meet operational expenses and not a benefit Cellphone allowance is not an allowance but a communication cost – landlines are now used since 2020. The water and school fees allowance shall be included in the payroll for tax purposes.

MARONDERA MUNICIPALITY 2019 AND 2020

I have audited the financial statements of the Marondera Municipality for the years ended December 31, 2019 and 2020 and I issued an adverse opinion in 2019 and a qualified opinion in 2020.

Adverse Opinion 2019

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects the financial position of Marondera Municipality as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

i. Non-compliance with International Public Sector Accounting Standard (IPSAS) 4" The Effects of Changes in Foreign Exchange Rates"

The Council translated its comparative financial statements using the interbank rate which came into existence on February 22, 2019 through Exchange Control Directive RU 28 of 2019 issued by the Reserve Bank of Zimbabwe. The entity used February 22, 2019 as the date of change in functional currency and translated its foreign denominated balances to ZWL using the February 22, 2019 interbank rate. The entity has not been able to assess the appropriateness of use of the interbank rate in achieving fair presentation primarily due to the need to comply with SI 33 and also the fact that there were no official exchange rates between October 2018 and February 2019 due to lack of an observable foreign exchange market. Additionally, the introduction of the interbank rate occurred after a period of foreign currency scarcity and constrained exchangeability of bond notes, coins and electronic money to other foreign currencies. In substance, the immediate delivery of foreign currency could not be guaranteed which impinged on the underlying concept of closing rates and definition of spot rates. This therefore impacts the basis for measuring transactions between October 2018 and February 2019, valuation of assets and liabilities as well as the accounting for exchange differences. In that regard, the entity has not been able to comply with the requirements of IPSAS 4.

ii. Date of change in functional currency

Marondera Municipality adopted February 22, 2019 as date of change in functional currency despite the existence of evidence that the chosen date may not be appropriate. Based on International Public Sector Accounting Standard (IPSAS 4) "The Effects of Changes in Foreign Exchange Rates", the functional currency of an entity is the currency of the primary economic environment in which the entity operates and reflects the underlying transactions, events and conditions that are relevant to it.

Zimbabwe witnessed significant monetary and exchange control policy changes in 2016 and increasingly through to 2019. The Reserve Bank of Zimbabwe (RBZ) together with the Ministry of Finance and Economic Development promulgated a series of exchange control operational guidelines and compliance frameworks during this period. In particular, there was a requirement for banks to separate local Foreign Currency Accounts

(RTGS$) from the FCA Nostro US$ Accounts effective October 01, 2018. Although the rate was legally pegged at 1:1, multiple pricing practices and other transactions observed and reported publicly indicated exchange rates other than 1:1 between RTGS$ and US$. In February 2019 there was a Monetary Policy statement which introduced RTGS$ and the interbank foreign exchange market.

Due to the fundamental nature of the issues raised and interplay of variables within the existing economic environment, I have not been able to determine the extent of misstatements and any adjustments that would have been necessary to correct the historical cost financial statements. The effects on the historical financial statements have an impact on the IPSAS 10 inflation adjusted financial statements.

Qualified Opinion 2020

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the accompanying financial statements present fairly, in all material respects the financial position of Marondera Municipality as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Qualified Opinion

Opening balances translated at an inappropriate exchange rate

The prior year financial statements did not comply with the requirements of IPSAS 4 “The Effects of Changes in Foreign Exchange Rates”, as Marondera Municipality had been unable to use an appropriate exchange rate on change of functional currency. The Municipality translated its comparative financial statements using the interbank rate which came into existence on February 22, 2019 through Exchange Control Directive RU 28 of 2019 issued by the Reserve Bank of Zimbabwe.

The Municipality used February 22, 2019 as the date of change in functional currency and translated its foreign denominated balances to ZWL at a rate of 1:1 per Statutory Instrument 33 of 2019 which prescribed that all assets and liabilities that were denominated in US$ before 22 February 2019 be deemed to be RTGS dollars at a rate of 1:1 and all transactions subsequent to February 22, 2019 at interbank rate. The Municipality’s inability to assess the appropriateness of using the interbank rate in achieving fair presentation was primarily due to the need to comply with SI 33 and the fact that there were no official exchange rates between October 2018 and February 2019 due to lack of an observable foreign exchange market. In that regard, the Municipality’s 2020 opening balances misstatements have an impact on the current year financial statements.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Traffic management system contract

Finding

The Council subcontracted ZEMQOs Incorporated for traffic management system services which included parking and bus terminus in September 2017. However, I noted the following anomalies;

The supplier was supposed to install a system of collecting parking fees worth US$1 076 095 at the beginning of the contract using their funds and then recover their funds from collection of parking fees. However, there was no proof of such an investment at commencement of the contract. In May 2018, ZEMQOs installed ten (10) coin-based parking meters worth US$665 254 whose value could not be substantiated.

Furthermore, the contract required the parties to open an escrow account where parking fees are deposited and expenditure paid from. However, the account was not opened and the parking fees were being deposited in a bank account fully controlled by ZEMQOs Incorporated.

The contract also required ZEMQOs to ensure that the financial statements of the arrangement are audited. However, no audited accounts were submitted since commencement.

Risk / Implication

Financial loss due to compromised contract management.

Service delivery may be compromised.

Recommendation

The Council should reconsider the feasibility of the arrangement to safeguard public resources.

The Council should ensure effective contract management processes.

Management response

Traffic Management Contract was a settlement arrived at through a deed of settlement at the Courts as the original contract had been offered to Southern Region Trading Company. The contract with Southern Region Trading Company the original winner has not been implemented for various observed challenges raised with the vendor.

The recommendation by the Auditor is noted and summarize the general view by Council as highlighted by two previous review meetings and a recommendation made by the audit Committee on the same. A dedicated Parking Account is operational with the compensating controls described below regards its activities and operations. Council has indicated its intentions to terminate the contract as

highlighted and the formalization papers to regularize the appointment of a Council signatory to the dedicated Account are on file. These were not filed for various reasons one being the direction and intentions of Council that of termination. Meanwhile Council has in place alternative compensating controls that are in place to monitor operations and limit its exposure to losses under the contract.

We take note of this observation and we stand corrected as our view was to have the audits done by the same auditor appointed to conduct Council audits. Council has the monthly and consolidated reports for the Parking activities from inception on file.

In 2020, 15 Parking Meters have been installed. The cost of each parking meter submitted to Council is US$3 096 and is part of the inventory to be assessed independently. Definite valuation of the investment to date will be subject to mutual verification as this is contested by Council. Council has sought the services of IT specialist to assist with the valuation of the gadgetry installed to date as this is the major bone of contention to the partnership. Whilst an inventory list was provided the fair valuation of the same is under consideration as part of the partnership review process which is mandatory according to the contract. The full implementation of the project was in two stages, starting with a semi-automated system which is currently in operation and the final stage being the fully automated system. The total investment of value of US$ 1 076 095 is applicable to the 2-stage development program with the last stage yet to be finalized constituting the largest investment. The tendered services for IT valuation will provide Council with definitive information to assess the various aspects of the partnership.

The cost benefit analysis for the proposals were considered and is the reason why ZEMQOS was not recommended for the project initially. To illustrate the application of the said consideration the second proposal between Council and SRTC has not been implemented for the same reason and Council shared with you a detailed summary of these concerns and value for money shortcomings to Council. ZEMQOS was awarded the contract through the courts whereupon the Company committed to implement the project in two phases for the total value of US$1 076 095. It is my opinion Council is better positioned to complete the proposed independent valuation of their investment to date before approaching the same court if disputes arise regards what they promised through the courts.

Operational costs were assigned to ZEMQOS and the monthly financials are verified by the accountant for any excessive or abnormal expenditures.

The capitalization of the project is the bone of contention between Council and ZEMQOS and the bill of quantities provided is the subject matter of the IT Valuation exercise in progress. Council has summoned ZEMQOS on two occasions to explain the delays on the implementation on the ground.

Find below the compensating controls in place and associated documents on file being used to monitor the project.

Parking fees are paid through cash and Eco cash via the PERMS to which the accountant has access to the system. Parking Marshals declare their daily

collections to the office and sign off their returns which are used to compute their commissions. The daily cash declarations are linked to their monthly commission.

Receipt book monitoring
Council maintains a register for the receipt books procured by the partnership through the accountant's office.

Manual receipt book checking linking with the Monthly financial report produced by the PPP

Clamping fees collected are tallied with receipts used on daily and summarized on Month end. The accountant checks receipts and signs report on Monthly basis.

Terminus fees collected are tallied with receipts used on daily and summarized on Month end. The accountant checks receipts and signs report on Monthly basis.

Accountant establishes through checking reporting variances and conducts investigations

The accountant checks banking reconciliation provided by the PPP.
Council acknowledges the auditors concerns which it shares. Council has been provided with an inventory list by the partner (ZEMQOS) and had already commissioned a procurement exercise to obtain an independent valuation from qualified services providers to consider the two stage implementation outputs.

There is now a resolution passed to terminate the contract and the pending advert to engage professional IT valuers to assist the partnership to establish the costings of the inventory supplied. The advert is booked for publication in the Government Gazette on Friday 30th July 2021.

1.2 Investment property

Finding

The Council was not accounting for the 10% rental income portion from Rusike and Marondera Flats. Council entered into a contract agreement with Index (Pvt) Ltd for the refurbishment of Rusike and Marondera flats in November 2014 whereby revenue from rentals from the flats was to be shared as 90% and 10% for Index and Council respectively. However, Index was not remitting the 10% portion and Council was not accounting for the rental due.

Risk / Implication

Loss of public resources due to irregular contracts.

Recommendation

Council should ensure effective contract management to safeguard public resources.

Management response

Comments by the auditors are acknowledged however, Council had taken a different approach to the matter for the reasons explained below;

On 2/03/2015 Council resolved to enter into the partnership to renovate the hostels due to their dilapidated state and health hazard to the community. The primary reason was to improve the living standards under which the residents at these flats were exposed to. These renovations were to be undertaken over five (5) years and a further five (5) years lease tenure for them to recoup their costs and hand back the flats to Council.

Contractual differences arose during the tenure of these renovations culminating in Council resolving and issuing notice to terminate the contract on 26/06/2017. The letter written by the Acting Director of Housing and Community Services is on file and the matter also involved quantification of works completed. Index (Pvt) Ltd submitted its counterclaims against Council and the matter was then referred to Council lawyers on 21/11/2017 for further advice.

At its Full Council meeting number 513, held on 05/11/2018 Council resolved to terminate the contract with Index (Pvt) Ltd with immediate effect and the same resolution was repeated at A Special Full Council meeting held on 15/07/2019.

The thrust of Council was therefore to terminate the contract as it was no longer of benefit to the community and the matter was now to terminate and wind up the activities between Council and Index. No provisions were made for the revenue as the matter was now under dispute between the parties and our preferred option was to take note of this pending matter whilst clarity is sought on the outcome of the dispute.

1.3 Fuel management

Finding

The Council maintained a register for liquid fuel where recipients were signing as an acknowledgement of collection. However, 3 783 litres of petrol and 6 896 litres of diesel were issued without being signed for in 2019. As a result, I could not verify whether the fuel was collected and used for Council business.

Risk / Implication

Financial loss due to misappropriation.

Recommendation

Fuel issued should be signed for.

Management response

The audit observation is noted and is acknowledged. The lapses in the controls were largely due to staff shortage at the stores section.

To help alleviate these shortcomings the following measures were adopted to assist with manpower at stores:

One employee was transferred to stores in 2020 to assist with the stock issues and receipt of goods. Also, two more attaches were assigned to it to help ease pressure of work and implement internal controls.

For the 2019 fuel allocations, we have thus directed the store man to make sure that those who collected fuel from stores have signed for their fuels supported by the requisitions issued. We have also directed the stores section not to issue out any fuel without approved paperwork and to only attend to those with approved requisitions.

1.4 Motor vehicles insurance

Finding

Council vehicles were involved in road accidents during 2018 and 2019 financial years. However, there was no evidence of insurance claims made for the motor vehicles. The table below refers;

Vehicle description	Registration number	Date of Accident
Volvo Fire Tender	Not registered	09/09/2018
Nissan Cabster	AAE 7766	29/11/2018
Nissan NP300	ADB 4173	06/05/2019
Tractor	Not Registered	Not Provided
Mitsubishi Canter	AAE 7770	Not Provided
Nissan NP300	Not Provided	29/08/2019
Nissan NP300	AAE 8189	Not Provided

Risk / Implication

Financial loss.

Service delivery maybe compromised.

Recommendation

Management should ensure that insurance claims are submitted when motor vehicles are involved in accidents.

Management response

For the financial periods 2018 and 2019 Council Insurers were Care Insurance Brokers. The challenge as highlighted by audit arises from lack of submission of timely police reports for the processing of the claims through insurance. However, the delays were raised for urgent attention and rectification.

1.5 Litigation claims

Finding

The Council was sued for US$126 300 by a farmer for damages that were suffered as a result of his vehicle being clamped for parking at no stopping zone. However, the plaintiff claimed that there was no regulating sign prohibiting parking along the length of the zone in which he parked. The expenditure was not a proper charge to Council as Council had subcontracted parking fees collection to a private company ZEMQOS.

Risk / Implication

Financial losses due to litigations.

Recommendation

Council should re-direct responsibility of the litigation to ZEMQOS.

Management response

The charge to Council for the said legal fees will be handed over to Council legal advisors for resolution and rectification by 31st December 2021.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Customer accounts

Finding

Council had receivables with invalid addresses and names in its PROMUN Accounting system. The accounts had customer names in the form of characters **(/////; \\\).** No proper explanation was provided to audit on the origin of these receivables. The table below refers;

Account number	Invalid customer name	Amount due ZWL$
91001202	///////	3 264
91002300	////////////////////////	3 264
91022900	///////////	15 827
91068800	//////////	9 996
91078500	//	6 405
92000503	//	123
92120900	///////	3 883
93022900	/////////////	123
94005300	///////////////	123
94147301	\\\	123
96256900	/////////	134
96257000	\\\\\\\\\\\\\\\\	134
97086400	\\\\\\	123

Risk / Implication

Financial losses due to fraudulent accounts.

Revenue and receivables maybe overstated.

Recommendation

Management should investigate the origin of these accounts and take corrective action.

Management response

Council undertook a water Audit which was aimed at generating a definite and legitimate database. On completion of the excise a number of accounts were established and Council is now conducting a database clean-up exercise aimed at ensuring that Council has a systematic database where each land parcel is represented by a single account. The Finance Committee on its siting on 29 June 2020 recommended that we refer to Audit for further interrogation and recommendation on the database clean-up exercise. Beginning March 2021 Council has isolated from debit raising accounts outside the billing parameters such that these accounts will not continue to accumulate bills/ Charges which was the initial phase of the database clean up.

Council expects to conclude the data base clean up exercise by June 30, 2022.

3.0 PROCUREMENT OF GOODS AND SERVICES

3.1 Procurement and delivery of catmix

Finding

On May 7, 2020, Council made an advance payment of ZWL$178 000 to Abrigo (Pvt) Ltd for the procurement of twenty (20) drums of catmix**.** However, only eight (8) drums of catmix were delivered to Council as at December 31, 2020.Furthermore, the comparative schedule showed that Abrigo Pvt Ltd.'s price was exclusive of VAT therefore it was not the lowest bid price compared to Fly Hust Trading.

Risk / Implication

Financial loss due to irregular procurement processes.

Recommendation

Management should follow proper procurement procedures.

The Council should follow up on the delivery of the outstanding drums.

Management response

Comments by the auditors are noted. Internal control challenges were faced during the lockdown and the period was characterized by frequent price changes and very

short price validity times at most twenty-four hours. Most staff were also on home working schedules.

To ensure the delivery of essential services during these difficult times Council entrusted upon the services of the buying office to engage reputable service providers with stocks on premises and ensuring that specific goods were reserved before transfer of funds since the suppliers were also demanding upfront payments. After payment however, the contractor diverted the goods that were held for Marondera Municipality to other clients.

These payments were also limited to below the US$10 000 request for quotations threshold whilst bank guarantees were for high value payments which often took more than two weeks to process and often were full of requests for variations by service providers.

To remedy these challenges Council established a properly constituted Procurement Management Unit (PMU) and recruited a qualified procurement Manager to oversee the buying function's activities. This section is now responsible for conducting the complete due diligence on supplier's capacity and necessary arrangements before payment is done.

The supplier has delivered part of the consignment but challenges are still being met and the issue is currently being pursued by the procurement Unit.

3.2 Borehole projects

Finding

The Council engaged a contractor (Hello Projects) to drill 16 boreholes, provide casing and install bush pumps at a contract price of ZWL$1 898 232. However, the Council paid a total of ZWL$2 006 656 with a variation amounting to ZWL$108 424. I also noted that Council paid ZWL$895 948 for borehole works whose certificates were not presented. However, the contractor did not complete work at five (5) sites despite the full contract price having been paid. Council then engaged another contractor Blue Gold to finish the work at an additional cost of ZWL$462 000 for the installation of pumps.

Risk / Implication

Financial loss due to irregular contract management.

Recommendation

Council should ensure effective contract management.

Council should recover the overpaid funds and payments made for work not done.

Management response

Council observed that in the finding on Borehole drilling where Council contracted Hello Projects to drill 16 boreholes, it is mentioned that Blue Gold was contracted to finish off the project that was left unfinished by Hello Projects. Blue Gold was contracted to carry out new borehole drilling project for 2021 and also to a smaller extent partly finish the borehole projects from the previous year, where Council had to cancel the Hello Project contract after the contractor had requested another price variation citing drastic change and movement in the exchange rate. Through consultation with management, PMU advised the Accounting Officer that for transparency and accountability purposes it was prudent to go back to the market; hence a tender was advertised including the supply and delivery of 1Hp submersible water pump to finish off works from the previous project. Blue Gold was awarded all the lots including lot C for the supply and delivery of 7 of 1Hp submersible water pumps. Council notes that challenges with the contract were as a result of changes in prices due to the prevailing macro-economic factors. Council shall ensure that terms and conditions of all contracts are adhered to.

4.0 EMPLOYMENT ISSUES

4.1 Terminal benefits

Finding

Council did not have a policy specifying all benefits which employees are eligible for on termination of employment. As a result, the former town clerk was awarded a Council house and motor vehicle while retiring employees were given medium density stands. The determination of the retirement benefits was done on an ad hoc basis. No approval from Council was availed to audit for the stands issued to former employees as retirement benefits.
The Conditions of service document only specified retirement age and benefits accruing as a result of contributions made to the Local Authorities Pensions Fund (LAPF).

Risk / Implication

Loss of public resources due to award of unauthorised benefits.

Arbitrary award of termination benefits could lead to low employee motivation.

Recommendation

A standard retirement policy should be put in place.

Management response

The standard retirement policy shall be put in place before 31 December 2021.

4.2 Job grading

Finding

I noted that some employees in the Council were underqualified and or inappropriately put in higher grades. The table below refers:

Employee number	Job title	Minimum qualification as per HR policy	Job holder qualifications	Grading as per HR policy	Current grade	Anomaly
1100	Sewer worker	5 "O" Levels	None	1	5	Wrongly placed in higher grade
586	Salaries Officer	5 "O" Levels Payroll Certificate	Diploma in Payroll	10	12	Wrongly placed in higher grade
1101	Nurse Aid	5 "O" Levels Red Cross Certificate	Grade 7	2	2	Unqualified
1104	Nurse Aid	5 "O" Levels Red Cross Certificate	ZJC Drivers' licence	2	2	Unqualified

Risk / Implication

Loss of public funds due to improper grading.

Poor service delivery due to recruitment of unqualified personnel.

Recommendation

Council should ensure corrective action is taken on employees in wrong grades and ensure effective recruitment processes.

Management response

Management shall ensure that the right employees for the right positions are engaged at all material times.

5.0 SERVICE DELIVERY ISSUES

5.1 Sewerage system

Finding

I noted that the Council's three (3) sewer stations were not working. As a result, waste from the Northern suburbs was deposited unprocessed into Rufaro dam and waste from the southern suburbs was deposited into ponds that were situated within the Cherutombo extension residential area. Inquiry from management revealed that the pump stations have not been working for at least ten (10) years as at July 2021. The Cherutombo extension residential area had no water reticulation system as such the residents were exposed to health hazards as they relied on shallow wells for water supply.

Furthermore, there was no security at the pump stations. Enquiry from management revealed that the pump, transformer, and fence at the Dombotombo pump station were stolen and that part of the security fence of the other two pump stations was also stolen.

Risk / Implication

Residents may be exposed to water borne diseases.

Financial loss due to penalties from Environmental Management Agency.

Loss of resources due to vandalism and theft of sewer infrastructure.

Recommendation

The Council should equip the pump stations to restore its sewer system to functionality.

Management should ensure that all sewer pump stations have security.

Management response

The Municipality is aware of the wastewater challenges as noted by the Audit team. Currently Council is implementing rehabilitation of its wastewater infrastructure through Devolution Funds and the Integrated Urban Water Management Masterplan (IUWM) through the Immediate Needs component. Tenders have since been flighted and contracts signed for supply of sewage reticulation pipes, manholes, covers, and pumps. This will result in addressing point source pollution points identified within the town's sewerage network. To date, the Municipality has since replaced and installed two sets of transformers at Dombotombo and Rufaro sewage pump stations respectively. Fencing off of the pumping stations is currently underway with armed security already deployed at these sites. We expect to reticulate all sewage inflows to Elmswood ponds by 31st December 2021.

5.2 Water meters

Finding

Council did not have a policy to regulate installation, replacement and maintenance of water meters. The policy will provide direction on how to rectify the problem of non-functioning water meters. An extract from the PROMUN accounting system revealed that 816 water meters were not functioning as at December 31, 2020. For these water meters, I noted that Council was billing a fixed charge of 15 cubic meters per month for water consumption.

Risk / Implication

Financial losses due to non- revenue water.

Recommendation

Council should establish a policy to deal with non-functioning water meters.

Management response

Audit observation is noted. Meter functionality / Replacement policy is to be crafted by 31st December 2021

5.3 Landfill

Finding

Council did not have an approved landfill contrary to Environmental Management Act [*Chapter 20:27].* As a result, the Council was using a dumpsite.

Risk / Implication

Financial loss due to penalties.

Potential health hazards to the community.

Recommendation

Council should have a license as per Environmental Management Act.

Management response

Council has identified a site for an engineered landfill site. Council intends to do preliminary works like submitting a prospectus and an Environmental Impact Assessment to EMA. We also intend to start construction of an engineered landfill site using a phased approach should we get a delivery of all our yellow equipment. At the moment, the dumpsite cannot be licensed in accordance with the cited Act.

6.0 PROGRESS TOWARDS ADDRESSING AND IMPLEMENTATION OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS

The Council is still to address the audit findings raised in the previous audit report as indicated below:

6.1 Investment in shares

Recommendation

Council should avail all supporting documentation and account for the Pension Fund.

Progress made

The issue is still under investigation.

6.2 Investment properties

Recommendation

Council should ensure that lease agreements are in place.

Progress made

The bulk of the tenants were taken to court for eviction and the process is ongoing. A few have responded positively and we are renewing their leases.

6.3 Statutory deductions

Recommendation

Council should remit statutory payments on time.

Progress made

Not yet implemented.

REDCLIFF MUNICIPALITY 2020

I have audited the financial statements of Redcliff Municipality for the year ended December 31, 2020 and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Redcliff Municipality as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

i. Opening balances translated at an inappropriate exchange rate

The prior year financial statements did not comply with the requirements of IPSAS 4 "The Effects of Changes in Foreign Exchange Rates", as the Municipality had been unable to use an appropriate exchange rate on change of functional currency. The Municipality translated its comparative financial statements using the interbank rate which came into existence on February 22, 2019 through Exchange Control Directive RU 28 of 2019 issued by the Reserve Bank of Zimbabwe.

The Municipality used January 1, 2019 as the date of change in functional currency and translated its foreign denominated balances to ZWL at a rate of 1:1 per Statutory Instrument 33 of 2019 which prescribed that all assets and liabilities that were denominated in US$ before February 22, 2019 be deemed to be RTGS dollars at a rate of 1:1 and all transactions subsequent to February 22, 2019 at interbank rate. The Municipality's inability to assess the appropriateness of using the interbank rate in achieving fair presentation was primarily due to the need to comply with SI 33 and the fact that there were no official exchange rates between October 2018 and February 2019 due to lack of an observable foreign exchange market. In that regard the Municipality's 2020 opening balances misstatements have an impact on the current year financial statements.

ii. Valuation of property, plant and equipment

I could not satisfy myself with the fair presentation of the property, plant and equipment disclosed at ZWL$260 483 804 as the Municipality did not asses the economic useful life and residual values of property, plant and equipment and did not perform a revaluation since 2017. This was contrary to IPSAS 17 paragraph 67 which requires that the useful life of an asset be reviewed at least once at each annual reporting date and paragraph 49 which guides that it may be necessary to revalue the asset once every three or five years. Had the property, plant and equipment been revalued the amounts disclosed in the financial statements would be materially different from the figures disclosed.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Valuation of property, plant and equipment

Finding

The Municipality did not asses the economic useful lives and residual values of property, plant and equipment for the year under review. This was contrary to IPSAS 17 paragraph 67 which requires that the useful life of an asset be reviewed at each annual reporting date.

In addition, the Municipality did not revalue items of property, plant and equipment since 2017 as required by paragraph 49 of IPSAS 17, which allows frequent valuation where there are significant and volatile changes in the fair values of the items of property, plant and equipment. Property, plant and equipment was disclosed at a carrying amount of ZWL$260 483 804 as at December 31, 2020.

Risk / Implication

Financial statements may be materially misstated.

Recommendation

Assessment of useful life, residual value and revaluation of assets should be done in line with the International Public Sector Accounting Standards (IPSAS).

Management response

Council has planned to carry out a valuation of its property, plant and equipment in 2022 in line with IPSAS 17, its revaluation and depreciation policy.

1.2 Fuel management

Finding

There was no segregation of duties as the procurement officer was responsible on the procurement and distribution of fuel. Fuel was distributed through the Trek card system which was administered by procurement officer. The procurement officer had the rights to move fuel from one card to the other without the cardholder's knowledge.

Risk / Implication

Financial loss due to fraud.

Recommendation

The procurement and management of fuel should be performed by separate individuals.

Management response

We are going to stop using the Trek card system and look for another system with better controls and which is not open to manipulation e.g. coupons or even buy from the foreign exchange auction at RBZ.

1.3 Settlement of creditors with land

Finding

During the year under review, the Municipality was financing recurrent expenditure through swaps with stands. The Municipality was not using Estate funds as specified by the Urban Councils Act [*Chapter 29:15*], section 300.

I observed that Storey Marketing Hardware, a company that supplies protective clothing wrote a letter to the Municipality requesting the amounts owed to the hardware to be paid by allocation of stands and the Municipality agreed. The value of the transaction was ZWL$537 113 and a low-density residential stand number 3929 measuring 1300m^2 was allocated.

In addition, the Municipality entered into an agreement with Livetouch Investments (Private) Limited for the sale of land valued at US$847 962 in exchange of vehicles. Livetouch Investments (Private) Limited was not in the business of supplying vehicles but in the business of Chrome processing. The vehicles involved in the transaction were four (4) Toyota Hilux, one (1) Toyota Fortuner, one (1) Backhoe loader, five (5) Nissan NP300 trucks, one (1) Grader, one (1) Skip bin loader, Toyota 18-seater bus, one (1) Toyota Quantum Ambulance and a Fire tender. In substance, the Municipality sold land and used the funds to purchase condition of service vehicles and service delivery vehicles.

A letter dated 20 March 2018 on conditions of service vehicles for executive management of independent Commissions, State Enterprises and Parastatals (SEPs) states that applications to purchase conditions of service vehicles for staff members should be done through their line Ministry for onward scrutiny by the Office of the President and Cabinet (OPC) and approval by Treasury prior to the confirmation of any purchase order. I was not availed with documentation pertaining to these approvals on the purchase of the above-mentioned conditions of service vehicles.

The Municipality paid Classic Mobile on August 31, 2021 using stands with an offer letter dated October 26, 2020 valued at USD 13 348 for the mobile phones the Municipality had acquired.

No repayments had been made by November 30, 2021 to Estates Fund for the noted transactions. In 2015, the Ministry of Local Government and Public Works through a letter dated September 21, 2015 warned the Municipality to desist from utilising land for recurrent expenditure.

Risk / Implication

Financial loss due to misappropriation of estate funds and transactions which are not at arm's length.

Fraudulent allocation of stands may be perpetrated.

Recommendation

The Council should adhere to conditions of the Urban Councils Act and ensure effective management of public resources.

Management response

-Use of Estate funds as specified by the Urban Councils Act [*Chapter 29:15*]
Omissions had been made at point of execution of the land deal but these were ratified by a Council resolution (item number 4.4 of the Special Council Meeting held on Monday the 3rd of January 2022) and a copy of the resolution was availed to the auditors for verification and inspection.

-Storey Marketing Hardware and Classic Mobile stands
The stands were paid through estate administration fees and not a barter trade.

-Livetouch Investments land deal
Council had been struggling for a number of years to acquire service delivery vehicles as well as condition of service, however the deal struck between Council and Livetouch allowed for the procurement of these.

-Conditions of service vehicles for Executive management
Council has written to the Ministry of Local Government and public requesting for ratification of applications to purchase conditions of service vehicles and approval by Treasury on the purchase order.

Repayments are set to commence in 2022 and should be cleared by December 2023.

Evaluation of management response

Storey Marketing was actually allocated with stand number 3929 measuring 1300m^2 hence creating the swap not the 5% administration fee as responded.

1.4 Approval and acquittal of devolution grant

Finding

I was not availed with Ministerial approvals for the projects which the Municipality undertook during the year under review. According to circular number 1 of 2019, “guidance on utilization of devolution funds item 8, transfers will be done in batches to fund approved projects by the Minister”. Therefore, local authorities shall submit project proposals for the Minister’s approval.

Item 13 of circular number 1 of 2019 states that, “at all times acquittal reports should be accompanied by the local authority’s Internal Audit report on the economic, efficient and effective utilization of the funds so disbursed’’. The acquittal report was not accompanied by the Internal Audit report.

Risk / Implication

Misappropriation of devolution funds and non-achievement of community development goals.

Recommendation

Ministerial approval should be sought before funds are disbursed.

Acquittals of funds utilised on project undertaken should be accompanied by internal audit report.

Management response

Council assumed that the issue had been catered for since the budget had been approved by the Minister and that the projects were included in the budget under devolution funds.

Evaluation of management response

While I appreciate management response, the 2020 budget approval letter requested the Council to submit its devolution project proposals.

2.0 REVENUE COLLECTION AND DEBT RECOVERY

2.1 Beer levy

Finding

The Municipality did not avail evidence of traditional beer sales schedules to support the levy remitted of ZWL$145 580 by the commercial brewers. According to the Traditional Beer Act [*Chapter 14:24*], local authorities are mandated to collect levies from breweries within the Council's jurisdiction. Upon enquiry, management highlighted that the beer levy was being recognised on a cash-basis and the correctness of the received levies was not ascertained.

Risk / Implication

Financial loss due to understatement of beer levy.

Recommendation

Management should ensure that commercial brewers submit returns for beer sales and remit beer levy according to the provisions of the Traditional Beer Act [*Chapter 14:24*].

Management response

It was difficult to obtain accurate information as Delta is not very receptive in supplying information on traditional beer sales. Beer levy revenue is received as incidental income, with not enough evidence to support it. However, efforts are being made to inquire of the breakdown of this revenue.

2.2 Income generating projects

Finding

The Council embarked on Brick moulding and garment making projects in 2020. I was not availed with the Ministerial approvals for projects engaged by the Municipality. Section 221 of the Urban Council's Act requires Municipalities to have written approvals from the Minister to engage in any commercial, industrial, agricultural or other activity for the purpose of raising revenue for the Municipality.

Risk / Implication

Loss of public funds due to non-viable projects.

Management response

Garment making project was initiated with the aim of sewing masks internally to address the COVID-19 needs in terms of protective clothing, and not for profit-making. However, ministerial approval will be sought for these projects.

3.0 EMPLOYMENT ISSUES

3.1 Appointment of Business Development Manager

Finding

The Municipality created a new post of Business Development Manager and subsequently filled the post on August 01, 2020. I was not availed with documentary evidence of any ministerial approvals for the creation of the post and appointing of the Business Development Manager. This was a violation of Circular CX 1/54 dated September 29, 2010 Ministerial Directive on Employment which requires Ministerial approval for employment of any staff member at any level or grade.

Risk / Implication

Financial loss and irregular recruitments due to non-compliance with regulations.

Recommendation

The Municipality should comply with the circular guiding creation of new posts and appointing senior officials.

Management response

Council is in the process of seeking approval from the Ministry.

4.0 PROCUREMENT OF GOODS AND SERVICES

4.1 Procurement of vehicles and equipment- land swap

Finding

The Municipality entered into an irregular agreement with Livetouch Investments for the supply of vehicles and equipment valued at US$847 962. The equipment was full consideration in exchange for 21 hectares of land by Council to Livetouch investments. I noted that the agreement with Livetouch was entered into without going to tender, contrary to the provisions of the Public Procurement and Disposal of Assets Act [*Chapter 22:23*]. Section 2.2 to 2.4.2 of the agreement provided that Livetouch would deliver the equipment and vehicles. The table below for the vehicles and equipment refers;

Item and contract delivery terms	Value (US$)	Delivery status and remarks
Toyota ambulance quantum motor vehicle. On or before March 15, 2020.	67 000	Delivered
Toyota 2.7 D4D 18-seater. On or before March 15, 2020.	41 260	Delivered
Garbage Truck Faw Underpan m3 motor vehicle. On or before May 31, 2020.	41 260	Not delivered at the time of audit. Breach of contract
Fire tender Faw underpan motor vehicle. On or before May 31, 2020.	66 802	Not delivered at the time of audit. Breach of contract
Skip bin loader Faw underpan. On or before March 31, 2021.	48 000	Not delivered at the time of audit. Breach of contract
One (1) GR215 grader. On or before March 31, 2021.	116 393	Not delivered at the time of audit. Breach of contract
Five (5) 2.5TD1 base single cab Nissan NP300 vehicles. On or before January 31, 2022.	131 857	Not yet due at time of audit.
One (1) XC870H backhoe loader. On or before January 31, 2022.	104 234	Not yet due at the time of audit.
One (1) Toyota Fortuner. On or before September 30, 2022.	61 728	Delivered in 2020. The vehicle was given priority over service delivery vehicles.
Four (4) Toyota Hilux. On or before September 30, 2022.	169 654	Two had been delivered at the time of audit.

In addition, Section 2.7 of the agreement provided that; “The purchaser shall be responsible for any cost incidental or otherwise which is not catered for in the purchase price, …”

Contrary to the above provision, the vehicles were later invoiced at different amounts in excess of the agreed values as per the purchase agreement. The table below of variation in contractual amounts refers;

Description	Amount on purchase agreement US$	Actual amount invoiced by Livetouch US$	Variance US$
Toyota quantum	41 034	50 465	9 431
Toyota Fortuner	61 727	83 500	21 773
Toyota Hilux single cab	-	36 073	36 073

Furthermore, the Toyota Hilux single cab which was later invoiced at US$36 073 had not been included in the purchase agreement.

Risk / Implication

Loss of public resources due to violation of guiding laws and regulations.

Service delivery is compromised.

Recommendation

Management should adhere to the Public Procurement and Disposal of Assets Act.

Management should ensure effective contract management practices.

Management response

The Municipality has been applying for duty exemption to the parent Ministry on some of the vehicles that have been received which include the Ambulance, the Garbage Truck and Fire Tender. Resolution to be attached.

Livetouch showed that they paid for the deposits of the two vehicles in 2020, however, the production and delivery of the vehicles was affected by COVID-19 pandemic that originated in China. In an effort to meet the initial deposit as stipulated in the contract of USD$216 096, Livetouch opted to supply the vehicles that were readily available locally and from South Africa. Management has since rectified the order of delivery by obtaining the following resolution:

Council resolved that:
-The amendment of part 2.7 of the Memorandum of Agreement between the Municipality of Redcliff and Livetouch Investment which reads that , "The Purchaser shall be responsible for any cost incidental or otherwise which is not catered for in the purchase price including but not limited to transportation and delivery of the motor vehicles to Zimbabwe, insurance in transit of the motor vehicles to Zimbabwe and payment of all relevant taxes however so arising whether with the Zimbabwe Revenue Authority or with any other competent a/or lawful authority, and the registration of the vehicles and plant into the sellers name i.e. The Municipality of Redcliff" That was done through an addendum to the contract that signed on the 25th of March 2020, be ratified.

-The order of supply of the vehicles and equipment as indicated in the contract gave priority to service delivery vehicles and equipment. The variation in the delivery order that eventually occurred was mainly due to the Covid 19 pandemic and the desire by the investor to keep the contract active, Council had reserved to utilise the 40% administration fees to cover for supply of the vehicles mentioned above. However, the final delivery cost of the vehicles ended up exceeding the 40% administration fees. Authority will therefore be sought from Council for an advance from estate account to cover the excess as provided for in terms of section 300(2d). A resolution to ratify the order of delivery as stated below has been sought.

On item 4.2, Council resolved that:

1. **The changes in the delivery schedule of the vehicles as stipulated in the contact whereby the Toyota Fortuner and the two Double cab vehicles which were supposed to be delivered in 2022 but were delivered in 2021 be ratified.**
2. **The delivery of the Toyota Hilux instead of the Nissan Hard body which was supposed to have been delivered in 2022 but was delivered in 2021 be ratified.**
3. **The delivery of the Dongfeng Refuse compactor and Dongfeng Fire Tender instead of a Faw under pan Refuse compactor and Faw Fire Tender, be ratified.**

The Municipality will rectify this abnormality.

Evaluation of management responses

Management did not explain why proper procurement procedures were not followed.

The resolutions for variations to the contract were done in retrospect.

5.0 SERVICE DELIVERY ISSUES

5.1 Fire services, health and safety

Finding

The Municipality had no functioning fire prevention and containment systems at its offices. This was a violation of the Emergency Powers Act [*Chapter 11:04*] section 2(g), the Urban Councils Act [*Chapter 29:15*] and Fire-fighting equipment and fire-escapes 32 requires the provision in any building of suitable and adequate fire-fighting equipment and, in the case of buildings with one or more storeys above the ground floor, the provision of suitable and adequate fire-escapes. Upon enquiry, the management were not even aware of fire prevention methods and fire assembly points. Fire extinguishing is a critical service in saving human lives, properties and forests in the event of fire outbreak.

Risk / Implication

Financial loss due to loss of life and property.

Recommendation

Fire prevention measures should be put in place for the safety of the public and property and comply with the Emergency Powers Act.

Management response

Council will procure the fire extinguisher since they are now in the 2022 budget. Council has since procured a Fire Tender and we are in the process of carrying out fire prevention and management training for all staff members and should be complete by December 2022. However, we also have hydrants for security purposes.

6.0 PROGRESS TOWARDS ADDRESSING AND IMPLEMENTATION OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS

The Council is still to address the audit findings raised in the previous audit report as indicated below:

6.1 Water meters

Recommendation

Council should replace the malfunctioning water meters.

Progress made

Council still had non-functional water meters. Council has purchased connection materials and meter installation is in progress.

6.2 Awarding of tender

Recommendation

Council must comply with requirements of the Public Procurement and Disposal of Public Assets Act [*Chapter 22:23*].

Progress made

Not implemented.

6.3 Procurement of preowned vehicles

Recommendation

Council should comply with requirements of circular number 16 of 2011.

Change of ownership should be done within 14 days from date of purchase as stipulated in the Vehicle Registration and Licensing Act [*Chapter 13:14*].

Progress made.

Change of ownership done of the vehicle (Toyota Allion) and the other one (Toyota Corolla AEO 1110) in progress.

6.4 Dumpsite

Recommendation

Council should comply with Environmental Management Agency (EMA) regulations.

Progress made

Not yet implemented, Council to carry out Environmental Impact Assessment (EIA), prospectus and engineering designs in 2022.

TOWN COUNCILS

CHIPINGE TOWN COUNCIL 2018 AND 2019

I have audited the financial statements of Chipinge Town Council for the years ended December 31, 2018 and 2019 and I issued an adverse opinion.

Adverse Opinion 2018

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not give a true and fair view of the financial position of Chipinge Town Council as at December 31, 2018, and of its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

i. The effects of changes in foreign exchange rate

The Council did not fully comply with the provisions of International Public Sector Accounting Standard 4 "The effects of Changes in Foreign Exchange rates". The need to account for these effects emanated from the 'multi-tiered' pricing environment that was prevailing during the year under review, where settlement of transactions was depended on the mode of payment, whether US$ cash, RTGS, bond notes and mobile money. This resulted in the Council experiencing premiums on the official foreign exchange rate of 1:1 prescribed by Statutory Instrument 133 of 2016, between RTGS FCA, Bond Notes and the Nostro FCA transactions. This 'multi-tiered pricing environment resulted in transactions bearing similarities to what one would expect with transactions that are undertaken in different currencies to which IPSAS 4 would apply. Had the Council complied with the requirements of IPSAS 4, many elements in the financial statements would have been materially affected. As a result, the impact of the Council's inability to comply with IPSAS 4 has been determined as significant. The effects on the financial statements are considered material and pervasive to the financial statements as a whole.

ii. Property, plant and equipment

The Council did not recognise and incorporate infrastructure assets such as road networks and bridges in the financial statements, thereby understating the amount of property, plant and equipment. This was non-compliance with International Public Sector Accounting Standards (IPSASs) 17 paragraph 21 which states that infrastructure assets meet the definition of property, plant and equipment. In addition, IPSAS 17 requires assets to be revalued with sufficient regularity, which is every 3 to 5 years. I noted that Council did not comply with this requirement as other items of property, plant and equipment were last revalued in 2009. Consequently, I could not satisfy myself of the completeness and accuracy of property, plant and equipment reported in the financial statements.

Adverse Opinion 2019

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not give a true and fair view of the financial position of the Chipinge Town Council as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

i. Non-compliance with International Public Sector Accounting Standards (IPSASs) 4- "The Effects of Changes in Foreign Exchange Rates"

Management applied the foreign exchange rate of 1:1 as pronounced by Statutory Instrument 133 of 2016, Statutory Instrument 33 of 2019 and the Monetary Policy Statements of February 22, 2019, October 1, 2018 and February 20, 2019 for transactions from October 1, 2018 to February 22, 2019. On February 22, 2019, the Council did not translate the applicable foreign denominated non-monetary and monetary assets and liabilities at that date to ZWL at an exchange rate of 1:4 between USD and ZWL. Had the balances been translated using an exchange rate applied on other items, the resultant translation gain to be accounted for through the income statement would have been much higher.

According to IPSAS 4, at the end of each reporting period; (a) foreign currency monetary items shall be translated using the closing rate; (b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and (c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured. Foreign currency transactions shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. According to paragraph 10 of IPSAS 4, the closing rate is defined as a) spot exchange rate at the end of the reporting period, and b) Spot exchange rate is the exchange rate for immediate delivery.

I therefore believe that the exchange rates for transactions and balances between the USD and the RTGS/ZWL used by the Council of 1:1 for the period from October 1, 2018 onwards did not meet the criteria for appropriate exchange rates in terms of IPSAS as defined above. The effects of the above departures from IPSAS are material and pervasive to the financial statements.

ii. Property, plant and equipment

Council's infrastructure assets such as road networks, bridges amongst others were not incorporated in the asset register and were not accounted for in the financial statements as required by paragraph 21 of the International Public Sector Accounting Standards (IPSASs) 17. Furthermore, the revaluation model under IPSAS 17 states that "revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date" that is every 3 to 5 years. I noted that Council last revalued its assets in 2009 upon change over from the Zimbabwean dollar to the multi-currency system. As result of the above, I could not satisfy myself on the accuracy and valuation of property, plant and equipment disclosed in the financial statements amounting to ZWL$10 575 746.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Statutory deductions

Finding

Council was not up to date in remitting statutory deductions as per statutory requirements. Management cited that this was due to the Council experiencing cash flow challenges. As such, the following balances were still outstanding as at 31 December 2019:

Creditor	Amount ZWL$
ZIMRA	459 820
Local Authorities Pension Fund	309 843
Unified Pension Fund	307 151
Old Mutual Pension Fund	110 713
NSSA	19 346
ZIMDEF	2 984

Risk / Implication

Delays in payment of statutory deductions and filing statutory returns attracts penalties and interest resulting in financial loss.

Recommendation

Council should maximize revenue collection, improve cash flow management and ensure that statutory deductions are timeously remitted on a monthly basis so as to avoid penalties or interests.

Management response

Council to improve its revenue collections, which will entail an improvement to the remittances of the statutory deductions as per statutory requirements. Local Authorities Pension Fund and Unified Pension Fund were paid up in 2021 and Council entered into payment plans with other statutory organisations.

1.2 Non-current assets

Finding

I noted that infrastructure assets like road networks and bridges were not recognised and incorporated in the financial statements, thereby understating property, plant and equipment. This was noncompliance with International Public Sector Accounting Standards (IPSASs) 17 paragraph 21 which states that infrastructure assets meet the definition of property, plant and equipment. My inquiries with management revealed that the noncompliance was due to staff not being up to date with IPSAS and also financial challenges to carry infrastructure revaluation of assets.

The revaluation model under IPSAS 17 states that "revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date" that is every 3 to 5 years. I noted that Council last revalued items of property, plant and equipment in 2009.

Risk / Implication

Financial statements may be materially misstated.

Recommendation

Council should ensure that its assets are valued and included in the financial statements.

Management response

We are planning to send our finance staff for IPSAS training by December 2020 so at to close the knowledge gap.

We are aiming to have engaged a valuer to revalue our assets by March 2021 so that we adjust the accounts accordingly.

Council engaged professional valuer in 2020, and all its infrastructure had been incorporated in the financial statements as of FY2021.

1.3 External loans

Finding

In 2019, Council had an outstanding loan amounting to ZWL$752 967. According to the PSIP loan agreement section 3 (3.5), Council was supposed to create a sinking fund for the amortization of the loan from the date the agreement was signed. The Council did not create a sinking fund. Inquiries with management indicated that the Council failed to pay its instalment due to cashflow challenges.

Risk / Implication

The Council's credit rating may be compromised or negatively affected due to failure to service the Public Sector Investment Programme (PSIP) loan.

Recommendation

Council should ensure that it complies with the loan agreement terms to avoid penalties and interest charges.

Management response

Council in 2018 and 2019 had budgeted for the payment of the PSIP loan. Due to poor budget performance, Council failed to make repayments in 2018 and 2019. The water account is not performing well due to ZESA load shedding.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Beer levy

Finding

Council was not obtaining sales schedules from Delta Beverages in order to determine the 3% beer levy due as required by the Traditional Beer Act [Chapter 14:24]. The Council only disclosed the amounts on bank statements received from Delta Beverages amounting to ZWL$113 160 as beer levy in 2019. Management cited that this was due to Delta Beverages not providing beer sales statistics to the Council. As a result, beer levy was accounted for on cash basis rather than on accrual basis as required by IPSAS 23.

Risk / Implication

Financial loss due to understatement of beer levy remittances.

Recommendation

The Council should engage Delta Beverages to ensure that beer sales schedules are provided.

Management response

Council is going to update the records of liquor shops and then engage Delta Beverages for the purposes of reconciling their sales in the Council's area of jurisdiction.

2.2 Non-revenue water

Finding

The Council produced 1 190 819m^3 treated water in 2019 and billed 743 575 m^3 giving a variance of 447 244 m^3 (38%) as non-revenue water against a standard of less than 25% according to the World Bank. The leakages were largely due to old water pipes and non-functional water meters which needed replacement.

Risk / Implication

Financial losses due to non-collection of maximum revenue from treated water.

Service delivery may be compromised.

Recommendation

Management should ensure that water meters and water pipe bursts are fixed to minimize non-revenue water.

Management response

Council introduced meter replacement and consumption-based billing in 2021. There is also an ongoing pipe replacement exercise. This has managed to reduce non-revenue water.

3.0 SERVICE DELIVERY ISSUES

3.1 Sewerage system

Finding

Sewer pipe bursts and spillages frequency was increasing due to the dilapidated state of the sewer reticulation system. The sewer pipes can no longer effectively cope with the increase in sewer from the increased number of households. As a result, there were instances of sewer spillage into the Nyakari River which resulted in penalties from EMA. I also noted that Council's sewer ponds A&B were damaged by Cyclone Idai which negatively affected the effective treatment of waste water. My inquiries with management revealed that Council had been budgeting for the rehabilitation, however, due to poor budget performance the funds could not mobilised.

In addition, I noted that there were 200 Gaza A and 183 Aerodrome stands yet to be connected to the main sewer reticulation system and other 1 784 housing units for residents settled in areas not yet fully serviced.

Risk / Implication

Financial loss due to penalties from EMA.

Health hazard due to poor sewer reticulation system.

Recommendation

Council should mobilize financial resources to fund the rehabilitation of the sewer reticulation system.

Management response

Council had budgeted in 2020 for sewer trunk lines upgrading under the devolution fund. This is to meet with population increase.

3.2 Water supply

Finding

The Council owns one water treatment plant at Bangazaan commissioned in 1990 and upgraded in 2017 that serve the Chipinge town community and its sources of raw water is Bangazaan dam. The plant's capacity in terms of treated water produced on a daily basis was 10 mega litres. The average supply of treated water for the town was 5.2 mega litres per day against an average daily demand of 9 mega litres. As a result, there was water rationing and residents could go for 6 days without water.

I noted that 1 539 housing units in Gaza A, Usanga, St Kelvin and Gaza O were not yet connected to the main water supply. Out of 7 385 installed meters, 3 785 meters were not functioning and as a result the Council was using estimates for billing purposes.

Risk / Implication

Health hazard due to water shortages.

Poor standards of living due to non-availability of water.

Recommendation

The Council should mobilize funds to ensure adequate capacity and that water connections are done in areas without tap water.

Management response

Council is connecting Gaza A and Aerodrome Medium Density Residential to water supply done 2019 and also in progress in the year 2020. The site for the next water source is being surveyed from options around.

Replacement of obsolete infrastructure in the water distribution network is currently underway. Eight boreholes have been capacitated with solar and ZESA power to supply portable water to residents. New reticulation projects are underway in Usanga medium and Gaza high density areas in order to address problems of areas without tap water.

3.3 Refuse removal

Finding

The Council did not have an approved landfill. There were illegal dumping sites in Gaza High Density and Musika area which were being cleared once a month. In addition, the Council was not providing refuse collection bins to residents and refuse was being collected once per week in ward 1-8 and daily in the CBD due to lack of adequate refuse equipment and financial constraints.

Risk / Implication

Illegal dumping sites pose health hazards to residents.

Financial loss due to penalties from the regulatory agency, Environmental Management Agency.

Recommendation

The Council should conform to EMA regulations and mobilise funds to improve its refuse equipment fleet.

Management response

An approved landfill is very expensive to construct and operationalise. Council is mobilising resources for this project.

There is now a weekly door to door refuse collection services in all wards. Some parts of St Kelvin and Usanga have no service due to road challenges.

KAROI TOWN COUNCIL 2018

I have audited the financial statements of Karoi Town Council for the year ended December 31, 2018 and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Karoi Town Council as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

Non-compliance with International Public Sector Accounting Standard (IPSAS) 4, "The Effects of Changes in Foreign Exchange Rates"

The Council did not fully comply with the provisions of International Public Sector Accounting Standard 4, "The effects of Changes in Foreign Exchange rate as Statutory Instrument 33 of 2019 precluded the Council from applying an independent assessment of functional currency as required by the accounting standard and in terms the of the guidance provided by the Public Accountants and Auditors Board. The need to account for these effects emanated from the "multi-tiered" pricing environment that was prevailing during the year under review, where settlement of transactions was depended on the mode of payment, whether USD cash, RTGS, bond notes and mobile money. This "multi-tiered pricing environment resulted in transactions bearing similarities to what one would expect with transactions that are undertaken in different currencies to which IPSAS 4 would apply. Had the Council complied with the requirements of IPSAS 4, many elements in the financial statements would have been materially affected. As a result, the impact of the Council's inability to comply with IPSAS 4 has been determined as significant. The effects on the financial statements are considered material and pervasive to the financial statements as a whole.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Termination of Clyna Trading (Private) Limited contract

Finding

Council entered into a contract with Clyna Trading (Pvt) Limited on May 10, 2016 whereby Clyna would develop and establish a traffic and parking management system on a Built Operate and Transfer (BOT) basis. In its Full Council meeting held on July 26, 2018, it was resolved that the contract be mutually terminated. However, Clydna Trading (Pvt) Limited in its response to Karoi Town Council highlighted that the termination could not be done before the following had been ascertained:

i) Capital employed audit,

ii) How to allocate all assets brought into the project by Clyna Trading and
iii) The fate of employees who still had running contracts.

At the time of audit in December 2019, Council was still using motor vehicle registration number ACR 2472, software, clamping boots from Clyna for traffic operations without having reached a mutual agreement.

Risk / Implication

Potential litigation against the Council by Clyna Trading (Pvt) Limited resulting in financial loss.

Recommendation

Mutual agreement should be reached by both parties in order to mitigate against potential litigation.

Management response

The issue of handover/takeover with Clyna (Pvt) Limited is still outstanding. However, the vehicle was left in the hands of Council to use on operations. We still have to finalise and agree on the handover/takeover by August 2020.

1.2 Registration of motor vehicles

Finding

The Council had two vehicles, a Toyota Land Cruiser (ABE 8041) and a Nissan Serena (ACY 2457) which were still registered in the names of previous owners. This was contrary to section 14 (1) of the Vehicle Registration and Licensing Act [*Chapter 13:14*] which requires that a change of vehicle ownership be registered within 14 days after the acquisition of a motor vehicle.

In addition, the registration books for the following five (5) vehicles were not availed for audit, hence, I was unable to confirm ownership of these vehicles:

Item number	Asset description
1	AAE 5102 NISSAN SUNNY FB 14
2	ACW 5944 NISSAN SUNNY EX SALOON
3	MITSUBISHI L200 SINGLE CAB
4	ACW 5945 NISSAN SUNNY SULPHY
5	ADY 6492 FOTON TWIN CAB

Risk / Implication

Council assets may be misappropriated.

Financial loss as a result of Council failing to prove ownership in the event of disputes.

Recommendation

Council should ensure that all assets are registered in the Council's name.

Management response

The assets will be registered into Council's name by May 31, 2020 and the process has already started.

2.0 PROCUREMENT OF GOODS AND SERVICES

2.1 Delivery of refuse compactor truck

Finding

The Council entered into an agreement of sale with Solution Motors (Pvt) Ltd on July 20, 2017 for the supply of self- weighing refuse compactor truck at a cost of US$156 000. In May 2018, the Council paid a sum of US$109 000 to Solution Motors (Pvt) Ltd, which was 70% of the whole purchase price. However, at the time of audit (December 2019), the refuse truck had not been delivered, despite the agreed delivery time of 8 – 12 weeks.

Risk / Implication

Financial loss due to failure to receive goods paid for.

Service delivery may be compromised.

Recommendation

Council should take the necessary steps to have the asset delivered or recover the amounts paid.

Management response

The matter has been finalised, the arbitration award was in Council favour: That Solution Motors refund the money at prevailing interbank rate at the time of payment.

2.2 Delivery of goods

Finding

The Council procured an extension ladder and safety belts for US$1 100 on November 29, 2018. The procured items were not delivered, instead, 48 reams of bond paper were delivered on April 08, 2019. The supplier cited lack of capacity to supply the ladder and safety belts and opted to supply bond paper. There was no documentary evidence for the procurement of the bond paper or approval to swap for ladder and safety belts with bond paper.

Risk / Implication

Financial loss due to irregular procurement.

Recommendation

Council should ensure that procurement procedures are adhered to.

Management response

Council to apply to PRAZ for condonation by April 30, 2020 and to immediately adhere to Procurement procedures.

This was a mis-procurement issue and from the records it happened when the office was left being manned by student whilst the buyer was out writing examinations.

NORTON TOWN COUNCIL 2020

I have audited the financial statements of Norton Town Council, for the year ended December 31, 2020 and I issued an adverse audit opinion.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the Council's financial statements do not present fairly the financial position of the Council as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

i. Non-compliance with International Accounting Standard (IAS) 21- "The Effects of Changes in Foreign Exchange Rates in the prior period"

The Council applied the United States Dollar (US$) as its functional and reporting currency for the period July 1, 2018 to February 22, 2019 and the Real Time Gross Settlement Dollar (RTGS$) or Zimbabwe Dollar (ZWL) for the period February 23 to June 30, 2019, in order to comply with Statutory Instrument 33 (SI33) of 2019, issued on February 22, 2019. In addition, to comply with SI33, the Council changed its functional and reporting currency with effect from February 23, 2019. I however, believe that the change in currency occurred from October 1, 2018.

Zimbabwe witnessed significant monetary and exchange control policy changes in 2016 and increasingly through to 2019. The Reserve Bank of Zimbabwe (RBZ) together with the Ministry of Finance and Economic Development promulgated a series of exchange control operational guidelines and compliance frameworks during this period. Specifically, there was a requirement for banks to separate out local Foreign Currency Accounts (FCAs) RTGS$ from the FCA Nostro US$ Accounts effective October 1, 2018. Although the exchange rate between US$ and RTGS$ was legally pegged at 1:1, multiple pricing practices and other transactions observed and reported publicly indicated exchange rates other than 1:1 between the two currencies. In February 2019, a Monetary Policy Statement was issued introducing the RTGS$ and the interbank foreign exchange market. This Monetary Policy statement was followed by, Statutory Instrument 142 of 2019 which specified that for all domestic transactions, ZWL (which comprises RTGS$, Bond Notes and Bond Coins) was the sole legal tender effective June 24, 2019.

The events in the preceding paragraphs, triggered a requirement for the Council to assess whether there was a change in functional and reporting currency from US$ to RTGS$. I believe that events in the market and subsequent promulgation of the RTGS$ as a formal currency supported a change in functional currency from US$ to RTGS$ prior to February 22, 2019 and that transactions in the market indicated different exchange rates between the two currencies despite the legal 1:1 RTGS$: US$ exchange rate and this applied from October 1, 2018. The Council chose to comply with the requirements of the law by adopting the date of change in functional and reporting currency as of February 22, 2019. This therefore impacted the basis for measuring transactions that occurred between October 1, 2018 and February 22, 2019. Consequently, my audit report for the year ended December 31, 2019 was modified as the effects were considered material and pervasive.

There has been no restatement of the opening balances to resolve this matter which resulted in the adverse audit report in the prior period in accordance with IAS 8 “Accounting Polices, Changes in Accounting Estimates and Errors” as the issues to do with IFRS compliance and consistent market exchange rates have persisted in the current period.

Consequently, all corresponding numbers remain misstated on the inflation adjusted Statement of Profit or Loss and other Comprehensive Income, inflation adjusted Statement of Financial Position, the inflation adjusted Statement of Changes in Equity, and the inflation adjusted Statement of Cash Flows; this also impacts comparability of the current year’s figures.

ii. Property, plant and equipment valuation

The Council did not revalue its items of property, plant and equipment during the period under review. The Council's fixed assets are carried in the statement of financial position at ZWL$31 018 232 as at December 31, 2020. The assets were not stated at its fair values despite the continuous depreciation in the currency, which is in contradiction with International Accounting Standard (IAS) 16. The Council's records indicate that the assets were last revalued in 2010; accordingly, the fixed assets are materially understated.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Property, plant and equipment valuation

Finding

The Council did not revalue its items of property, plant and equipment during the period under review. The Council's fixed assets are carried in the statement of financial position at ZWL$31 018 232 as at December 31, 2020. The assets were not stated at its fair values despite the continuous depreciation in the currency, which was in contradiction with International Accounting Standard (IAS) 16. The Council's records indicated that the assets were last revalued in 2010; accordingly, the fixed assets were materially understated.

Risk / Implication

Property, plant and equipment balances may be materially misstated.

Recommendation

The Council should comply with the requirements of IAS 16.

Council should maintain an updated and comprehensive asset register.

Management response

Noted, plans are at advanced stage to have a valuation done on all assets.

PLUMTREE TOWN COUNCIL 2019

I have audited the financial statements of Plumtree Town Council for the year ended December 31, 2019, and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Plumtree Town Council as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

i. Non-compliance with International Public Sector Accounting Standards (IPSAS) 4, "The Effects of Changes in Foreign Exchange Rates"

The financial statements did not comply with the requirements of International Public Sector Accounting Standards (IPSAS) 4, "The Effects of Changes in Foreign Exchange Rates", as the Council had been unable to use an appropriate exchange rate on change of functional currency. The Council translated its comparative financial statements using the interbank rate which came into existence on February 22, 2019 through Exchange Control Directive RU 28 of 2019 issued by the Reserve Bank of Zimbabwe.

The Council used January 1, 2019 as the date of change in functional currency and translated its foreign denominated balances to ZWL at a rate of 1:1 per Statutory Instrument 33 of 2019 which prescribed that all assets and liabilities that were denominated in US$ before February 22, 2019 be deemed to be RTGS dollars at a rate of 1:1 and all transactions subsequent to February 22, 2019 at interbank rate. The Council's inability to assess the appropriateness of using the interbank rate in achieving fair presentation was primarily due to the need to comply with SI 33 and the fact that there were no official exchange rates between October 2018 and February 2019 due to lack of an observable foreign exchange market.

I therefore believe that the exchange rates for transactions and balances between the USD and the RTGS/ZWL used by the Council (1:1) for the period January 01, to February 22, 2019 and interbank rate for transactions and balances between February 23, and December 31, 2019) do not meet the criteria for appropriate exchange rates in terms of IPSAS as defined above. Had the correct rate been used, most balances would have been materially different.

ii. Completeness, existence and valuation of receivables

Trade and other receivables on the statement of financial position from exchange transactions carried at a gross carrying amount of ZWL$4 795 571 (2018: ZWL$ 4 313 498). The receivables are long overdue, as the Council has been unable to collect the related cash flows as they fall due. There is objective evidence that the receivables are impaired which include significant financial difficulty in the economy and multiple defaults and delinquencies in payment as the amounts fall due. Management has not estimated the present value of the estimated future cash flows for the purpose of recognising impairment losses. This constitutes a departure from IPSAS 29 Financial Instruments: “Recognition and measurement”. The effect of the potential misstatement is material and has not been quantified.

No audit evidence over the completeness, existence and accuracy of trade receivables from exchange transactions in the prior year was obtained. I therefore could not obtain sufficient appropriate audit evidence in respect of the opening balance of receivables from exchange transactions. Furthermore, management could not extract list of journal entries in the system for us to perform procedures to verify the validity and accuracy of entries made to trade receivables accounts during the year. Consequently, I was unable to determine if any adjustment to the amounts recorded was necessary.

iii. Suspense account

The statement of financial performance had a suspense account of ZWL$204 472 which could not be cleared by management. Management did not maintain adequate records and a sound financial reporting system resulting in failure to observe the principle of double entry. As a result, I was unable to determine the extent to which other accounts on the financial statements may be misstated. The effect of this misstatement is material and pervasive.

iv. Revenue

Recognition of stands sales

Revenue from exchange transactions in the statement of financial performance include revenue of ZWL$2 490 920 from sale of stands. The Council's revenue recognition policy was not consistent with the requirements of IPSAS 9 “Revenue from Exchange Transactions”. IPSAS 9 paragraph 28(b) requires revenue to be recognised when, "The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold." The terms on which the Council allocates stands to applicants result in the Council retaining effective control over the stand until the full payment is received and development of the stand has commenced, otherwise the Council has the right to repossess the stand and refund the cumulative payments ma.de by the applicant. The Council however recognises revenue from land sales upon allocation rather than when the applicant has satisfied the stated requirements and the Council's obligation to refund the applicant has been extinguished. The Council's selection and application of the accounting policy is not appropriate as it does not comply with International Public Sector Accounting Standards.

Completeness of revenue

Total revenue on the statement of financial performance for the year ended 31 December 2019 included an amount of ZWL$858 396 comprising revenue ordinarily recognised on a cash basis. I was unable to obtain sufficient appropriate audit evidence over the completeness of such revenue because no controls exist prior to cash received being recorded.

Completeness, occurrence and accuracy of system billed revenue

Total revenue on the statement of financial performance for the year ended 31 December 2019 included an amount of ZWL$2 084 879 comprising revenue ordinarily billed by the PROMUN system. I was unable to obtain sufficient appropriate audit evidence over the completeness, occurrence and accuracy of such revenue because of the different reports that are produced by the system. The system produces monthly reports that are different from the yearly reports and management could not provide reasons for such hence we were unable to obtain sufficient appropriate audit evidence.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Prepaid meters

Finding

The Council's property, plant and equipment on the statement of financial position includes an amount of ZWL$350 000 in respect of the acquisition of one thousand (1 000) prepaid water meters made during 2018. In the prior year's audit, I was unable to obtain sufficient appropriate audit evidence in respect of the prepaid water meters as management did not provide a complete list of all the meters acquired. During the current audit, management could only provide a list of 816 meters which were installed. As a result, I was only able to verify the existence of the meters to the extent of 816 meters, as the remainder of 184 meters with a cost of ZWL$55 567 could not be accounted for.

Risk / Implication

Financial loss due to non-performance of contractual obligations by the supplier.

Recommendation

The Council should investigate the variance and take appropriate action.

Management response

Council tried to physically locate the acquired gadgets on the ground. We acknowledge that there are missing meters as such Council has already initiated the process of engaging the supplier who had an obligation to supply and install the meters and hand over the gadgets to Council.

1.2 Suspense account

Finding

The Council did not maintain adequate records and a sound financial reporting system resulting in failure to observe the principle of double entry. As a result, there was an un-cleared suspense account included in the total expenditure reported. The Council presented on the face of the statement of financial performance a suspense account of ZWL$204 472 which could not be cleared by management.

Risk / Implication

The financial statements may be materially misstated.

Recommendation

The suspense account should be investigated and cleared.

Management response

Revenue, expenses and obligations are now being recognised or recorded using the accruals principle when compiling financial statements regardless whether cash has been received or not. Ledgers for accounts receivables are now being maintained.

1.3 Completeness, existence and valuation of receivables from exchange transactions

Finding

Included in trade and other receivables on the statement of financial position are receivables from exchange transactions carried at a gross carrying amount of ZWL$4 795 571 (2018: ZWL$4 313 498). The receivables are long overdue, as the Council has been unable to collect the related cash flows as they fall due. There is objective evidence that the receivables are impaired which include significant financial difficulty in the economy and multiple defaults and delinquencies in payment as the amounts fall due. Management has not estimated the present value of the estimated future cash flows for the purpose of recognising impairment losses. This constitutes a departure from IPSAS 29 Financial Instruments: Recognition and measurement. The effect of the potential misstatement is material and has not been quantified.

No audit evidence over the completeness, existence and accuracy of trade receivables from exchange transactions in the prior year was obtained. We therefore could not obtain sufficient appropriate audit evidence in respect of the opening balance of receivables from exchange transactions. Furthermore, management could not extract list of journal entries in the system for us to perform procedures to verify the validity and accuracy of entries made to trade receivables accounts during the year. Consequently, I was unable to determine if any adjustment to the amounts recorded was necessary.

Risk / Implication

There is risk that financial statements may be materially misstated.

Recommendation

A policy should be put in place to assist in assessing the recoverability of receivables to comply with the requirements of IPSAS 29 and recognise allowances of credit losses.

Management response

The policy should be updated to incorporate provision for credit losses and the basis for the computation.

1.4 Revenue

Finding

Recognition of stands sales

Revenue from exchange transactions in the statement of financial performance include revenue of ZWL$2 490 920 from sale of stands. The Council's revenue recognition policy was not consistent with the requirements of IPSAS 9 “Revenue from Exchange Transactions”. IPSAS 9 paragraph 28 (b) requires revenue to be recognised when "The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold." The terms on which the Council allocates stands to applicants result in the Council retaining effective control over the stand until the full payment is received and development of the stand has commenced, otherwise the Council has the right to repossess the stand and refund the cumulative payments made by the applicant. The Council however recognises revenue from land sales upon allocation rather than when the applicant has satisfied the stated requirements and the Council's obligation to refund the applicant has been extinguished. The Council's selection and application of the accounting policy is not appropriate as it does not comply with International Public Sector Accounting Standards.

Completeness of revenue

Total revenue on the statement of financial performance for the year ended 31 December 2019 included an amount of ZWL$858 396 comprising revenue ordinarily recognised on a cash basis. I was unable to obtain sufficient appropriate audit evidence over the completeness of such revenue because no controls exist prior to cash received being recorded.

Completeness, occurrence and accuracy of system billed revenue

Total revenue on the statement of financial performance for the year ended December 31, 2019 included an amount of ZWL$2 084 879 comprising revenue ordinarily billed by the PROMUN system. I was unable to obtain sufficient appropriate audit evidence over the completeness, occurrence and accuracy of such revenue because of the different reports that are produced by the system. The system produces monthly reports that are different from the yearly reports and management could not provide reasons for such hence we were unable to obtain sufficient appropriate audit evidence.

Risk / Implication

Financial statements may be materially misstated.

Recommendation

The Council should ensure revenue is recognised in line with the applicable standards.

Management response

Revenue and expenses are now being recognised or recorded using the accruals principle regardless whether cash is received or not.

SHURUGWI TOWN COUNCIL 2020

I have audited the financial statements of the Shurugwi Town Council for the year ended December 31, 2020 and I issued an adverse opinion.

Adverse Opinion

In my opinion, due to the significance of the matters described in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of Shurugwi Town Council as at December 31, 2020, and its financial performance and cash flows for the year then ended in accordance with International Public Sector Standards (IPSASs).

Basis for Adverse Opinion

i. Hyper inflationary adjustments

The Council did not comply with the provisions of IPSAS 10 - "Financial Reporting in Hyperinflationary Economies". Zimbabwean entities were operating in an environment in the period under review, which witnessed significant monetary and exchange control policy changes since the beginning of the 2019 year. The changes were a result of continued economic challenges faced by the country that resulted in the liquidity crisis and high inflation rates. On October 11, 2019, the Public Accountants and Auditors Board (PAAB) issued pronouncement 01/2019, which highlighted a general consensus within the accounting and audit profession that the factors and characteristics to apply the IPSAS 10 in Zimbabwe had been met and the standard should be applied from July 1, 2019 and accounts of entities with year-end on or after this date should be hyper inflated.

ii. Revenue

The Council did not maintain accurate records or databases to support the revenue balances posted to the PROMUN system. There was a variance of ZWL $ 54 041 804 between the revenue figure of ZWL$ 22 246 914 disclosed in the financial statements and the amount on the supporting billing reports of ZWL $ 76 288 718. Management did not make the necessary adjustments. I therefore, could not satisfy myself of the completeness and accuracy of revenue as disclosed in the financial statements.

iii. Payroll

I noted that the balance of employee costs disclosed in the financial statements amounting to ZWL$15 464 823 did not reconcile to the total of the PROMUN payroll reports amounting to ZWL$16 462 973. This resulted in a variance of ZWL$998 150 that the Council has not provided plausible explanation for, hence I was unable to satisfy myself as to the completeness and accuracy of the employee costs disclosed in the financial statements.

iv. **Expenditure**

I noted that expenditure amounting to ZWL$1 247 669 was not supported with the requisite documentation primarily invoices. I therefore could not satisfy myself as to the accuracy and validity of expenditure balances disclosed in the financial statements.

v. **Property, plant and equipment**

Council revalued its assets in 2020. However, I was not availed with assumptions used in performing the valuation and hence could not satisfy myself on the accuracy of the revalued amounts reported in the financial statements. Further, there were unsupported asset additions amounting to ZWL$1 584 880 due to missing documents such as supplier invoices. I therefore could not satisfy myself on the accuracy and validity of asset purchases made by Council.

vi. **Cash and cash equivalents**

A comparison of system cashbook balances of ZWL$1 519 812 and cash book balances reflected on the bank reconciliation statements amounting to ZWL$1 359 035 revealed unresolved variances totalling ZWL$160 777. I therefore could not satisfy myself of the completeness, existence, accuracy and validity of cash and cash equivalent balances disclosed in the financial statements.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Effects of changes in inflation not disclosed in the financial statements (Non-compliance with IPSAS 10)

Finding

Council did not adjust its financial statements in line with IPSAS 10 "Financial Reporting in Hyperinflationary Economies" despite the fact that on October 11, 2019 the Public Accountants and Auditors Board (PAAB) issued pronouncement 01/2019. The pronouncement highlighted a broad market consensus within the accounting and auditing profession that the factors and characteristics to apply the Financial Reporting in Hyperinflationary Economies Standard - IPSAS 10, in Zimbabwe have been met and the standard should be applied by all entities reporting under IPSASs for financial periods ended on or after July 1, 2019.

On inquiry, management cited that this was due to staff technical capacity issues.

Risk / Implication

Non-compliance with IPSAS 10 results in accounts not showing a true and fair view.

Recommendation

Management should ensure that finance and internal audit staff are afforded continuous development.

Management response

Our staff needs training on preparation of inflation-adjusted accounts; however, we intend to do the IPSAS training in 2022.

1.2 Cash and cash equivalents

Finding

There was an unresolved variance amounting to ZWL$160 777 between system cashbook balances of ZWL$1 519 812 and cashbook balances on the bank reconciliation statements of ZWL$1 359 035. Management did not manage to resolve this difference and cited erroneous capturing of opening balances when migrating from Excel cashbooks to system cashbooks as the root cause.

There was no evidence that the bank reconciliations prepared were being checked by the supervisors for all the accounts.

I also noted that there was a variance of ZWL$60 330 between the bank balances disclosed on the ZB Bank Beerhall bank reconciliation statement of ZWL$90 363 and the balance as per ZB Bank Beerhall bank confirmation of ZWL$30 033. Management cited that this was due to bank reconciliations not being reviewed hence the errors were overlooked.

Furthermore, Council was not maintaining cashbooks for the accounts listed below:

Bank	Account name
ZB Bank	Salaries
ZB Bank	POS
ZB Bank	Beerhall POS
Metropolitan bank	Main Account POS
Metropolitan bank	Beerhall POS
ZB Bank	POS USD
ZB Bank	Beerhall POS USD

Risk / Implication

Misappropriation of cash.

Fraud and errors may go undetected.

Recommendation

Council should investigate the causes of variances noted between system cash book and cash book balances as per bank reconciliation statement and make necessary adjustments to correct the anomalies.

Bank reconciliation statements should be reviewed by the supervisors in order to trace any errors and omissions.

The Council should maintain cashbooks for all bank accounts.

Management response

Erroneous capturing of opening balances when migrating from Excel cashbooks to system cashbooks and oversight on the part of bank reconciliations not being checked by supervisor.

1.3 Asset additions without supporting documents

Finding

There were payments made without supporting documents for assets purchased during the year. Supporting documents such as Goods received notes, Purchase orders, 3 quotations and requisitions were not being raised. The total amount for unsupported asset additions from our sample amounted to ZWL$1 584 880. Table below refers;

Date	Description	Amount ZWL$	Comments
09/09/2020	Laptop	94 462	No GRV, Purchase order, payment details and 3 quotations
09/09/2020	Electro sales	78 698	No invoice, GRV, Purchase order, payment details and 3 quotations
07/08/2020	Wooden Tray	652	No GRV, Purchase order, payment details and 3 quotations
	Construction of house – Jokonono	77 726	No invoice, GRV, Purchase order, payment details and 3 quotations
	Construction of office - Workshop office	144 368	No invoice, GRV, Purchase order, payment details and 3 quotations
	Clinic equipment - Sebanga Clinic	223 782	No invoice, GRV, Purchase order, payment details and 3 quotations
02/09/2020	Infinite Colvest Investments	11 700	No invoice, GRV, Purchase order, payment details and 3 quotations
	Submersible Pump - Electro Sales	68 433	No invoice, GRV, Purchase order, payment details and 3 quotations

28/04/2020	Fabrication of Clamps	35 400	No invoice, GRV, Purchase order, payment details and 3 quotations
22/04/2020	Submersible Pump – Buys Engineering	89 276	No invoice, GRV, Purchase order, payment details and 3 quotations
14/05/2020	Bulk Water Meter	25 038	No GRV, Purchase order, payment details
18/12/2020	OPD Equipment	596 008	No invoice and purchase order
18/12/2020	Generator	139 332	No GRV and purchase order
Total		**1 584 880**	

Risk / Implication

Financial loss due to irregular procurement processes.

Recommendation

Management should ensure procurement procedures are adhered to and all supporting documents are attached.

Council should ensure that all purchase orders are approved by senior officials to avoid unauthorized expenditure.

Management response

Noted, in future we are going to ensure that all the relevant supporting documents such as the official orders are attached on the payment vouchers.

1.4 Revaluation of assets

Finding

The Council revalued its assets, however, I was not availed with the assumptions that were used in the valuation. Detailed assessment report on buildings was not provided. The effective date of revaluation was said to be July 1, 2020 on the report but in the financial statements, the Council used December 31, 2020. In addition, management did not determine remaining useful life on revalued assets as required by IPSAS 17.

Risk / Implication

Financial statements may be materially misstated.

Recommendation

Management should ensure that the revaluation is done according to IPSAS 17.

Management response

The observation is noted and we hope to carry out such assessments in future and make reports to that effect.

We have engaged the valuer to give us these assumptions. The observation is noted and we will make sure that the effective date of revaluation will be used in the future.

Management oversight. Observation is noted and we are going to craft a revaluation policy to guide us.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Revenue

Finding

I noted that there was a variance of ZWL$54 041 804 between balance as per financial statements (ZWL$22 246 914) and billing reports (ZWL$76 288 718). Below is a table showing the details;

Item	Financial Statements (ZWL$)	Billing Report (ZWL$)	Variance (ZWL$)
Rates	7 700 864	9 415 186	(1 714 322)
Water	6 466 640	59 871 204	(53 404 564)
Sewerage	884 377	638 884	245 493
Supplementary charges	404 619	362 520	42 099
Refuse	2 720 889	4 661 714	(1 940 825)
Levies	1 407 757	1 333 149	74 608
Rentals	2 661 769	6 062	2 655 707
Grand Total	**22 246 914**	**76 288 718**	**(54 041 804)**

Risk / Implication

Income maybe materially misstated.

Recommendation

The Council should ensure that the variances are investigated and adjustments are made where it is relevant.

Management response

Observation noted. We admit the malfunctions within our PROMUN system. Our budget for water sales for the year 2020 was ZWL $3 800 000. We suspect that some parameters were not set correctly on our billing system. We however, will make efforts to rectify the inefficiencies within our system by engaging our software vendor. We have made corrections on the other variances excluding on the billing issue reported above in our 2020 accounts. We will ensure the billing variances issue is resolved from 2022 onwards.

3.0 EMPLOYEMENT ISSUES

3.1 Payroll reconciliation

Finding

I noted that payroll reconciliations were not being performed showing a weakness in internal controls resulting in an unexplained variance of ZWL$998 150 between balance as per financial statements figure of ZWL$15 464 823 and payroll summaries figure of ZWL$16 462 973.

In addition, I noted that there was a variance of ZWL$813 909 between salary payments for the year of ZWL$12 835 165 and net pay schedules of ZWL$12 021 256.

Management cited that due to an oversight on their part, they had not assigned a specific person to ensure payroll reconciliations are done monthly.

Risk / Implication

Clerical errors and fraudulent transactions may go undetected in the absence of monthly reconciliations.

Recommendation

Council should ensure that payroll reconciliations are done on a monthly basis and variances noted should be investigated.

Management response

The observation is noted. We will ensure that monthly payroll reconciliations are done in the future, the Council will assign a person responsible for doing them and the Administration Officer will review them.

RURAL DISTRICT COUNCILS

BINDURA RURAL DISTRICT COUNCIL 2020

I have audited the financial statements of Bindura Rural District Council for the year ended December 31, 2020 and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Bindura Rural District Council as at December 31, 2020, its financial performance and its cash flows for the year then ended in accordance with International Public Sector Standards (IPSASs).

Basis for Adverse Opinion

i. Opening balances translated at an inappropriate exchange rate

The prior year financial statements did not comply with the requirements of IPSAS 4 “The Effects of Changes in Foreign Exchange Rates”, as the Council had been unable to use an appropriate exchange rate on change of functional currency. The Council translated its comparative financial statements using the interbank rate which came into existence on February 22, 2019 through Exchange Control Directive RU 28 of 2019 issued by the Reserve Bank of Zimbabwe.

The Council used February 22, 2019 as the date of change in functional currency and translated its foreign denominated balances to ZWL at a rate of 1:1 per Statutory Instrument 33 of 2019 which prescribed that all assets and liabilities that were denominated in US$ before February 22, 2019 be deemed to be RTGS dollars at a rate of 1:1 and all transactions subsequent to February 22, 2019 at interbank rate. The Council’s inability to assess the appropriateness of using the interbank rate in achieving fair presentation was primarily due to the need to comply with SI 33 and the fact that there were no official exchange rates between October 2018 and February 2019 due to lack of an observable foreign exchange market. In that regard the Council’s 2020 opening balances had an impact on the current year financial statements.

ii. Valuation of property, plant and equipment.

The Council disclosed its property, plant and equipment at carrying amount of ZWL$143 683 976. The Council did not carry out an assessment of the residual value and useful life of its property, plant and equipment as required by IPSAS 17 paragraph 67.

In addition, the Council last revalued its assets in 2016 contrary to its policy of subsequent measurement of property, plant and equipment using the revaluation model and IPSAS 17 paragraph 49 which states that the frequency of revaluations depends upon the changes in the fair values of the items of property, plant, and equipment being revalued. The property, plant, and equipment of the Council experienced significant changes in fair values in the year under review due to hyper inflationary environment therefore annual revaluation was necessary. Had the property, plant and equipment been revalued, the amounts disclosed in the financial statements would be materially different from the figure disclosed.

iii. Allowance for credit losses

The Council disclosed receivables of ZWL$124 059 452 for the year under review. The Council did not perform an assessment of allowance for credit losses contrary to IPSAS 29 paragraph 67 which requires that an assessment of allowance for credit losses be done yearly. Had an assessment of allowance for credit losses been done, the receivables balance would have been materially different from the figure disclosed.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Valuation of property, plant and equipment

Finding

The Council disclosed its property, plant and equipment at carrying amount of ZWL$143 683 976. However, the Council did not carry out an assessment of the residual value and useful life of its property, plant and equipment as required by IPSAS 17 paragraph 67 which requires that the residual value and the useful life of an asset be reviewed at least at each annual reporting date.

In addition, the Council last revalued its assets in 2016 contrary to its policy of subsequent measurement of property, plant and equipment using the revaluation model and IPSAS 17 paragraph 49 which states that the frequency of revaluations depends upon the changes in the fair values of the items of property, plant, and equipment being revalued. The property, plant, and equipment of the Council experienced significant changes in fair values in the year under review due to hyper inflationary environment, therefore, annual revaluation was necessary. Had the property, plant and equipment been revalued, the amounts disclosed in the financial statements would be materially different from the figure disclosed.

Risk / Implication

Financial statements maybe misstated.

Recommendation

The Council should fully comply with the provisions of IPSAS 17.

Management response

Valuation of assets will be implemented in 2022, in the current year we were unable to carry out the asset valuations due to financial constraints. We will initially carryout a management valuation during the first quarter of 2022 should need be we will then engage an independent appraiser.

1.2 ZINARA fuel

Finding

The Council diverted fuel for road maintenance (ZINARA projects) amounting to 1054 litres for other Council business. However, I was not availed with reconciliations or evidence of reimbursement of the fuel.

Risk / Implication

Poor service delivery due to shortage of fuel.

Recommendation

Council should ensure that fuel is used for the intended purpose.

Management response

A reconciliation of the ZINARA fuel usage will be conducted and a reimbursement will be made.

1.3 Devolution fuel

Finding

The Council used devolution fuel for administration functions and did not maintain a fuel register or perform reconciliations for the fuel purchased using devolution funds. Devolution funds are meant to spearhead development in communities and as such the Council is required to maintain separate records to ensure accountability. In addition, the Council purchased 8 109 litres for road maintenance using devolution funds.

Risk / Implication

Misappropriation of fuel.

Failure to meet devolution targets.

Recommendation

Council should maintain a fuel register and reconciliation for devolution funds.

Management response

Fuel purchased using devolution funds was meant for road maintenance which among other things is service delivery to our communities. A fuel reconciliation will be done and the fuel meant for devolution used for other administration function will be reimbursed and redirected towards service delivery.

1.4 Stores requisitions-cement

Finding

The Council procured 600 bags of cement on June 21, 2020. I was not availed with request forms for the issuance of 567 bags of cement. Only three (3) request forms for 33 bags were availed to audit. I could therefore not ascertain what the 567 bags of cement were issued for as there were no supporting documents to this effect. Furthermore, it was difficult to determine whether the issued cement was authorised by the responsible person from the user departments.

Below are some of the inventory issues without supporting requisitions;

Date	Quantity	Request form
30/06/2020	10 bags	Not available
01/07/2020	10 bags	Not available
10/07/2020	20 bags	Not available
10/07/2020	20 bags	Not available
20/07/2020	20 bags	Not available
09/09/2020	20 bags	Not available
18/09/2020	20 bags	Not available
19/09/2020	20 bags	Not available
30/09/2020	20 bags	Not available
09/10/2020	20 bags	Not available
09/10/2020	20 bags	Not available
01/11/2020	20 bags	Not available
12/11/2020	20 bags	Not available

Risk / Implication

Financial loss due to fraud.

Misappropriation of cement.

Recommendation

Council should ensure effective inventory management controls are put in place.

Management response

In all instances the cement was signed for by the user department. We will ensure authorisation of all stores issues in future, stores requisition forms are now in place and we have also engaged a substantive stores person. Authorisations will be done before goods are moved from the workshop stores.

Evaluation of management response

While I appreciate management response, audit is of the view that all inventory issues should be supported by duly authorised requisition forms. At the time of my audit, the Council already had requisition forms in place but did not make use of them.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Allowance for credit loss

Finding

The Council disclosed receivables of ZWL$124 059 452 for the year under review. However, Council did not perform an assessment for allowance for credit losses contrary to IPSAS 29 paragraph 67 which requires that an assessment for allowance for credit losses be done yearly. Had an assessment for allowance for credit losses been done, the receivables balance would have been materially different from the figure disclosed

I also noted that the Council did not have a policy which guides them on the method to use when assessing allowance for credit losses.

Risk / Implication

Misstatement of financial statements.

Non-compliance with IPSAS 29.

Recommendation

Council should comply with provisions of IPSAS 29.

Management response

Previously we were putting a percentage of the debtors' book as credit loss provision. In future Council will make assessments for credit loss and document the same and resolve. Council will put in place a credit loss policy.

2.2 Devolution funds

Finding

I noted that the Council used ZWL$511 617 from devolution funds to fund recurrent expenditures such as salaries and repairs of motor vehicles. The Council had received a devolution grant amounting to ZWL$6 196 594 in 2020. According to Circular number 1 of 2019, the inter-governmental fiscal transfer funds should not be used on recurrent expenditure and is meant to fund capital projects. Upon enquiry, management indicated that this was due to cash shortages.

Risk / Implication

Devolution may not be achieved within set timelines.

Recommendation

Council should ensure that devolution funds are used for the intended purpose.

Management response

During that time Council had a dry spell to the extent that we were unable to provide service delivery all the vehicles were either down or had no tyres. Council was not able to even manage the projects and as an administrative stop-gap- measure utilised devolution funds which it restored to the dedicated account at a later date.

We will ensure compliance with the devolution Circular, devolution funds used were restored the dedicated account.

3.0 SERVICE DELIVERY ISSUES

3.1 Tarlington Clinic

Finding

The Council constructed Tarlington Clinic and operations started in April 2020. I noted that the staff houses which were constructed in 2020 were already developing some cracks which suggested that they were not properly constructed.

Cracked house: *Auditor – December 03, 2021*

In addition, I noted that there were illegal electricity connections by the villagers from Tarlington Clinic. The pictures below refer.

Illegal electricity connection: *Auditor – December 03, 2021*

Furthermore, the clinic did not have adequate water supply as required by the health standards to ensure adequate sanitation for patients and health personnel.

Risk / Implication

Electricity hazards.

Compromised service delivery.

Recommendation

Council should report to ZESA on the illegal connections.

Council should address the water supply constrains at the clinic.

Management response

The clinic is a recent project. The contractor will be engaged for the cracks on the houses. We will construct more houses to accommodate our health staff at the clinic funds permitting. The water shortage was caused by other technical issues such as electricity shortage and an inappropriate water pump size. A further assessment will be done on the water issue. Council will engage ZESA on the illegal connections.

BINGA RURAL DISTRICT COUNCIL 2020

I have audited the financial statements of Binga Rural District Council for the year ended December 31, 2020 and I issued a qualified opinion.

Qualified Opinion

In my opinion, except for the matters discussed in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Binga Rural District Council as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis of Qualified Opinion

i. Non-compliance with International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates" on opening balances.

Prior to February 22, 2019, the transacting and functional currency of the Zimbabwean economy was the United States dollar (USD). On February 22, 2019, a currency called the RTGS Dollar was legislated through Statutory Instrument 33 of 2019 (SI 33/19) with an effective date of February 22, 2019. SI 33/19 fixed the exchange rate between the RTGS Dollar and the United States Dollar (USD) at a rate of 1:1 for the period up to this effective date. The rate of 1:1 was consistent with the rate mandated by the RBZ at the time it issued the bond notes and coins into the basket of multi currencies. The below events were indicative of economic fundamentals that would require a reassessment of the functional currency as required by IAS 21 "The Effects of Changes in Foreign Exchange Rates":

The Council transacted using a combination of USD, electronic cash, bond notes and bond coins. Acute shortage of USD cash and other foreign currencies in the country resulted in an increase in the use of different modes of payment for goods and services, such as settlement through the Real Time Gross Settlement (RTGS) system and mobile money platforms. During the year there was a significant divergence in market perception of the relative values between the bond note, bond coin, mobile money platforms, and RTGS Foreign Currency Account (FCA) in comparison to the USD. Although RTGS was not legally recognised as a currency up until February 22, 2019, the substance of the economic phenomenon, from an accounting perspective, suggested that it was a currency.

In October 2018, banks were instructed by the Reserve Bank of Zimbabwe ("RBZ") to separate and create distinct bank accounts for depositors, namely, RTGS FCA and Nostro FCA accounts. This resulted in a separation of transactions on the local RTGS payment platform from those relating to foreign currencies (for example, the United States Dollar, the British Pound, and the South African Rand). Prior to this date, RTGS FCA and Nostro FCA transactions and balances were co-mingled. As a result of this separation, there was an increased proliferation of multi-tier pricing practices by suppliers of goods and services, indicating a significant difference in purchasing power between the RTGS FCA and Nostro FCA balances, against a legislative framework mandating parity.

For the period up to February 22, 2019, the Council maintained its functional currency as the USD, with transactions and balances reflected using an exchange rate of 1:1 in compliance with SI 33/19. From February 22, 2019, balances and transactions were retranslated at the legislated inaugural exchange rate of 1:2.5 between the USD and the RTGS$ in compliance with the requirements of SI 33/19.

Whilst the timing of this conversion was in line with the dictates of SI 33/19, it constituted a departure from the requirements of IAS 21, and therefore the 2019 financial statements were not prepared in conformity with IFRSs. Had the Council applied the requirements of IAS 21, the December 31, 2019 comparative inflation adjusted financial statements would have been materially impacted. The financial effects of this departure on the inflation adjusted financial statements have not been determined.

ii. Property, plant and equipment valuation

The Council's property, plant and equipment was carried in the statement of financial position at a cost of ZWL$10 237 642 as at December 31, 2020. The Council did not disclose its assets at fair values despite operating in a hyper inflationary environment contrary to the requirements of IAS 16. Council records indicated that the assets were last revalued in 2011, accordingly the financial statements were materially understated.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Policies and procedures manuals

Finding

The Council was operating without fundamental policies such as procurement policy, assets management policy and accounting procedures manual. As a result, the operational functions of Council were executed without proper guidelines or set standard to mitigate risks.

Risk / Implication

Possible inconsistences in application of processes and procedures.

Fraudulent activities may go undetected.

Recommendation

The Council should put in place fundamental policies and procedures manual.

Management response

Council will ensure that all the policies that were not in place during the period under review are crafted accordingly by the relevant departments.

1.2 Property, plant and equipment

Finding

The Council's property, plant and equipment was carried in the statement of financial position at a cost of ZWL$10 237 642 as at December 31, 2020. The Council did not disclose its assets at fair values despite operating in a hyper inflationary environment contrary to the requirements of IAS 16. Council records indicated that the assets were last revalued in 2011. In addition, the Council did not review the economic useful lives of the assets.

Risk / Implication

Financial statements may be materially misstated.

Recommendation

Council should ensure compliance with IAS 16 on measurement of assets.

Management response

Council requested the Ministry of Local Government and Public Works to assist in the valuation by sending an application letter. The follow up letter was sent on the 26th of July 2021.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Beer levy

Finding

The Council received ZWL$485 041 from Delta beverages as beer levy, however, there was no basis for the levy remitted. The Council is entitled to collect beer levy from brewers as required by the Traditional Beer Act [*Chapter 14:24]*. Section 15 of the same Act empowers the Council to demand the production of records/ accounts of controlled liquor monies to verify the accuracy of the amount remitted.

Risk / Implication

The Council might be prejudiced of potential revenue.

Recommendation

Management should demand the production of records/ accounts from brewers in order to verify the accuracy of the amounts received.

Management response

Management to engage Delta on the issue of determination of the beer levy. Council has already requested Delta to submit monthly returns for the levy.

BUHERA RURAL DISTRICT COUNCIL 2020

I have audited the financial statements of Buhera Rural District Council for the year ended December 31, 2020 and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matters described in the Basis for Adverse Opinion section of my report, the inflation adjusted financial statements do not present fairly, the financial position of Buhera Rural District Council at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

i. Non-compliance with IAS 21: "The Effects of Changes in Foreign Exchange Rates" with respect to opening balances.

The Rural District Council changed its functional and reporting currency from United States Dollar (USD) to Zimbabwe Dollars (ZWL) on February 22, 2019 in compliance with Statutory Instrument 33 of 2019. Based on the interpretation of IAS 21, it was generally acknowledged that there was a functional currency change prior to February 22, 2019, before Statutory Instrument 33 was issued, from USD to ZWL. Despite acknowledging that there was a change in functional currency prior to February 22, 2019, the Council accounted for the change in functional currency prospectively from February 22, 2019 in compliance with SI 33. This constitutes departure from the requirements of IAS 21, due to the need to comply with local regulations under SI 33. The Rural District Council has not restated the opening balances to resolve this matter which resulted in an adverse audit opinion in the prior year in accordance with IAS 8 "Accounting policies, Change in Accounting Estimates and Errors", to comply with IAS 21. Prior year balances were carried over into 2020 without any adjustment for prior period misstatements, impacting comparability of the current year figures.

Furthermore, notwithstanding that IAS 29 has been applied correctly, it is noted that its application was based on prior and current periods' financial information which was not in compliance with IAS 21 and IAS 8 as described above.

ii. Non-compliance with IAS 16-Property, plant and equipment

As per accounting policy to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from IFRSs. The useful lives of the assets had not been determined; hence I could not determine the adjustments necessary to adjust the surplus for the year, retained earnings and accumulated depreciation.

In addition, the Council had property, plant and equipment valued at ZWL$232 323 818 as at December 31, 2020, with majority of the non-current assets consisting of balances that were carried over from prior periods. Considering the impact of change in functional currency from United States Dollar (USD) to Zimbabwean Dollars (ZWL) in the year 2019, the carrying amounts of non-current assets that were carried over from 2019 at an exchange rate of USD1:ZWL1, following the change in functional currency, no longer represented the fair values of non-current assets as at December 31, 2020. The Council did not revalue these non-current assets and revaluation would have materially affected their carrying amounts as at December 31, 2020.

I was not able to physically identify and verify the assets included in the financial statements. The Council's asset register consisted of a list of assets that could not be separately identified due to the absence of unique numbering or tagging and absence of values attached to the assets. I could not therefore confirm, by alternative means, the existence of assets included in the financial statements.

iii. Limitation of scope on cash and cash equivalents

During the year ended December 31, 2020, the Rural District Council used a number of payment platforms that allowed customers to make payments online, including mobile money transfers (specifically 'Ecocash'). A separate cash book was not maintained in the system to account for mobile money transfer transactions. As a result, transactions related to mobile money could not be verified and a balance of ZWL$12 157 confirmed by the service provider (Ecocash) was missing from the Council's cash and cash equivalents. I could not verify, by alternative means, the completeness of transactions and balances relating to mobile money transfer.

I could not obtain a bank confirmation for a bank account held under Estate Account with a cashbook balance of ZWL$79 115 included as part of cash and cash equivalents as at December 31, 2020. The cash book balance of ZWL$79 115 could not be reconciled to balance per bank statement. I was furnished with three bank statements with different balances as at December 31, 2020; of ZWL$177 304, ZWL$127 610 and ZWL$120 358 received from the bank. I could not verify, by alternative means, the accuracy and existence of cash and cash equivalents presented in the financial statements.

iv. Unreconciled receivable balances

Included in the receivable balance of ZWL$12 161 792 as at December 31, 2020, are amounts that could not be reconciled to balances confirmed by the debtors. There was a difference of ZWL$822 079 between confirmed balances of ZWL$1 990 358 against ZWL$2 812 437 included in the financial statements. Management could not reconcile the difference between amounts confirmed and balances included in the financial statements. Since there were no subsequent payments received from the concerned debtors, I could not verify by alternative means the accuracy of the receivables included in the financial statements.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Long-term loans

Finding

The Council received funding amounting to US$1 200 000 from the Ministry of Local Government, Urban and Rural Development to fund its water and sewer infrastructure. The funding was received in two tranches of US$1 000 000 and US$200 000 in the years 2012 and 2013 respectively as long-term loans which were to be repaid over two years.

The Council had an outstanding balance of ZWL$1 263 496 as at December 31, 2020 which was not serviced for a period of more than five years.

Risk / Implication

Access to future funding may be compromised due to negative credit rating.

Recommendation

The Council should service the outstanding loan.

Management response

The Council has agreed on a payment plan with the parent ministry for the repayment of the loan.

1.2 Asset register

Finding

The asset register for the Council was incomplete and did not contain all the relevant details relating to the assets. The Council's asset register consisted of a list of assets that could not be separately identified due to the absence of unique numbering or tagging and absence of values attached to the assets. Update of the asset register was still a work in progress and information such as purchase dates, asset reference numbers, asset values, disposal information and allocation to respective departments was not yet complete. As a result, I was not able to physically identify and verify the assets included in the financial statements.

Risk / Implication

Financial statements may be materially misstated.

Council assets may be exposed to theft and misappropriation.

Recommendation

The Council should include sufficient details and regularly update the asset register.

The Council should consider automation of the asset management function.

Management response

Council is in the process of acquiring asset module for automating its fixed asset register.

1.3 Devolution funds disbursements- construction projects management

Finding

Mbundire Clinic

Council disbursed ZWL$2 190 352 for the construction of Mbundire clinic which was approximately at 95% stage of completion at the time of audit. However, I was not availed with records that showed receipt and issuance of materials that were utilized at the site.

Vhiriri Primary School

The Council assisted Vhiriri Primary School with repairs and refurbishment of a classroom block that had been destroyed by heavy winds. Total disbursements for Vhiriri Primary were ZWL$4 608 078. I also noted that the school received some materials in excess of its requirements which include paint and steel beams. Council had no record of these materials and the school had not been advised on how it was going to utilize the unused materials.

Risk / Implication

Misappropriation of funds and building materials.

Recommendation

Council should allocate site clerks who will be recording all movements of materials at project site.

Management response

For future projects, site clerks will be available.

1.4 Non-compliance with IAS 16- Property, plant and equipment

Finding

No depreciation has been provided in the financial statements as per the Council's accounting policy to the financial statements, which constitutes a departure from IFRSs. The useful lives of the assets had not been determined; hence I could not determine the adjustments necessary to adjust the surplus for the year, retained earnings and accumulated depreciation.

In addition, the Council had property, plant and equipment valued at ZWL$232 323 818 as at December 31, 2020, with majority of the non-current assets consisting of balances that were carried over from prior periods. Considering the impact of change in functional currency from United States Dollar (USD) to Zimbabwean Dollars (ZWL) in the year 2019, the carrying amounts of non-current assets that were carried over from 2019 at an exchange rate of USD1:ZWL1, following the change in functional currency, no longer represented the fair values of non-current assets as at December 31, 2020. The Council did not revalue these non-current assets and revaluation would have materially affected their carrying amounts as at December 31, 2020.

I was not able to physically identify and verify the assets included in the financial statements. The Council's asset register consisted of a list of assets that could not be separately identified due to the absence of unique numbering or tagging and absence of values attached to the assets. I could not therefore confirm, by alternative means, the existence of assets included in the financial statements.

Risk / Implication

Misstatement of financial statements due non-depreciation of assets.

Recommendation

Council should adopt a depreciation policy and comply with the requirements of IAS 16.

Management response

Council will provide for depreciation after receiving of a valuation report.

1.5 Limitation of scope on cash and cash equivalents

Finding

During the year ended December 31, 2020, the Rural District Council used a number of payment platforms that allowed customers to make payments online, including mobile money transfers (specifically 'Ecocash'). A separate cash book was not maintained in the system to account for mobile money transfer transactions. As a result, transactions related to mobile money could not be verified and a balance of ZWL$12 157 confirmed by the service provider (Ecocash) was missing from the Council's cash and cash equivalents. I could not verify, by alternative means, the completeness of transactions and balances relating to mobile money transfer.

I could not obtain a bank confirmation for a bank account held under Estate Account with a cashbook balance of ZWL$79 115 included as part of cash and cash equivalents as at December 31, 2020. The cash book balance of ZWL$79 115 could not be reconciled to balance as per bank statement. I was furnished with three bank statements with different balances as at December 31, 2020; of ZWL$177 304, ZWL$127 610 and ZWL$120 358 received from the bank. I could not verify, by alternative means, the accuracy and existence of cash and cash equivalents presented in the financial statements.

Risk / Implication

Misstatement of financial statements due to unverified cash and bank balances.

Recommendation

The Council should regularly reconcile the cash book to bank statements and any variances be followed up.

Management response

The Council reconciled the Estates account. In our books we had a correct balance, the problem was on the bank side as they cited system change-over challenges.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Revenue recognition issues

Finding

I noted that revenue was recognized mainly on a cash basis with invoices being raised for the actual amount received rather than the total amount due from the customer. This contradicts the revenue recognition criteria according to IFRS 15 Revenue from Contract with Customers, which require revenue to be recognized as and when performance objectives have been satisfied regardless of whether actual cash has been received or not.

Furthermore, two (2) key customers confirmed a receivable balance of US$17 964, and US$6 372 resulting in confirmed balance equivalent to ZWL$1 990 358 (converted at an interbank rate of ZWL81.788 as at 31 December 2020) against a balance of ZWL$2 812 437 recorded in the ledger for the same receivables, resulting in a difference of ZWL$ 822 079. Management could not reconcile the differences between confirmed balances and those recorded in the ledger.

Risk / Implication

Financial statements may be materially misstated.

Loss of revenue.

Recommendation

The Council should ensure revenue is recognized in line with the appropriate standards.

Management response

Council will comply with the billing requirements.

GWANDA RURAL DISTRICT COUNCIL 2020

I have audited the financial statements of Gwanda Rural District Council for the year ended December 31, 2020 and I issued an adverse opinion.

Adverse Opinion

In my opinion, due to the significance of the matters described in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of Gwanda Rural District Council as at December 31, 2020, and its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

i. Non-compliance with International Public Sector Accounting Standard (IPSAS) 4- "The Effects of Changes in Foreign Exchange Rates" in the prior period and inappropriate application of IPSAS 3- "Accounting Policies, Changes in Accounting Estimates and Errors" (Arising from local ZWL functional currency)

Council applied the United States Dollar (US$) as its functional currency for the period January 1, 2018 to February 22, 2019 and the Real Time Gross Settlement Dollars (RTGS$) and Zimbabwe Dollars (ZWL) since the period February 22, 2019 to December 31, 2019. In order to comply with Statutory Instrument 33 of 2019, issued on 22 February 2019, Council changed its functional currency with effect from this date.

Zimbabwe witnessed significant monetary and exchange control policy changes in 2016 and increasingly through to 2019. The Reserve Bank of Zimbabwe (RBZ) together with the Ministry of Finance and Economic Development promulgated a series of exchange control operational guidelines and compliance frameworks during this period. Specifically, there was a requirement for banks to separate out local Foreign Currency Accounts (FCAs) RTGS$ from the FCA Nostro US$ Accounts effective October 1, 2018. Although the rate was legally pegged at 1:1, multiple pricing practices and other transactions observed and reported publicly indicated exchange rates other than 1:1 between RTGS$ and US$. In February 2019, there was a Monetary Policy statement which introduced RTGS$ and the interbank foreign exchange market. Furthermore, Statutory Instrument 142 of 2019 specified that for all domestic transactions, ZWL (which comprises RTGS$, Bond Notes and Bond Coins) was the sole legal tender effective June 24, 2019.

These events triggered the need for Council to assess whether there was a change in functional currency (from US$ to ZWL$) and whether the 1:1 ZWL: US$ exchange rate was appropriate.

Based on IPSAS 4, "The Effects of Changes in Foreign Exchange Rates", the functional currency of an entity is the currency of the primary economic environment in which the entity operates and reflects the underlying transactions, events and conditions that are relevant to it.

In addition, paragraph 2.12 of the Conceptual Framework for Financial Reporting ("the Conceptual Framework") prescribes that for financial information to be useful, it "must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon."

I believe that events in the market and subsequent promulgation of the ZWL as a formal currency supports a change in functional currency from US$ to ZWL prior to February 22, 2019 and that transactions in the market indicated a different rate between the two currencies despite the legal 1:1 ZWL: US$ exchange rate and this occurred effective October 1, 2018. Council has chosen to comply with the law by adopting the date of change in functional currency of February 22, 2019. This therefore impacts the basis for measuring transactions that occurred between October 1, 2018 and February 22, 2019, the valuation of assets and liabilities as well as the accounting for exchange differences.

Accordingly, the financial statements of Council include balances and transactions denominated in US$ that were not converted to ZWL at a ZWL: US$ exchange rate that reflects the economic substance of its value as required by IPSAS.

The exchange rates used did not meet the criteria for appropriate exchange rates in terms of IPSAS as defined below;

According to IPSAS 4, at the end of each reporting period; (a) foreign currency monetary items shall be translated using the closing rate; (b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and (c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured. Foreign currency transactions shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

According to paragraph 8 of IPSAS 4, the closing rate is defined as (a) spot exchange rate at the end of the reporting period, and (b) Spot exchange rate is the exchange rate for immediate delivery. In light of the definitions above, the IPSAS Interpretations Committee concluded in their September 2018 paper that the closing rate is the rate to which an entity would have access at the end of the reporting period through a legal exchange mechanism.

I therefore believe that the exchange rates for transactions and balances between the US$ and the RTGS$/ZWL used by Council (i.e. 1:1 for the period October 1, 2018 to February 22, 2019, or implied bank official rates for transactions between February 23, 2019 and December 31, 2019 and 1:16.77 closing rate based on the official interbank rates at December 31, 2019) did not meet the criteria for appropriate exchange rates in terms of IPSAS as defined above.

The effects of the above departures from IPSAS are material leading to an understatement of foreign denominated assets and foreign denominated liabilities at December 31, 2019.

ii. Property, plant and equipment valuation

Council's property, plant and equipment revalued in 2011 are still stated at old nominal United States Dollar rates. No review was made as at December 31, 2020 as there was no movement in the amount disclosed in the financial statements. This was in contravention with the provisions of IPSAS 17, property, plant and equipment, which states that revaluation should be done when there are significant changes in the fair values.

Depreciation of non-current assets

Council did not depreciate its property, plant and equipment. This is in contravention with the provisions of IPSAS 17, "Property, plant and equipment", which requires that property, plant and equipment be depreciated over their useful life. The value of non-current assets and accumulated funds will therefore be overstated, whilst accumulated depreciation as well as depreciation expense are understated.

iii. Biological assets valuation

The Council's biological assets were last reviewed in 2017. No review was made as at December 31, 2020 as there was no movement in the amount disclosed in the financial statements. This was in contravention with the provisions of IPSAS 27, "Agriculture, which states that the biological assets should be valued at fair value less costs of sale at each period end.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Valuation of property, plant and equipment

Finding

Property, plant and equipment was stated at US$ values which were translated at a nominal rate of 1:1 with the ZWL$. There were no revaluations done to present the new fair values in the market. In addition, the Council was not depreciating its assets as required by IPSAS 17.

Risk / Implication

Financial statements may be materially misstated.

Recommendation

Council should comply with the provisions of IPSAS 17 in accounting for its assets.

Management response

Valuation to be done in consultation with expert suppliers and service providers.

1.2 Valuation of biological assets

Finding

The Council biological assets fair values were last reviewed in 2017. This was contrary to IPSAS 27 "Agriculture", which requires biological assets to be valued at fair value less costs to sale at each reporting date. In addition, the Council was not maintaining a biological asset register.

Risk / Implication

Misstatement of biological assets.

Biological assets may be lost through poaching, theft, fire breakout and/or misappropriation.

Recommendation

Council should comply with IPSAS 27 in the valuation of biological assets.

Council should maintain and regularly update a biological asset register.

Management response

The Council has, for a while, been at loggerheads with Motsamai Lodge P/L t/a Tuli-Limpopo Safaris (the Operator or Motsamai), the recent occupiers of Doddieburn concession area. The two parties had a long-standing feud, which spilled to the courts before a Council resolution was passed to drop the court case. As a result, Council has been repeatedly denied access to the concession area making it impossible to undertake a game count, which would assist in estimating the biological assets therein.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Rental income

Finding

Council was leasing out four (4) offices and two (2) bottle stores. However, there were no lease agreements during the year under review except for one (1) bottle store. Revenue from these premises was being accounted for on receipt basis.

Risk / Implication

Financial statements may be misstated.

Disputes may be difficult to resolve in the absence of lease agreements.

Recommendation

Council should ensure that lease agreements are put in place and rentals accounted for on accrual basis.

Management response

All tenants have been engaged and contractual endorsements are being worked on.

2.2 Beer levy

Finding

Revenue from beer levy was being recognised on a receipt basis. The Council was not obtaining returns from the brewers as required by the Traditional Beer Act [*Chapter 14:24*]. As a result, Council was using remittances made by brewers to recognise revenue in its books. As such, I could not ascertain the accuracy and completeness of revenue from beer levy.

Risk / Implication

Potential loss of revenue.

Recommendation

The Council should ensure compliance with the Traditional Beer Act [*Chapter 14:24*].

Management response

Management will finalise the design of the policy to ensure that there is accrual for beer levy.

GOKWE SOUTH RURAL DISTRICT COUNCIL 2020

I have audited the financial statements of Gokwe South Rural District Council, for the year ended December 31, 2020 and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of our report, the financial statements do not present fairly, the financial position of Gokwe South Rural District Council as at December 31, 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse opinion

i. Valuation of property, plant and equipment

The Council did not comply with IAS 16- “Property, Plant and Equipment” which requires that an entity depreciates assets available for use up until the assets are derecognized. Management did not depreciate the Council’s assets. In addition, management did not carry out impairment test of its assets contrary to the requirements of IAS 36 “Impairment of Assets”, despite the fact that there were indicators of impairment in the assets. As a result, I was unable to satisfy myself by alternative means concerning the valuation of property plant and equipment (ZWL$122 320 560) and whether any adjustments were necessary.

ii. Non-compliance with International Accounting Standard (IAS) 21- “The Effects of Changes in Foreign Exchange Rates in the prior period”.

The Council applied the United States Dollar (US$) as its functional and reporting currency for the period July 1, 2018 to February 22, 2019 and the Real Time Gross Settlement Dollar (RTGS$) or Zimbabwe Dollar (ZWL) for the period February 23 to December 31, 2020, in order to comply with Statutory Instrument 33 (SI33) of 2019, issued on February 22, 2019. In addition, to comply with SI33, the Council changed its functional and reporting currency with effect from February 23, 2019. I however, believe that the change in currency occurred from October 1, 2018.

Zimbabwe witnessed significant monetary and exchange control policy changes in 2016 and increasingly through to 2019. The Reserve Bank of Zimbabwe (RBZ) together with the Ministry of Finance and Economic Development promulgated a series of exchange control operational guidelines and compliance frameworks during this period. Specifically, there was a requirement for banks to separate out local Foreign Currency Accounts (FCAs) (RTGS$) from the FCA Nostro US$ Accounts effective October 1, 2018. Although the exchange rate between US$ and RTGS$ was legally pegged at 1:1, multiple pricing practices and other transactions observed and reported publicly indicated exchange rates other than 1:1 between the two currencies.

In February 2019, a Monetary Policy Statement was issued introducing the RTGS$ and the interbank foreign exchange market. This Monetary Policy statement was followed by, Statutory Instrument 142 of 2019 which specified that for all domestic transactions, ZWL (which comprises RTGS$, Bond Notes and Bond Coins) was the sole legal tender effective June 24, 2019.

The events in the preceding paragraphs, triggered a requirement for the Council to assess whether there was a change in functional and reporting currency from US$ to RTGS$. I believe that events in the market and subsequent promulgation of the RTGS$ as a formal currency supported a change in functional currency from US$ to RTGS$ prior to February 22, 2019 and that transactions in the market indicated different exchange rates between the two currencies despite the legal 1:1 RTGS$: US$ exchange rate and this applied from October 1, 2018. The Council chose to comply with the requirements of the law by adopting the date of change in functional and reporting currency as of February 22, 2019. This therefore impacted the basis for measuring transactions that occurred between October 1, 2018 and February 22, 2019. Consequently, my audit report for the year ended December 31, 2019 was modified as the effects were considered material and pervasive.

There has been no restatement of the opening balances to resolve this matter which resulted in the adverse audit report in the prior period in accordance with IAS 8 – Accounting Polices, Changes in Accounting Estimates and Errors as the issues to do with IFRS compliance and consistent market exchange rates have persisted in the current period. Consequently, all corresponding numbers remain misstated on the inflation adjusted Statement of Profit or Loss and other Comprehensive Income, inflation adjusted Statement of Financial Position, the inflation adjusted Statement of Changes in Equity, and the inflation adjusted Statement of Cash Flows; this also impacts comparability of the current year's figures.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Policies

Finding

The Council was operating without some key policies such as; the risk management policy, human resources policy and recruitment policy and the accounting manual was not up to date.

Risk / Implication

Inconsistences in the handling of similar operational issues.

Recommendation

Council should put policies and procedure manuals in place.

Management response

Noted. Efforts to adopt the policies are underway.

1.2 Non-current assets

Finding

The Council did not comply with IAS 16- “Property, plant and equipment”. The standard requires that an entity depreciates assets which are available for use up until the asset is derecognized. In addition to that IAS 36 “Impairment of Assets” also requires that impairment be charged in the statement of comprehensive income should there be evidence that the carrying amount of the asset concerned is in excess of the recoverable amount. However, management did not depreciate the Councils assets for the year under review and impairment tests were not carried out even though indicators of impairment were evident on assets.

In addition, there was no policy in place regarding the depreciation and impairment of assets. The asset register was not up-to-date and had no values attached to the assets.

Risk / Implication

Non-current assets may be materially overstated.

Recommendation

The Council should ensure compliance with standards.

An up to date register which shows the cost and other relevant information about the assets must be maintained.

Management response

Noted. Efforts to revalue assets are underway.

Noted. Previous quotations were out of reach as they were costly.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Income generating projects

Finding

The Council operates a lodge as part of its income generating projects. Five (5) rooms at the lodge were occupied by some guests since 2008. However, there was no evidence of payments received for the occupation and a formal arrangement to this effect. In addition, Council has no access to the rooms.

Risk / Implication

Financial loss due to non-payment of services rendered.

Recommendation

Council should consider leasing out the property to investors.

The Council should consider engaging the tenants and have a contract for the occupied rooms.

Management response

The Council is looking to lease out the lodge to investors with capacity.

KUSILE RURAL DISTRICT COUNCIL 2016 AND 2017

I have audited the financial statements of Kusile Rural District Council for the years ended December 31, 2016 and 2017 and I issued disclaimer opinions.

Disclaimer of Opinion 2016

I do not express an opinion on the financial statements of Kusile Rural District Council. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for Disclaimer of Opinion

i. Property, plant and equipment (PPE)

Infrastructure assets such as road networks, bridges and culverts amongst others were not included in the asset register and as such were not accounted for in the financial statements in violation of IPSAS 17 – "Property, plant and equipment" which requires infrastructure assets to be capitalised.

The Council did not properly maintain a record of its assets in the form of a comprehensive fixed assets register or assets listing as required by section 120 (1) of the Rural District Councils Act [Chapter 29:13] which states that a Council shall cause to be kept such books of accounts as may be necessary (such as registers) to maintain a true and proper record for all the assets of the Council thereof. As a result, the cost value per Council asset register of US$1 007 784 did not agree to the property, plant and equipment balance disclosed in the financial statements of US$1 851 912 leaving an unresolved variance of US$844 128.

The current year additions disclosed of US$798 560 exceeded the amount on the additions listing by US$67 728. Management failed to resolve the difference.

The cost value of motor vehicles and equipment disposed in 2016 were not established and derecognised in the accounts due to unavailability of information owing to the poor maintenance of the fixed assets register.

Additionally, non-infrastructure assets were last revalued in 2009 contrary to the requirements of IPSAS 17, which requires assets to be revalued with sufficient regularity, that is, every three (3) to five (5) years.

Consequently, I was unable to satisfy myself of the completeness, accuracy and valuation of property, plant and equipment reported in the financial statements.

ii. Trade payables

There was an unresolved variance of US$89 559 between payables ledger balance of US$1 332 597 and creditors listing balance of US$1 422 156. There was no detailed supporting listing of names for outstanding Councillors' allowances amounting to US$78 026 and salary arrears amounting to US$672 288. Additionally, accounts payables amounting to US$655 645 were not supported by creditors' statements. Management also failed to resolve a variance of US$13 335 between confirmed creditors amounting to US$18 249 and corresponding balance of US$4 914 per the accounts. Consequently, I could not satisfy myself as to the accuracy, validity and completeness of the accounts payables disclosed by Council in the financial statements.

iii. Revenue

I was not furnished with supporting records in the form of billing reports and invoices to enable me verify the accuracy and completeness of revenue of US$ 821 917 out of the US$ 1 188 832 disclosed in the financial statements. Therefore, I could not satisfy myself of the accuracy and completeness of revenue disclosed in the financial statements.

iv. Expenditure

There were unsupported expenses due to missing supporting documents such as supplier invoices for transactions amounting to US$173 368. As a result, I could not satisfy myself on the accuracy and validity of expenditure reported in the financial statements.

v. Cash and bank

Cash and bank balances reported in the financial statements of US$24 995 were not supported by a detailed cashbook. The cash and bank balance as per financial statements differed significantly from the balance as per cash book analysis schedule of US$297 105 by US$272 111 and management failed to resolve the anomalies. In addition, I was not furnished with one of the bank confirmation response. I therefore could not satisfy myself as to the completeness and accuracy of the cash and cash equivalents balance disclosed in the financial statements.

vi. Accounts receivables

The gross accounts receivables balance disclosed in financial statements of US$1 378 887 differs from the supporting receivables listing total of US$1 395 294 resulting in an unsubstantiated variance of US$16 407. Additionally, there was no transaction history that was maintained for individual debtors as there was no computerised system to maintain the record on a real time basis and management failed to avail supporting documents to justify the 97% provision for doubtful debts amounting to US$ 1 348 049 made in the accounts. Therefore, I could not verify the valuation and accuracy of accounts receivables balance disclosed in financial statements.

vii. Inventory

Council had unsold pieces of land in Jotsholo Township and clinic drugs inventory, the same was not valued and accounted for in the accounts. The inventory balance of US$ 21 585 disclosed in financial statements was not supported by a valuation report and stock count records. I was not invited for stock counts and there was no evidence that management performed the year-end stock counts. Owing to the poor nature of record keeping, I was unable to perform alternative procedures as the client failed to avail stock movement reports. Consequently, I could not satisfy myself of the valuation and accuracy of inventory not disclosed in the financial statements.

viii. Employment costs

There was an unresolved variance of US$15 384 between the payroll balance amounting to US$311 175 and the balance of US$295 291 disclosed in the financial statements. Management did not quantify and accrue some of the salary costs in contravention of the accruals-based accounting principle. Consequently, I was unable to satisfy myself as to the completeness and accuracy of the employee costs disclosed in the financial statements.

ix. Segment report

The entity did not produce financial reports for its segments, therefore I could not verify how the primary statements for the whole organization were derived from. Therefore, Council was not in compliant to IPSAS 18- “Segment reporting”.

Disclaimer of Opinion 2017

I do not express an opinion on the financial statements of Kusile Rural District Council. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

i. Property plant and equipment

Infrastructure assets such as road networks, bridges and culverts amongst others were not included in the asset register and as such were not accounted for in the financial statements in violation of IPSAS 17 – “Property, plant and equipment” which requires infrastructure assets to be capitalised. In addition, non-infrastructure assets were last revalued in 2009 contrary to the requirements of IPSAS 17, which requires assets to be revalued with sufficient regularity. The cost value per Council asset register of US$1 009 420 did not agree to the property, plant and equipment balance disclosed in the financial statements of US$1 634 868 leaving an unresolved variance of US$625 448.

Included in property, plant and equipment were “Adjustments” with a credit balance of US$534 108 and “Transfers” with debit amount of US$312 563 relating to infrastructure assets for which supporting documents were not availed.

Consequently, I was unable to satisfy myself of the completeness, accuracy and valuation of property, plant and equipment reported in the financial statements.

ii. Accounts payables

There was an unresolved variance of US$115 504 between payables balance in the financial statements of US$1 500 956 and total per the supporting listing of US$1 385 452. Furthermore, outstanding Councillors’ allowances amounting to US$151 758 and salary creditors of US$268 518 were not supported by a detailed listing of the respective names. The accounts payables amounting to US$688 099 were not supported by creditors’ statements/ invoices. I could not confirm the accuracy and validity of these balances by alternative audit tests. Consequently, I could not satisfy myself as to the accuracy, validity and completeness of the accounts payables disclosed by Council in the financial statements.

iii. Revenue

Council failed to substantiate the variance of US$131 675 established between revenue balances of US$534 882 disclosed in the financial statements against revenue of USD$403 207 per the billing reports. No documentary evidence was produced to prove if the revenue balances for timber royalties, household levies, base stations rentals, school levies, business licenses, property sales, land levies, rentals and leases presented in the financial statements were recognized on accrual basis as per requirements of IPSAS 9 and IPSAS 23. Management did not make correcting adjustments to the accounts. Therefore, I could not satisfy myself of the accuracy and completeness of revenue disclosed in the Council's financial statements.

iv. Expenditure

There were unsupported expenses due to missing supporting documents such as supplier invoices for transactions amounting to US$185 152. As a result, I could not satisfy myself on the accuracy and validity of expenditure reported in the financial statements.

v. Cash and bank

Cash and bank balances reported in the financial statements of US$43 678 differed significantly from the balance as per cash analysis schedule and bank reconciliation of US$19 934 by US$23 744. In addition, there were two (2) bank accounts with a total balance of US$8 253 which were confirmed by the bank but not accounted for in the Council's financial statements. Management failed to resolve and to make correcting adjustments in the accounts. I therefore could not satisfy myself as to the completeness and accuracy of the cash and cash equivalents balances disclosed in the financial statements.

vi. Accounts receivables

The gross accounts receivables balance disclosed in the financial statements of US$2 151 564 differs from the supporting receivables listing total of US$1 912 619 resulting in an unsubstantiated variance of US$238 945. Additionally, there was no transaction history that was maintained for individual debtors as there was no computerised system to maintain the record on a real time basis. The Council made a provision for bad debts of $1 914 892 which equates to 89% of the Council's debtors. Therefore, I could not verify the valuation and accuracy of accounts receivables balance disclosed in the financial statements.

vii. Inventory

Council had unsold pieces of land in Jotsholo Township and clinic drugs inventory, the same was not valued and accounted for in the accounts. The inventory balance of US$ 14 463 disclosed in financial statements was not supported by a valuation report and stock count records. I was not invited for stock counts and there was no evidence that management performed the year-end stock counts. Owing to the poor nature of record keeping, I was unable to perform alternative procedures as the client failed to avail stock movement reports. Consequently, I could not satisfy myself of the valuation and accuracy of inventory disclosed in the financial statements.

viii. Employment costs

There was an unresolved variance of US$101 456 between the payroll balance amounting to US$279 760 and financial statement balance of US$381 216, hence I was unable to satisfy myself as to the accuracy and validity of the employee costs disclosed in the financial statements.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Infrastructure assets

Finding

Infrastructure assets were not accounted for in the Council's financial statements (2016 & 2017). This was contrary to paragraph 21 of IPSAS 17 "Property, plant & equipment", which requires assets that meet the definition of property, plant, and equipment to be accounted for in accordance with this standard. Examples of infrastructure assets include road networks, bridges, culverts, storm drainages amongst others. Management pointed out that Council lacks the technical capacity to carry out an internal valuation exercise of its infrastructure assets and had financial challenges to outsource the valuation exercise.

In 2017, included in property, plant and equipment were "Adjustments" with a credit balance of US$534 108 and "Transfers" with debit amount of US$312 563 relating to infrastructure assets for which supporting documents were not availed. Upon inquiry, management pointed out that the value disclosed represented bridges, boreholes and dip-tanks which were not previously captured.

Risk / Implication

Financial statements maybe materially misstated.

Recommendation

Management should improve Council's financial performance and seek for funding to engage external valuers to revalue infrastructure assets and ensure all relevant information required by IPSAS 17 paragraph 92 is disclosed.

Management response

Due to cost implications of engaging external valuers, management had done the revaluation exercise. However, we had omitted some properties such as roads infrastructure.

We are aiming to undertake a revaluation exercise in early 2022 which will include all Council assets.

1.2 Fixed assets register

Finding

There was an unsubstantiated variance of US$844 128 (2016); US$625 447 (2017) between assets balance as per financial statements of US$1 851 912 (2016); US$1 634 868 (2017) and balance as per asset register of US$1 007 783 (2016); US$1 009 420 (2017). Management cited that some assets had been omitted from the fixed assets register and the same needed to be updated.

In addition, the 2016 asset additions per the fixed asset movement schedule of US$798 560 did not agree from those per the supporting listing of US$67 727. This resulted in an unsubstantiated variance of US$730 832. Management failed to resolve the variance.

Furthermore, the Human Resources Officer was the custodian of the fixed assets register instead of an accounting staff and no reconciliations were performed to match amounts therein with those per the asset account balance disclosed in the financial statements.

Risk / Implication

Financial statements may be materially misstated.

Recommendation

The variance should be investigated and corrective action be taken.

Management response

This was due to omission of assets in the register. We will record the omitted assets by early next year.

The variance on additions will be looked into so that the anomaly is addressed.

Management commit to investigate the cause of the movements in the account balances.

1.3 Auctioned motor vehicles and equipment

Finding

In 2016, the Council engaged Inala Auctioneers to dispose its vehicles and equipment. The financial statements of the Council reported auction sale proceeds/ income of US$14 752 together with profit from assets disposal of US$1 640. Based on IPSAS 17 “Property, plant and equipment”, proceeds from assets disposal cannot be treated as revenue. Council failed to resolve the same owing to improper maintenance of the fixed assets register. There was no information of when those assets were purchased and how much the net book value of those assets was and hence no adjustment could be quantified and be made to the accounts.

In addition, I was not furnished with details and supporting documents of how the Auctioneer was selected and appointed by the Council.

There were no controls surrounding the auctioning of the vehicles and equipment as evidenced by absence of signed proof of sale document by auctioneer and Council representatives. The assets earmarked for disposal had no reserve prices, therefore I could not evaluate if the proceeds realised from the sale were reasonable or not. The details of buyers of auctioned vehicles and equipment were not furnished to audit for verification.

Risk / Implication

There is risk of fraud and misappropriation of public funds.

Recommendation

Management should maintain proper records and ensure sound controls for the management of assets.

Management response

The auditor's observation is correct. Currently, Council does not have an updated list of assets register, therefore failed to get the actual cost of Assets to process correcting journals.

The manual system is prone to errors in entry and this could be the reason why an accounting error was realized and would be rectified.

Council did not have a Procurement Officer in 2016 as well as the disposal policy.

1.4 Cash books and bank reconciliation statements

Finding

Cash and bank balances reported in the financial statements of US$24 995 (2016); US$43 678 (2017) differed significantly from the balance as per cash analysis schedule and bank reconciliation of US$297 105 (2016); US$19 934 (2017) by US$272 111 (2016) and US$23 744 (2017).

In addition, there were two bank accounts in 2017 with a total balance of US$8 253 namely Administration (Point of sale) and Rates Account with year-end balances of US$ 7 865 and US$388 respectively, which were confirmed by the bank but not accounted for in the Council's financial statements. Management failed to resolve and to make necessary adjustments in the accounts.

Risk / Implication

Cash and bank balance disclosed in the financial statements may be materially misstated.

Fraud and error may go undetected.

Recommendation

Management should properly maintain cash books and perform monthly bank reconciliations.

Variances noted should be investigated.

Management response

The finance staff will maintain cash books and bank reconciliations, the treasurer will be checking them for accuracy and sign off.

It was due to incapacity of finance staff to undertake the balancing of cash books. Going forward, we will ensure that the Treasurer will be checking the cashbooks and bank reconciliations for accuracy and sign off on the same.

1.5 Inventory management

Finding

In 2016, Council had unsold pieces of land in Jotsholo Township and clinic drugs inventory, the same was not valued and accounted for in the financial statements. The inventory balance of US$21 585 disclosed in financial statements was not supported by a valuation report and stock count records. I was not invited for stock counts and there was no evidence that management performed the year-end stock counts. There was no evidence of stock reconciliations performed during the year under review. As a result, I was unable to perform alternative procedures as the client failed to avail stock movement reports.

In addition, Council had a brick moulding project during the year 2016 however, the records for inventory, production and sales were not availed.

Risk / Implication

Financial loss due to misappropriation of stock.

Financial statements may be materially misstated.

Recommendation

Management should maintain proper inventory records and ensure that stock counts are done.

Management response

This was due to shortage of capable staff.

Stock takes will be done monthly and the inventory balances stock of year 2020 were done in the presence of an external auditor as a means to comply with this requirement.

1.6 Accounting for salary arrears

Finding

The Council's salary arrears of US$672 288 (2016) and US$527 586 (2017) were maintained on a Microsoft Excel worksheet. However, there was no transaction history that was maintained to show the debits and credits in the movement of each employee's salary arrears, therefore I could not satisfy myself of the accuracy and validity of the account balance presented in the financial statements. From the sampled list of employees that were requested to confirm the net salaries balances owed as at December 31, 2016 and 2017 only 5% confirmed the balances and the rest did not. In 2017, net salary recalculation performed by audit established an unresolved variance of US$5 903.

Risk / Implication

There is risk of manipulation of records and fraudulent practices that may go undetected.

Financial losses due to overpayment of employees.

Recommendation

Council should maintain sub ledgers for the individual staff to which Council is indebted to for easy tracing of account history thereon.

Management response

The finance department did not advise on the proper methods of accounting for salary arrears, and accounting the same on Microsoft excel was due to non-availability of a robust accounting package.

Currently, the Council is using Excel sheet to keep records of payments made to each employee every month where the amount paid could be verified with the bank statement.

The Accounts office will consider creating accounts once the computerized software is put under usage.

This was due to oversight on the part of those responsible for maintaining the staff arrears transaction history. 2017

For sub ledgers the Finance department will have to commence writing them and may need a template of how to proceed as it's something new.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Accounts receivables

Finding

Debtor's balances disclosed in financial statements of US$1 378 887 (2016) and US$2 151 564 (2017) did not reconcile to the supporting list amount of US$1 395 293 (2016) and US$1 912 618 (2017) resulting in unsubstantiated variances of US$16 406 (2016) and US$238 356 (2017).

The Council did not maintain ledger accounts to show the individual debtors accounts history in terms of billings and payments. This was due to the fact that the Council had incomplete manual records.

In addition, the Council made a provision for bad debts of US$1 348 049 in 2016 and US$1 914 891 in 2017 which translate to 97% in 2016 and 89% in 2017 of the Council's debtors. Upon enquiry with management, I was informed that the provision was based on the collection efficiency of Council which was estimated to be 3% (2016) and 11% (2017). However, monthly billing and collection reports were not availed for audit to assess the reasonability of such.

Risk / Implication

Financial statements maybe materially misstated.

Financial loss due to disputed balances.

Recommendation

The Council should investigate the causes of the variances noted and make the necessary adjustments thereof.
Council should consider computerization of accounting processes.

Management response

This was due to the inherent weaknesses associated with manual accounting.

The Council will investigate the anomaly and adjust the statement accordingly.

2.2 Revenue recognition

Finding

I noted that a significant number of revenue line items were recognized on a cash basis instead of accrual basis as required by IPSAS 23. I was not furnished with supporting records in the form of billing reports and invoices to enable me verify the accuracy and completeness of revenue of US$1 188 832 (2016) disclosed in the financial statements. Below is an analysis of the revenue streams:

Supplementary rates and charges

Monthly billing reports and the number of billable properties were not availed for audit. Therefore, I could not verify the accuracy and completeness of rates charges of US$24 348 (2016) disclosed in the financial statements.

Timber royalties

Council accrued timber royalties of US$6 763 during 2016 financial year against US$41 124 recognized in 2015, and there was no explanation provided to justify the decrease in such revenue. I was not availed with information relating to number of customers that were harvesting timber, signed lease agreements and record of invoices raised in 2016. Council receives royalties from the harvesting of indigenous timber trees that includes, teak, mahogany and mopani within its jurisdiction.

In 2017, Timber royalties disclosed in financials of US$30 358 were recognized on a cash basis. Signed agreements between the Timber Millers and Council were not availed for audit. I noted that there were a few individuals and companies being receipted during the year, however the Council did not avail a list of individuals who were harvesting timber in 2017 on different timber concessions. There was an unresolved variance of US$83 081 between the amount of US$30 358 disclosed in the financial statements and the total receipts of US$113 439.

Mining royalties

I was not availed with a list of mines billed in 2016. Royalties amounting to US$40 000 were recognised on cash basis.

Unit Tax – A2

Unit tax of $38 433 (2016) disclosed in financial statements is comprised of tax for A1 farmers and A2 farmers. However, the list of A2 farms and their respective sizes in hectares were not availed for audit. Upon inquiry, management revealed that Council had no database for the farmers.

Meals

The account balance of US$76 275 (2016) disclosed in the financial statements was not supported with monthly trading accounts.

Income Generating Project (IGP) Sales

The Council was operating a brick-making project during the 2016 financial year; however, I was not availed with production, inventory and sales records. Therefore, I could not validate IGP sales of US$17 632 disclosed in the financial statements.

Rent income

I could not verify the completeness of rental income disclosed in the financial statements of US$54 716 (2016) and US$74 574 (2017) as I was not furnished with the list of rented properties and the signed lease agreements thereof.

School levy

The school levy in 2016 financial statements of US$101 688 was the same as that of 2015. I could not verify the completeness of the account balance as no comprehensive database for schools was furnished to the audit.

The school levy in 2017 financial statements of US$101 688 was the same as that of 2016. The billing reports availed to audit had a balance of US$148 566, when compared to balance in financial statements resulting in an unsubstantiated variance of US$46 878.

Stands sales

The entity's financial statements presented stands sales of US$255 185 (2016) and US$22 065 (2017) under property sales however, there was no supporting list for the sales made.

Land levy

Land levy from industrial and commercial stands amounting to US$32 000 could not be substantiated. I was not availed with the listing of customers from whom land levy was due and collectable. The levy of $32 000 presented in 2017 are the same as of 2016.

Base stations

In 2016 and 2017 there was potential overstatement of base station levy by US$23 000 due to accounting for revenue on a cash basis. A recalculation established that total billable levy was US$42 000 against balance disclosed of US$65 000.

Business licenses

In 2017 license fees were being recognised on cash basis instead of accrual basis as evidenced by overstatement of the account balance by US$62 532, when the balance in financials of US$109 876 was compared to potential license fees calculated from information provided of US$47 344.

Leases

Lease account balance of US$26 770 was not supported and the lease agreements were not submitted for audit. Upon enquiry with the housing department, the Housing Officer managed to provide two (2) lease agreements for the 2017 financial year.

Risk / Implication

Financial loss due to unbilled revenue.

Financial statements may be materially misstated.

Recommendation

Management should put in place a comprehensive data base of customers for each revenue source.

Management response

Council is still trying to come up with updated data base.

The Council had manpower shortfalls and thus failed to identify all the potential revenue sources.

Council have also been urged to assist in terms of businesses and homesteads in their wards' database collection. This is being availed and will assist whilst identification of other opportunities that Council can embark on is in progress.

3.0 EMPLOYMENT ISSUES

3.1 Employee cost reconciliation

Finding

I noted that in 2017 the Council did not reconcile its employee costs balances as per the payroll reports provided against employee costs presented in the financial statements. Management did not make the relevant correcting adjustments to the accounts. Therefore, there was an unsubstantiated variance of US$101 456.

Inquiries with management revealed that Council was not up to date with posting transactions to its computerised system.

Risk / Implication

Fraud and error may not be detected on time.

Recommendation

Management should ensure that monthly payroll reconciliations are done.

Management response

There were no reconciliations that were undertaken then. It was an oversight which has to be addressed. Going forward, we will ensure that having reconciliation done on or before the 5th of every month and also computerization to ease on the propensity of errors due to the manual system.

4.0 PROCUREMENT OF GOODS AND SERVICES

4.1 Payables reconciliation

Finding

Council was not performing monthly creditors' reconciliations for the years under review. In addition, the Council failed to resolve a variance of US$89 559 (2016) and US$115 504 (2017) between payables balance as per ledger of US$1 332 597 (2016); US$1 500 955 (2017) and creditors supporting listing balance of US$1 422 155 (2016) and US$1 385 451 (2017).

There was no detailed listing of names to support Councillors' allowances outstanding of US$78 026 (2016) and US$151 757 (2017).

Furthermore, major creditors amounting to US$733 670 (2016) and US$688 098 (2017) were not supported by creditors' statements. In 2017, payroll creditors amounting to US$268 518 were not confirmed. In 2017, the Council also failed to resolve differences amounting to US$13 335 between account balances of US$4 914 and those confirmed by the creditors amounting to US$18 249.

Risk / Implication

Financial loss due to litigations in the event of disputed balances.

Financial statements may be materially misstated.

Recommendation

Management should investigate the variance and make the necessary adjustments.

Management should ensure that creditors' monthly reconciliations are performed and reviewed.

Management response

This was due to under staffing. Going forward, we will perform reconciliations on a monthly basis.

4.2 Expenditure supporting documents

Finding

In 2016, there were unsupported expenses due to missing supporting documents such as supplier invoices for transactions amounting to US$173 368. The requirement is that when expenditure is incurred, quotations, receipts and invoices should be attached to payment vouchers as supporting documents and this was not being implemented.

Risk / Implication

Financial loss due to payment for goods and services not received.

Fraud and error may go undetected.

Recommendation

Payments for goods and services should be adequately supported.

Management response

Information can be lost in the long run. Going forward, we will ensure audits are done in time.

MANYAME RURAL DISTRICT COUNCIL 2020

I have audited the financial statements of the Manyame Rural District Council for the year ended December 31, 2020 and I issued a qualified opinion.

Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, Manyame Rural District Council's financial statements present fairly in all material respects, the financial position of the Council as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis of Qualified Opinion

Impact of incorrect date of application of International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates" on comparative financial information.

For the financial year ended December 31, 2020 the Council did not comply with IAS 21 "The Effects of Changes in Foreign Exchange Rates" as it elected to comply with Statutory Instrument 33 of 2019 (SI33/19) only from February 22, 2019.

Prior to February 22, 2019, the transacting and functional currency of the Zimbabwean economy was the United States dollar (USD). On February 22, 2019, a currency called the RTGS Dollar was legislated through Statutory Instrument 33 of 2019 (SI 33/19) with an effective date of February 22, 2019. SI 33/19 fixed the exchange rate between the RTGS Dollar and the United States Dollar (USD) at a rate of 1:1 for the period up to this effective date. The rate of 1:1 was consistent with the rate mandated by the RBZ at the time it issued the bond notes and coins into the basket of multi currencies. The below events were indicative of economic fundamentals that would require a reassessment of the functional currency as required by IAS 21 "The Effects of Changes in Foreign Exchange Rates".

The Council transacted using a combination of USD, electronic cash, bond notes and bond coins. Acute shortage of USD cash and other foreign currencies in the country resulted in an increase in the use of different modes of payment for goods and services, such as settlement through the Real Time Gross Settlement (RTGS) system and mobile money platforms. During the year, there was a significant divergence in market perception of the relative values between the bond notes, bond coins, mobile money platforms, and RTGS Foreign Currency Account (FCA) in comparison to the USD. Although RTGS was not legally recognized as a currency up until February 22, 2019, the substance of the economic phenomenon, from an accounting perspective, suggested that it was a currency.

In October 2018, banks were instructed by the Reserve Bank of Zimbabwe (RBZ) to separate and create distinct bank accounts for depositors, namely, RTGS FCA and Nostro FCA accounts. This resulted in a separation of transactions on the local RTGS payment platform from those relating to foreign currencies (for example, the United States Dollar, the British Pound, and the South African Rand).

Below are material issues noted during the audit;

1.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

1.1 Beer levy computation

Finding

The Council is supposed to collect levies from proceeds from the sale of traditional beer by commercial breweries in its jurisdiction according to the traditional Beer Act [*Chapter 14:24*]. The Council received ZWL$279 667 from Delta Beverages as beer levy during 2020, however, the figure was not supported by beer sales schedules as required by the Act.

Risk / Implication

Potential loss of revenue.

Recommendation

Council should obtain beer sales schedules/ statistics to support beer levy remittances.

Management response

Council is indeed aware that it is supposed to get 3% of proceeds from the sale of traditional beer by commercial breweries in its area of jurisdiction according to the traditional Beer Act [*Chapter 14:24*] as beer levy. What we are not getting regularly from Delta is information regarding its sales in the Council area. Follow ups have been made on a number of occasions with Delta Beverages but to no avail. However, having noted that sister Local Authorities are also facing the same challenge, we have since cascaded the matter to the Association of Rural District Councils of Zimbabwe through our provincial executive forums for a national engagement. Meanwhile we will continue to make follow ups regarding the matter.

MARONDERA RURAL DISTRICT COUNCIL 2020

I have audited the financial statements of Marondera Rural District Council for the year ended December 31, 2020 and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Marondera Rural District Council as at December 31, 2020 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

i. Opening balances translated at an inappropriate exchange rate

The prior year financial statements did not comply with the requirements of International Public Sector Accounting Standard (IPSAS) 4, “The Effects of Changes in Foreign Exchange Rates”, as the Council had been unable to use an appropriate exchange rate on change of functional currency. The Council translated its comparative financial statements using the interbank rate which came into existence on February 22, 2019 through Exchange Control Directive RU 28 of 2019 issued by the Reserve Bank of Zimbabwe.

The Council used February 22, 2019 as the date of change in functional currency and translated its foreign denominated balances to ZWL at a rate of 1:1 per Statutory Instrument 33 of 2019 which prescribed that all assets and liabilities that were denominated in US$ before February 22, 2019 be deemed to be RTGS dollars at a rate of 1:1 and all transactions subsequent to February 22, 2019 at interbank rate. The Council’s inability to assess the appropriateness of using the interbank rate in achieving fair presentation was primarily due to the need to comply with SI 33 and the fact that there were no official exchange rates between October 2018 and February 2019 due to lack of an observable foreign exchange market. In that regard the Council’s 2020 opening balances misstatements have an impact on the current year financial statements.

ii. Prior period adjustments

Opening balances for the revaluation reserve and the capital reserve in the Statement of changes in net assets were adjusted by ZWL$7 028 432 and ZWL$ 989 105 respectively as prior period error adjustments. However, there were no other accounting entries or disclosures to support the adjustments and was not in line with IPSAS 3-Accounting, Policies, and Changes in Accounting Estimates, and Errors. Management was not able to explain the basis for the adjustments. I was therefore not able to determine the accuracy of the adjustments and any other adjustments that could have been necessary.

iii. Unexplained balance

The Council disclosed a figure of ZWL$ 964,224 in the Statement of Cash flows as a line item named 'other non-cash items'. Management could not provide an explanation and breakdown of the amount. I was therefore not able to determine the accuracy of the amount and any adjustments that could have been necessary.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Prior period adjustments

Finding

Opening balances for the revaluation reserve and the capital reserve in the Statement of Changes in Net Assets were adjusted by ZWL 7 028 432 and ZWL 989 105 respectively as prior period error adjustments. However, there were no other accounting entries or disclosures to support the adjustments and was not in line with IPSAS 3 – Accounting policies and changes in Accounting Estimates and Errors. Management was not able to explain the basis for the adjustments. I was therefore not able to determine the accuracy of the adjustments and any other adjustments that could have been necessary.

Risk / Implication

The financial statements may be misstated.

Recommendation

The Council should avail for audit the adjusting journals that were used to restate the opening balances for capital reserve and revaluation reserve and make the appropriate adjustments.

Management response

On disaggregating Revaluation reserve from the Capital reserve on Statement of Changes in Net Assets Template an error could have been made which resulted in the overstatement of the revaluation reserves and understatement of capital reserves by figures in question.

1.2 Unexplained balance

Finding

The Council disclosed a figure of ZWL$964 224 in the Statement of Cash flows as a line item named other non-cash items. Management could not provide an explanation and breakdown of the amount. I was therefore not able to determine the accuracy of the amount and any adjustments that could have been necessary.

Risk / Implication

The financial statements may be misstated.

Recommendation

The Council should investigate the unexplained balance and take corrective action.

Management response

Management is still investigating what constitutes non-cash items figure of ZWL$964 224 in the statement of cash flows.

1.3 Insurance policy documents

Finding

The Council made annual insurance premium payments to an insurance company amounting to ZWL$1 443 233. However, I was not availed with the insurance policy document.

Risk / Implication

Disputes may arise between the Council and the Insurance Company in the event of damage or loss of assets.

Recommendation

The Council should have Insurance policy documents in place.

Management response

Management take note of the observation and will ensure that the agreement is in place.

2.0 PROCUREMENT OF GOODS AND SERVICES

2.1 Supply and delivery of equipment

Finding

On June 20, 2018, the Council awarded a tender for the supply and delivery of a tipper truck and tractor loader backhoe (TLB) to Massbreed Investments (trading as Faw Zimbabwe) and Pelgin Consultancy respectively. The suppliers in question have not yet met their obligation of delivering the equipment since 2018 despite having been paid in full by the Council.

.
In addition, I also noted the following:

(i) No formal contract between the Council and Faw Zimbabwe was availed.

(ii) Tipper truck tender awarded to Massbreed Investments (Faw Zimbabwe) had a cost price of US$110 000. However, as per letter by the Council dated July 27, 2020 seeking clarification from the supplier on a meeting held on July 24, 2020; the supplier (Faw Zimbabwe) changed the total price from US$110 000 to US$280 000.

Risk / Implication

Financial loss in the event that the suppliers fail to deliver or to make a refund.

Service delivery may be compromised.

Recommendation

The Council should recover public resources from non-performing suppliers.

Management should exercise due diligence in procurement processes.

Management response

The tenders for the supply of Tractor Loader and Tipper truck were awarded to Pelgin Consultancy and Faw Zimbabwe respectively on the basis of price and capacity to deliver. Before awarding tenders to the two companies, the adjudication committee visited their premises to assess the capacity of the two companies to deliver as part of its due diligence. Upon receiving payment from Council, the two companies were supposed to get the forex component from Reserve Bank of Zimbabwe which RBZ had promised to avail. To date RBZ has not availed the forex to the companies and the companies are citing that as the reason for their failure to deliver. Council engaged these two companies on several occasions. Pelgin has made a commitment to supply the Tractor Backhoe loader without any price variation once it receives forex from RBZ. However, Faw has failed to secure forex supply commitment from RBZ, hence they are insisting on a price variation. To that effect Council is not agreeing with the proposal since it is above PRAZ recommended price variation threshold, hence its now pursuing the legal route.

MASVINGO RURAL DISTRICT COUNCIL 2020

I have audited the financial statements of the Masvingo Rural District Council for the year ended December 31, 2020 and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matters described in the Basis for Adverse Opinion section of my report, the inflation adjusted financial statements do not present fairly, in all material respects, the financial position of the Masvingo Rural District Council as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

i. Impact of incorrect date of application of International Accounting Standard (IAS) 21 on comparative financial information and retained earnings.

The Council did not comply with IAS 21 in the prior financial period, as it elected to comply with Statutory Instrument 33 of 2019 ("SI 33/19"). In order to comply with SI33/2019, the RTGS transactions and balances for the prior year were accounted for on the basis of a rate 1:1 between USD and RTGS. The Council changed the functional currency on February 22, 2019 in compliance with legislation. This was not consistent with IAS 21, in which compliance would have resulted in the reassessment of the functional currency at a date earlier than February 22, 2019. Therefore, the departure from the requirements of IAS 21 were pervasive in the prior period.

The misstatements in the historical comparative information impacted the determination of the inflation adjusted amounts as is required in the application of IAS 29 in prior years. The financial effects on the inflation adjusted financial statements of this departure could not be determined. My opinion is modified due to the possible effects on the retained income and the comparability of the current period's financial statements with that of the prior year.

ii. Exchange rates used: Non-compliance with IAS 21 – "The Effects of Changes in Foreign Exchange Rates"

The Council translated foreign denominated transactions and balances to ZWL using the interbank exchange rates for the period April 01, 2020 to June 23, 2020, prior to introduction of the Foreign Exchange Auction Trading System. This includes the period between March and June 2020 when the exchange rate was fixed at USD1: ZWL25. I concluded that the interbank exchange rates did not meet the definition of a spot exchange rate as per IAS 21.
This impacts the inflation adjusted revenue of ZWL$112 985 655 on the inflation adjusted statement of profit or loss and other comprehensive income, and retained earnings of ZWL$173 876 925 on the inflation adjusted statement of financial position.

iii. Valuation of property, plant and equipment

The Council's non-current assets, including property, plant and equipment and investment property, are valued at ZWL$163 276 560 (2019: ZWL$144 777 441) which constitutes

85% of total assets. The provisions of International Financial Reporting Standard 16, “Property, Plant and Equipment” (IAS 16), states that revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the reporting date. The Council did not perform a revaluation exercise either by engaging an independent valuation expert or management’s professional judgement to establish the fair value of the assets as at December 31, 2020. I was not able to determine the impact on the net carrying amount of property, plant and equipment as it was impracticable to do so.

iv. Depreciation of property, plant and equipment and Inappropriate application of IAS 8 – “Accounting Policies, Changes in Accounting Estimates and Errors”

The Council’s depreciation policy states that the Council is to depreciate its assets annually using the straight-line method at prescribed rates. As disclosed in prior period opinions, the Council did not depreciate property, plant and equipment. For the year ended December 31, 2020, the Council began to depreciate its assets. This led to the omission of depreciation expense in prior periods and misstated opening balances. The Council did not apply a retrospective restatement of the prior error in terms of IAS 8. As such, the departure from the requirements of IAS 8 is considered to be pervasive. The financial effects on the inflation adjusted financial statements of this departure have not been determined.

v. Inventory valuation

The Council did not account for stands inventory in the system. Rather the Council accounts for stand sales on a cash basis. According to IAS 2, inventory should be valued using cost model, the net realisable value or fair value and the applied model should be disclosed in the inflation adjusted financial statements and therefore the departure from the requirements of IAS 2 is considered to be pervasive. The financial effects on the inflation adjusted financial statements of this departure have not been determined.

Below are material issues noted during the audit;

1.1 GOVERNANCE ISSUES

1.2 Stands register

Finding

The Council did not account for stands inventory in the system and did not have an updated register showing all Council stands including those which are serviced, not serviced, developed, and sold. The Council was accounting for stand sales on a cash basis. According to IAS 2, inventory should be valued at the lower of cost and net realisable value or fair value and the applied model should be disclosed in the financial statements.

Furthermore, Council did not record unsold stands as inventory in its financial statements.

Risk / Implication

Inventory may be misstated in the financial statements.

Financial losses due to misappropriation of inventory.

Recommendation

Council should record all stands in the accounting system and any allocations should be made from the system.

Management response

Council is in the process of updating stand register so that inventories can be ascertained with certainty.

1.3 Asset register and valuation of property, plant and equipment

Finding

The Council's non-current assets, including property, plant and equipment and investment property are valued at ZWL$163 276 560 (2019: ZWL$144 777 441) which constitutes 85% of total assets. The provisions of International Financial Reporting Standard 16, "Property, Plant and Equipment" (IAS 16), states that revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the reporting date. The Council did not perform a revaluation exercise either by engaging an independent valuation expert or management's professional judgement to establish the fair value of the assets as at December 31, 2020. I was not able to determine the impact on the net carrying amount of property, plant and equipment as it was impracticable to do so.

In addition, during the time of audit, Council did not furnish the auditors with an updated asset register.

The Council's depreciation policy states that the Council is to depreciate its assets annually using the straight-line method at prescribed rates. As disclosed in prior period opinions, the Council did not depreciate property, plant and equipment. For the year ended December 31, 2020, the Council began to depreciate its assets. This led to the omission of depreciation expense in prior periods and misstated opening balances. The Council did not apply a retrospective restatement of the prior error in terms of IAS 8. As such, the departure from the requirements of IAS 8 is considered to be pervasive. The financial effects on the inflation adjusted financial statements of this departure have not been determined.

Risk / Implication

Misstatement of property, plant and equipment in the financial statements.

Recommendation

The Council should have a well-documented asset register showing the date of acquisition, purchase price, condition, and current location of the asset, depreciation and serial numbers.

All Council assets should be valued in accordance with IAS 16.

Management response

Our department is working on an updated register.

2.0 EMPLOYMENT ISSUES

2.1 Untaxed benefits

Finding

The Council paid education allowances of USD$68 515 to the Chief Executive Officer (CEO) as per his conditions of service. Furthermore, Council purchased groceries for its employees through the National Employment Council for Rural District Councils bargaining which amounted to ZWL$1 966 787. However, these allowances were not being taxed contrary to the Income Tax Act requirements.

Risk / Implication

Financial losses due to penalties and interests by ZIMRA.

Recommendation

Council should tax allowances paid to all employees as per the Income Tax Act.

Management response

Council will rectify the problem. Going forward deductions will be done on the payroll.

MATOBO RURAL DISTRICT COUNCIL 2018 - 2020

I have audited the financial statements of the Matobo Rural District Council for the years ended December 31, 2018, 2019 and 2020 and I issued adverse opinions.

Adverse Opinion 2018

In my opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Matobo Rural District Council as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

i. Non-compliance with IPSAS 4- "The Effects of Changes in Foreign Exchange Rates".

There was evidence of existence of an exchange rate between USD and the Bond note prior to year-end as discounts existed when transactions were being done. By law the USD and Bond note were pegged at 1:1. Substance over form prescribes that a spot rate should have been used on recording transactions and balances at year-end should have been translated into the reporting currency (USD) from the Bond note. Financial institutions were directed to separate existing bank accounts into Foreign Currency Accounts (FCA), RTGS$ for all balances originating from local transactions and FCA Nostro for all balances emanating from externally sourced foreign currency or foreign currency deposits.

Post year-end (February 22, 2019) the RTGS was officially devalued by the Reserve Bank of Zimbabwe through the monetary policy confirming events that existed before year-end. Therefore, it can be concluded that the functional currency and reporting currency were different. This affect most balances in the financial statements.

ii. Investment property

Included in the property, plant and equipment of the Council are assets meeting the definition of investment property in accordance with IPSAS 16. Council buildings (MRDC ZESA office, Kiosk, Community hall and Beerhall) were being treated as property, plant and equipment under IPSAS17. These assets also did not have individual values, their values were aggregated.

iii. Suspense account

I could not validate an amount of US$6 194 in the receipt control account due to unavailability of supporting documents. The balances were disclosed under trade receivables thereby overstating the receivables.

Adverse Opinion 2019

In my opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Matobo Rural District Council as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

i. Non-compliance with IPSAS 4- "The Effects of Changes in Foreign Exchange Rates".

In October 2018, the Reserve Bank of Zimbabwe issued a Monetary Policy Statement instructing all financial institutions to separate and create distinct bank account for depositors, namely, RTGS FCA and Nostro FCA accounts. This resulted in a separation of transactions on the local RTGS payments platform from those relating to foreign currency

Due to this separation, there was a proliferation of multi-tier pricing practices by suppliers of goods and services, indicating a significant difference in purchasing power between the RTGS FCA and Nostro FCA balances, against a legislative framework mandating parity between the two. These events were suggestive of economic fundamentals that would require a reassessment of the functional currency as required by IPSAS 4. Such assessment pointed to a change in functional currency.

In the Monetary Policy Statement of February 22, 2019, a currency called RTGS Dollar was legislated through Statutory Instrument 33 of 2019 ("33/19") with an effect date of February 22, 2019. In addition, SI 33/19 fixed the exchange rate between the RTGS Dollar and the USD at 1:1 for the period up to its effective date.

For the period up to February 2019, the Council maintained its functional currency as the USD, with transactions and balances reflected using an exchange rate 1:1 in compliance with SI 33/19. From February 22, 2019, balances and transactions were retranslated at the legislated inaugural exchange rate of 1:2.5 between the USD and the RTGS$ in compliance with the requirements of SI 33/19.

The financial statements are reported in ZWL, however from January to February 22, 2019 we had a functional currency in USD, and thereafter the RTGS (ZWL) became the functional currency. The accounts are in violation of IPSAS 4 "Effects of Foreign Exchange Rates" as evidence exists that the USD was the functional currency from January to February 22, 2019.

Adverse Opinion 2020

In my opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Matobo Rural District Council as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

i. Non-compliance with IPSAS 4 “Effects of Foreign Exchange Rates”

The financial statements are reported in ZWL, however, the 2019 financial statements were in violation of IPSAS 4 “Effects of Foreign Exchange Rates” as evidence exists that the USD was not the functional currency from January 1, 2019, to February 22, 2019. The 2019 financial statements will form the opening balances for 2020 and this has a significant effect on the subsequent financial statements. The 2019 figures had not been adjusted accordingly and the balances are material and pervasive.

ii. Revenue

Revenue on service charges and other fees for example in August was billed three or four times in error, therefore, I was not satisfied with the occurrence of revenue.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Suspense account

Finding

I could not validate the amounts in the receipt control accounts due to unavailability of supporting documents. The balances were disclosed under trade receivables in 2018 there by overstating the receivables. The balances were as follows:

Account	Balance US$
Roads	2 243
Administration	1 996
Township	1 884
Maphisa Capital	71
Total	6 194

Risk / Implication

Fraud may be perpetrated and go unnoticed.

Misstatements of financial statements.

Recommendation

Suspense accounts should be cleared.

Management response

Noted: we will try by all means possible to clear the receipt controls before presentation of accounts.

1.2 Repair of motor vehicles

Finding

In 2019, I noted that the Council's vehicles registration numbers 689-643W (Nissan Hi-rider) and 563-833L (Toyota Hilux) were not yet recovered from AJ Automotive where they have been sent for repairs and maintenance in 2007. I was not able to physically verify existence of the vehicles because management could not locate AJ Automotive.

Risk / Implication

Council may fail to recover the vehicles resulting in loss of public assets.

Recommendation

Follow ups should be made on vehicles sent for repairs and maintenance to AJ Automotive.

Management response

Audit observation is noted, however follow ups will be made on all vehicles taken for repairs and maintenance. We wish to highlight that the issue of these vehicles dates back to 2007 and has been before the High Court. Several attempts have been made on this matter and the whereabouts of the company and V. Joseph Chipindo has been a challenge to Council. Continued efforts to locate the company will be made.

1.3 Investment property

Finding

Included in the property, plant and equipment of the Council are assets meeting the definition of investment property in accordance with IPSAS 16. Council buildings (MRDC ZESA office, Kiosk, Community hall and Beerhall) were being treated as property, plant and equipment under IPSAS17. These assets also did not have individual values, their values were aggregated.

Risk / Implication

Misstatement of property, plant and equipment.

Recommendation

Investment property should be accounted for and disclosed separately

Management response

The recommendation is noted. It is indeed true that we have been treating all our assets under IPSAS 17 (PPE). As part of our IPSAS adoption, and in compliance with this recommendation, we are going to immediately seek to treat all the assets held for rentals and appreciation as investment property under IPSAS 16.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Billing

Finding

The Council's billing system was not set properly to automatically accrue revenue for service charges and other fees. Individuals were billed three to four times in the month of August. In addition, no billing was done for the months of September to December 2020.

Risk / Implication

Misstatement of financial statements.

Recommendation

Automatic billing should be reviewed monthly to ensure completeness of revenue.

Council should engage service provider to rectify IT challenges.

Management response

Observation noted we had a lot of hick-ups during the initial implementation stages we have been making use of our service provider to guide us through our teething stages.

MHONDORO NGEZI RURAL DISTRICT COUNCIL 2019

I have audited the financial statements of Mhondoro Ngezi Rural District Council for the year ended December 31, 2019 and I have issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the accompanying financial statements do not give a true and fair view of the financial position of the Council as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

i. Non-compliance with IPSAS 4, "The effects of changes in foreign exchange rate"

Council applied the United States Dollar (US$) as its functional currency for the period January 1, 2018 to February 22, 2019 and the Real Time Gross Settlement Dollars (RTGS$) and Zimbabwe Dollars (ZWL) for the period February 22, 2019 to December 31, 2019. In order to comply with Statutory Instrument 33 of 2019, issued on February 22, 2019, the Council changed its functional currency with effect from this date. I however believe that the change in currency occurred prior to that date. The financial statements are presented in ZWL.

Zimbabwe witnessed significant monetary and exchange control policy changes in 2016 and increasingly through to 2019. The Reserve Bank of Zimbabwe (RBZ) together with the Ministry of Finance and Economic Development promulgated a series of exchange control operational guidelines and compliance frameworks during this period. Specifically, there was a requirement for banks to separate out local Foreign Currency Accounts (FCAs) RTGS$ from the FCA NOSTRO US$ Accounts effective October 1, 2018. Although the rate was legally pegged at 1:1, multiple pricing practices and other transactions observed and reported publicly indicated exchange rates other than 1:1 between RTGS$ and US$. In February 2019 there was a Monetary Policy Statement which introduced RTGS$ and the interbank foreign exchange market. Furthermore, Statutory Instrument 142 of 2019 specified that for all domestic transactions, ZWL (which comprises RTGS$, Bond Notes and Bond Coins) was the sole legal tender effective 24 June 2019. These events triggered the need for the Council to assess whether there was a change in functional currency (from US$ to ZWL) and whether the 1:1 ZWL: US$ exchange rate was appropriate. Based on IPSAS 4 "The Effects of Changes in Foreign Exchange Rates", the functional currency of an entity is the currency of the primary economic environment in which the entity operates and reflects the underlying transactions, events and conditions that are relevant to it.

In addition, paragraph 3.10 of the Conceptual Framework for Financial Reporting prescribes that for financial information to be useful, it "must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon." I believe that events in the market and subsequent promulgation of the ZWL as a formal currency supports a change in functional currency from US$ to ZWL prior to February 22, 2019 and that transactions in the market indicated a different rate between the two currencies despite the legal 1:1 ZWL: US$ exchange rate and this occurred effective October 1, 2018. The Council has chosen to comply with the law by adopting the date of change in functional currency of February 22, 2019. This therefore impacts the basis for measuring transactions that occurred between October 1, 2018 and February 22, 2019, the valuation of assets and liabilities as well as the accounting for exchange differences. Accordingly, the financial statements of the Council include balances and transactions denominated in US$ that were not converted to ZWL at a ZWL: US$ exchange rate that reflects the economic substance of its value as required by IPSAS. The Councillors have not provided more information on their approach in notes to the financial statements.

Exchange rates

Management applied the legal rate of 1:1 as pronounced by Statutory Instrument 133 of 2016, Statutory Instrument 33 of 2019 and the Monetary Policy Statements of February 22, 2018, October 1, 2018 and of February 20, 2019 for transactions from October 1, 2018 to February 22, 2019. On February 22, 2019, the Council did not translate most of the applicable foreign denominated non-monetary and monetary assets and liabilities at that date to ZWL at an exchange rate of 1:1 between US$ and ZWL. Had the balances been translated using an exchange rate applied on other items, the resultant translation gains to be accounted for through the income statement would have been much higher.

According to IPSAS 4, at the end of each reporting period; (a) foreign currency monetary items shall be translated using the closing rate; (b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and (c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured. Foreign currency transactions shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. According to paragraph 10 of IPSAS 4, the closing rate is defined as a) spot exchange rate at the end of the reporting period, and b) Spot exchange rate is the exchange rate for immediate delivery.

I therefore believe that the exchange rates for transactions and balances between the US$ and the RTGS$/ZWL used by the Council (1:1) for the period from October 1, 2018 onwards did not meet the criteria for appropriate exchange rates in terms of IPSAS as defined above.

ii. Non-compliance with IPSAS 17- Property, plant and equipment

Council infrastructure assets such as roads and bridges were not accounted for in the financial statements. This was contrary to the requirements of IPSAS 17 “Property, plant & equipment”. As a result, I was unable to satisfy myself on the completeness, accuracy and valuation of property, plant and equipment reported in the financial statements.

iii. Land stock

Council had unsold pieces of land in Turf Township and these were not accounted for in the financial statements. As a result, I was not able to satisfy myself on the completeness of inventory reported in the financial statements.

iv. Non-compliance with IPSAS 27 “Agriculture”: Biological assets

Council owns a gum plantation in Turf location where it grows gum trees for sale. However, these were not valued and accounted for in the financial statements contrary to the requirements of IPSAS 27 “Agriculture.” As a result, I was unable to satisfy myself on the completeness, accuracy and valuation of biological assets reported in the financial statements.

The effects of the above departures from IPSASs are material and pervasive to the financial statements.

v. Expenditure

Expenditure amounting to ZWL$652 429 was not supported with the requisite documentation primarily invoices and receipts. Thus, I could not satisfy myself as to the accuracy and validity of expenditure balances disclosed in the financial statements.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Infrastructure assets

Finding

Council infrastructure assets such as road networks, bridges were not valued and accounted for in the financial statements. This was non-compliance with the requirements of IPSAS 17 which requires infrastructure assets to be accounted for as property, plant and equipment. Management cited that the revaluation exercise had not been done due to cash flow challenges.

Risk / Implication

Financial statements maybe materially misstated.

Recommendation

Management should ensure that infrastructure assets are valued and accounted for in the financial statements.

Management response

The revaluation exercise could not be done in prior years due to cash flow challenges.

However, the cost of the revaluation has been provided for in the 2021 budget.

1.2 Motorcycles

Finding

The Council had nineteen (19) motor cycles with a total value of ZWL$134 239 which were not registered with the Central Vehicle Registry.

Risk / Implication

Financial loss due to fines charged by law enforcement authorities.

In the event of theft, it is difficult to trace unlicensed or unregistered motor cycles.

Recommendation

All Council motor cycles should be registered.

Management response

The observation has been considered and corrective action is now being instituted.

1.3 Valuation of biological assets

Finding

The Council owns a gum plantation in Turf location where it grows gum trees for sale. However, these were not valued and accounted for in the financial statements contrary to the requirements of IPSAS 27 "Agriculture." Management cited that this was due to cash flow challenges.

Risk / Implication

Understatement of financial statements due to non-disclosure of gum plantations.

Recommendation

Management should ensure that all biological assets are accounted for in the financial statements as required by IPSAS 27.

Management response

The revaluation exercise could not be done in prior years due to cash flow challenges. However, the cost of the revaluation has been provided for in the 2021 budget.

1.4 Beer levy

Finding

The Council disclosed beer levy revenue from Delta Beverages amounting to ZWL$292 706. However, the Council did not avail traditional beer schedules to support the levy remitted by the commercial brewer. According to the Traditional Beer Act [*Chapter 14:24*], local authorities are mandated to collect levies from breweries within their jurisdiction. My inquiries with management revealed that the sales schedules were not being submitted for verification to support the beer levy remitted regardless of follow ups.

Risk / Implication

Financial loss due to understatement of beer sales.

Recommendation

Management should ensure that commercial brewers submit returns for beer sales.

Management response

It is true that the Council was accepting levies from Delta Breweries as they are without cross- examining the accuracy of the same. The scenario was primarily caused by the non-remittance of returns by the respective breweries for the sales made in the district. However, commencing the 2021 the Council will follow up and verify the returns from Brewers and reconcile with amounts paid.

1.5 Control of land stock

Finding

The Council did not avail a schedule of land inventory as at year end. Therefore, there was no evidence of records of unsold pieces of land in Turf Township, among other various schemes.

In addition, all stand sales related issues were handled by the housing department without compensating control records being maintained by the finance department for reconciliation purposes.

Risk / Implication

Fraud may go undetected.

Financial statements maybe misstated.

Recommendation

Council should account for all unsold stands.

Management response

The observation is duly noted and the anomaly has been caused by knowledge gap and the absence of a housing module in the accounting system to cater for stands maintenance and sales. However, in 2020 the Council sent three (3) Housing and Finance staff for training in the housing module and now awaits the operationalisation of the housing module. Furthermore, in future the Council will

strive to ensure that there is improved communication between the housing and finance departments in the administration of stands sales.

2.0 PROCUREMENT OF GOODS AND SERVICES

2.1 Unsupported expenditure

Finding

There were payment vouchers without supporting documents attached for which payments were made. In addition, the Council was not raising Goods Received Notes for all purchases and some payments were being made without official orders, three (3) quotations and requisitions. The total amount for unsupported expenditure from my sample amounted to ZWL$652 429.

Risk / Implication

Fraud or error may go undetected.

Recommendation

Council should ensure that all supporting documents are attached.

Management response

Tax invoices - Efforts to locate the missing supporting documents are being instituted. In future all relevant supporting documents are to be attached on their respective payment vouchers and kept in a safe file.

Missing GRVs - The Council introduced GRVs in late 2019 and the absence of some GRVs was a result of an oversight by receivers of goods still adjusting to the new system.

MUTARE RURAL DISTRICT COUNCIL 2019

I have audited the financial statements of Mutare Rural District Council, for the year ended December 31, 2019 and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matters described in the Basis for Adverse Opinion section of my report, the inflation adjusted financial statements do not present fairly, the financial position of Mutare Rural District Council as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

i. Non-compliance with IPSAS 4- *"*The Effects of Changes in Foreign Exchange Rates" and IPSAS 3- "Accounting Policies, Changes in Accounting Estimates and Errors"

The inflation adjusted financial statements, for the period January 1, 2019 to February 2019, the Rural District Council applied the United States dollar (US$) as its functional currency. In order to comply with Statutory Instrument 33 (SI 33), issued on February 22, 2019, the Rural District Council changed its functional currency to the Zimbabwe dollar (ZWL) with effect from this date. SI 33 precluded the use of any other currency other than US$ as functional currency prior to February 22, 2019, which impacted financial statements as at December 31, 2018, and prescribed the use of Zimbabwe dollar as functional currency after February 22, 2019. The inflation adjusted financial statements are therefore presented in Zimbabwe dollar, also referred to as the RTGS dollar in SI 33.

Management based on their interpretation of IPSAS 4, acknowledged that there was a functional currency change in the prior year (before Statutory Instrument 33 was issued) from USD to ZWL. The Rural District Council accounted for the change in functional currency prospectively from February 22, 2019 in compliance with SI 33. This constitutes a departure from the requirements of IPSAS 4, due to the need to comply with local regulations, SI 33. An adverse opinion was issued in the prior year for the departure from IPSAS 4, among other issues. The Rural District Council has not restated the inflation adjusted financial statement as required by IPSAS 3: "Accounting Policies, Change in Accounting Estimates and Errors" to resolve the matters which resulted in the adverse opinion in the prior year relating to non-compliance with IPSAS 4.

Due to the matters discussed above, I was unable to obtain sufficient appropriate evidence that the closing balances as at December 31, 2018, were free of material misstatement and have been brought forward into 2019 correctly. I was unable to satisfy myself by alternative means concerning the opening balances. Since opening balances have an effect on determining the financial position and cash flows, I was unable to determine whether adjustments might have been necessary in respect of the movements in the statement of financial performance, statement of cash flows and statement of financial position.

Non-compliance with IPSAS 10 - Financial Reporting in Hyperinflationary Economies

Zimbabwe was pronounced a hyperinflationary economy on July 1, 2019. IPSAS 10 “Financial Reporting in Hyperinflation Economies” has been applied to the 2018 comparatives with effect from January 1, 2018. IPSAS 10 has been applied to 2018 balances that were not in compliance with IPSAS 4 and IPSAS 3 as highlighted in the preceding paragraph.

ii. Non-compliance with IPSAS 13 – Leases

As at December 31, 2019, the Council held a long-term receivable balance amounting to ZWL$120 739 relating to motor vehicle loans issued to heads of departments (HoDs) to purchase their motor vehicles. The Council hired the same motor vehicles from the HoDs. The lease terms are for the entire useful lives of the motor vehicles, the motor vehicles cannot be replaced in the hiring arrangement, the Council assumes all repairs, maintenance and insurance costs. The arrangement substantially transfers all the risks and rewards incidental to ownership to the Council. Consequently, the arrangement meets the criteria for recognition as finance lease asset in accordance with IPSAS 13 “Leases”. The Council did not comply with requirements of IPSAS 13 “Leases”, by not recognizing finance lease assets and related liability in the financial statements.

iii. Non-compliance with IPSAS 17- “Property, Plant and Equipment” (PPE)

The Council owned infrastructural assets that consisted of a road network that stretched a total distance of 1 250km, bridges and drainage systems that are part of this road network. These infrastructural assets meet the definition of property, plant and equipment in accordance with IPSAS 17 “Property, Plant and Equipment.” Fair values of Council’s infrastructural assets were not determined and recognized as part of property, plant and equipment which is a departure from IPSAS 17. Exclusion of these assets in the non-current assets materially misrepresented the Council’s financial position.

Undervaluation of PPE, Investment Property and Intangible Assets

The Council measured Property, plant and equipment, Investment properties and Intangible assets at ZWL$43 949 452, ZWL$872 454 and ZWL$32 169, respectively, as at December 31, 2019. Majority of the non-current assets carrying amounts consist of balances that were carried over from prior periods. Considering the impact of change in functional currency from United States Dollar (USD) to Zimbabwean Dollars (ZWL) in the year 2019, the carrying amounts of non-current assets that were acquired prior to December 31, 2018 no longer represent the fair values of non-current assets as at December 31, 2019. Some of the non-current assets used by the Council were fully depreciated. Paragraph 49 of IPSAS 17 states that “The frequency of revaluations depends upon the changes in the fair values of the items of property, plant, and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary”. The Council did not revalue these non-current assets following the change in functional currency and revaluation would have materially affected their carrying amounts as at December 31, 2019.

iv. Unverified unallocated receipts

The Council held accounts payable balance of ZWL$770 690 as at December 31, 2019. Included in this balance are unverified unallocated receipts amounting to ZWL$193 572. The balances accumulated as a result of unidentified customers' direct deposits which were deposited into the Council's Ecocash and bank accounts. Majority of these transactions have no audit trail and cannot be traced to the Ecocash and bank statements hence I was not able to satisfy myself regarding the accuracy and correct presentation of this balance.

v. Unverified beer levy

Included in Council's total income of ZWL$35 241 186 is ZWL$178 835, an amount relating to beer levy income. The Council did not have any beer levy statistics or returns submitted by traditional beer breweries to support the amounts recognized in the financial statements. This amount was recognized on a cash basis of accounting which was a non-compliance with the International Public Sector Accounting Standards Conceptual framework which require such income to be recognized on an accrual basis of accounting. Consequently, I was not able to verify the completeness of revenue recognized in the financial statements.

vi. Unverified cash and cash equivalents balances

Cash and bank balances amounting to ZWL$7 566 405 presented in the financial statements is materially misstated. Included in the above balance is cash on hand amounting to ZWL$26 503 which is more than the cash on hand balance presented on the Council's cash certificates as at December 31, 2019. The cash certificates showed that cash on hand available as at year end was ZWL$4 942. Inclusion of this balance altered the cash and cash equivalents balance which would have been presented by the Council had the correct cash on hand balance been presented on the statement of financial position.

Ecocash balances

The Council omitted Ecocash balances amounting to ZWL$6 152 in its cash and cash equivalents. This was due to absence of Ecocash cashbooks in the accounting system of the Council. I could not determine the nature and extent of transactions that were processed through these accounts since Ecocash statements were not available. Due to the nature of cash, the omission was material and misrepresented the Council's cash and cash equivalents.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Policies

Finding

The Council did not have an operational manual which sets out the internal policies and controls which govern the Council's management and employees. The Council is required by the Rural District Council Act [*Chapter 29:13*] section 74 (1) (b) to formulate policies both long-term and short term. The main policies which were not in place but essential for the Council were:

- Information Technology policy,
- Debtors management policy,
- Service delivery policies on water management, waste management and environment management and
- Land management policies covering development of stands and the sales of such stands.

Risk / Implication

Lack of documented polices may result in lack of coordination, consistency and direction as a result of absence of an agreed way of operating and carrying out tasks.

Recommendation

Management should ensure that policy manuals are put in place to provide guidelines for the efficient and effective operation of the Council.

Management response

Information Technology policy to be implemented by March 2021.

Council is working on Service delivery policies and land management policies covering development of stands and the sales of such stands.

1.2 Non-compliance with IPSAS 13 – Leases

Finding

As at December 31, 2019, the Council held a long-term receivable balance amounting to ZWL$120 739 relating to motor vehicle loans issued to Heads of Departments (HoDs) to purchase their motor vehicles. The Council hired the same motor vehicles from the HoDs. The lease terms are for the entire useful lives of the motor vehicles, the motor vehicles cannot be replaced in the hiring arrangement, the Council assumes all repairs, maintenance and insurance costs. The arrangement substantially transfers all the risks and rewards incidental to ownership to the Council. Consequently, the arrangement meets the criteria for recognition as finance lease asset in accordance with IPSAS 13 "Leases".

The Council did not comply with requirements of IPSAS 13 “Leases”, by not recognizing finance lease assets and related liability in the financial statements.

Risk / Implication

Financial statements may be materially misstated due to non-recognition of lease asset and liability.

Recommendation

Council should recognise the finance lease assets and the related liability in the financial statements in accordance with IPSAS 13.

Management response

The observation is noted, recognition of finance lease to be done in the coming financial year.

1.3 Non-compliance with IPSAS 17- “Property, Plant and Equipment” (PPE)

Finding

The Council owned infrastructural assets that consisted of a road network that stretched a total distance of 1 250km, bridges and drainage systems that are part of this road network. These infrastructural assets meet the definition of property, plant and equipment in accordance with IPSAS 17 “Property, Plant and Equipment.” Fair values of Council’s infrastructural assets were not determined and recognized as part of property, plant and equipment which is a departure from IPSAS 17. Exclusion of these assets in the non-current assets materially misrepresented the Council’s financial position.

Undervaluation of PPE, Investment Property and Intangible Assets

The Council measured Property, plant and equipment, Investment properties and Intangible assets at ZWL$43 949 452, ZWL$872 454 and ZWL$32 169, respectively, as at December 31, 2019. Majority of the non-current assets carrying amounts consist of balances that were carried over from prior periods. Considering the impact of change in functional currency from United States Dollar (USD) to Zimbabwean Dollars (ZWL) in the year 2019, the carrying amounts of non-current assets that were acquired prior to December 31, 2018 no longer represent the fair values of non-current assets as at December 31, 2019. Some of the non-current assets used by the Council were fully depreciated. Paragraph 49 of IPSAS 17 states that “The frequency of revaluations depends upon the changes in the fair values of the items of property, plant, and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary”. The Council did not revalue its non-current assets following the change in functional currency and revaluation would have materially affected the non-current assets carrying amounts as at December 31, 2019.

Risk / Implication

Financial statements may be materially misstated.

Recommendation

Council should ensure that its non-current assets are valued in line with the provisions of IPSAS 17.

Management response

Council will source funds to do the valuation of infrastructure assets.

1.4 Unverified unallocated receipts

Finding

The Council held accounts payables balance of ZWL$770 690 as at December 31, 2019. Included in this balance are unverified unallocated receipts amounting to ZWL$193 572. The balances accumulated as result of unidentified customers' direct deposits which were deposited into the Council's Ecocash and bank accounts. Majority of these transactions have no audit trail and cannot be traced to the Ecocash and bank statements hence I was not able to satisfy myself regarding the accuracy and correct presentation of this balance.

Risk / Implication

Misstatement of payables in the financial statements.

Recommendation

Council should ensure that the unallocated receipts are investigated and corrective action be taken.

Management response

The observation is noted.

1.5 Unverified cash and cash equivalents balances

Finding

Cash and bank balances amounting to ZWL$7 566 405 presented in the financial statements is materially misstated. Included in the above balance is cash on hand amounting to ZWL$26 503 which is more than the cash on hand balance presented on the Council's cash certificates as at December 31, 2019. The cash certificates showed that cash on hand available as at year end was ZWL$4 942. Inclusion of this balance altered the cash and cash equivalents balance which would have been presented by the Council had the correct cash on hand balance been presented on the statement of financial position.

Ecocash balances

The Council omitted Ecocash balances amounting to ZWL$6 152 in its cash and cash equivalents. This was due to absence of Ecocash cashbooks in the accounting system of the Council. I could not determine the nature and extent of transactions that were processed through these accounts since Ecocash statements were not available. Due to the nature of cash, the omission was material and misrepresented the Council's cash and cash equivalents.

Risk / Implication

Understatement of cash and bank balance.

Misappropriation of cash due to off-balance sheet transactions.

Recommendation

Bank reconciliation should be done regularly.

Council should ensure all ecocash receipts and payments are completely and accurately recorded.

Management response

The observation is noted. Council will do all bank reconciliation in Sage Evolution accounting package.

07776939408 is our petty cash bulk payer which was discontinued due to RBZ directive. The bulk payer had a cash book and the above balance are funds which were in the line on its closure. The same applies with 0773075513 which was roads wages bulk payer.

0772151931 and 0772151958 were merchant lines which also discontinued after realising that our merchant lines were too many and would be difficult to maintain. Authority to close the accounts has been sought from finance committee.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Beer levy

Finding

The Council recognised beer levy income on a cash basis. This was contrary to the requirements of International Public Sector Accounting Standard (IPSAS) 23- "Revenues from Non-Exchange Transactions" which require such income to be accrued. During the year 2019, the Council did not obtain beer sales statistics from Delta Beverages Corporation to substantiate the amounts that were recorded as beer levy income and there was no evidence to show that efforts were made to obtain these statistics as required by the Traditional Beer levy Act [*Chapter 14:24*].

Risk / Implication

Financial loss as beer levy revenue may be understated.

Recommendation

Council should enforce the requirements of the Traditional Beer levy Act [*Chapter 14:24*] to obtain beer sales statistics.

Management response

Council will engage Delta Beverages Corporation over the matter. The beer levy revenue will then be recorded in accordance to IPSAS 23.

MUZARABANI RURAL DISTRICT COUNCIL 2020

I have audited the financial statements of the Muzarabani Rural District Council for the year ended December 31, 2020 and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Muzarabani Rural District Council, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

Opening balances translated at an inappropriate exchange rate

The financial statements did not comply with the requirements of International Public Sector Accounting Standard (IPSAS) 4, "The Effects of Changes in Foreign Exchange Rates", as the Council had been unable to use an appropriate exchange rate on change in functional currency. The Council translated its comparative financial statements using the interbank rate which came into existence on February 22, 2019 through Exchange Control Directive RU 28 of 2019 issued by the Reserve Bank of Zimbabwe.

The Council used January 1, 2019 as the date of change in functional currency and translated its foreign denominated balances to ZWL at a rate of 1:1 as per Statutory Instrument 33 of 2019 which prescribed that all assets and liabilities that were denominated in US$ before February 22, 2019 be deemed to be RTGS dollars at a rate of 1:1 and all transactions subsequent to February 22, 2019 at interbank rate. The Council's inability to assess the appropriateness of using the interbank rate in achieving fair presentation was primarily due to the need to comply with SI 33 and the fact that there were no official exchange rates between October 2018 and February 2019 due to lack of an observable foreign exchange market.

I therefore believe that the exchange rates for transactions and balances between the US$ and the RTGS$/ZWL used by the Council (1:1 for the period January 1 to February 22, 2019 and the interbank rate for transactions and balances between February 23 and December 31, 2019) do not meet the criteria for appropriate exchange rates in terms of IPSAS as defined above. Had the correct rate been used, most balances would have been materially different.

Below are material issues noted during the audit;

1.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

1.1 Beer levy

Finding

The Council recognised beer levy revenue amounting to ZWL$60 000 for the year under review. However, I was not availed with evidence in the form of sales schedules maintained or reconciliations performed between the Council and the brewer. This was contrary to the provisions of the Traditional Beer Act [*Chapter 14:24*] section 15 which requires that local authorities demand production of records/ accounts of controlled liquor monies to verify the accuracy of the amount to be remitted.

Risk / Implication

Potential loss of revenue.

Recommendation

The Council should ensure compliance with the Traditional Beer Act [*Chapter 14:24*].

Management response

Management upholds the recommendations and comply with the Act.

MWENEZI RURAL DISTRICT COUNCIL 2019

I have audited the financial statements of Mwenezi Rural District Council for the year ended December 31, 2019 and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Mwenezi Rural District Council as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Adverse Opinion

i. Non-compliance with International Public Sector Accounting Standard (IPSASs) 4 "The effects of changes in foreign exchange rates"

Exchange rates

The Council translated its comparative financial statements using the interbank rate which came into existence on February 22, 2019 through Exchange Control Directive RU 28 of 2019 issued by the Reserve Bank of Zimbabwe. The Council therefore translated its foreign denominated balances to ZWL using the February 22, 2019 interbank rate. The entity has not been able to assess the appropriateness of the interbank rate in achieving fair presentation primarily due to the need to comply with SI 33 and also the fact that there were no official exchange rates between October 2018 and February 2019 due to lack of an observable foreign exchange market. Additionally, the introduction of the interbank rate occurred after a period of foreign currency scarcity and constrained exchangeability of bond notes, coins and electronic money to other foreign currencies. In substance, the immediate delivery of foreign currency could not be guaranteed which impinged on the underlying concept of closing rates and definition of spot rates. This therefore impacts the basis for measuring transactions between October 2018 and February 2019, valuation of assets and liabilities as well as the accounting for exchange differences. In that regard, the entity has not been able to comply with the requirements of IPSAS 4.

Date of change in functional currency

Mwenezi Rural District Council adopted February 22, 2019 as the date of change in functional currency despite the existence of evidence that the chosen date could have been not appropriate. Based on International Public Sector Accounting Standard (IPSAS 4) "The Effects of Changes in Foreign Exchange Rates", the functional currency of an entity is the currency of the primary economic environment in which the entity operates and reflects the underlying transactions, events and conditions that are relevant to it.

Zimbabwe witnessed significant monetary and exchange control policy changes in 2016 and increasingly through to 2019. The Reserve Bank of Zimbabwe (RBZ) together with the Ministry of Finance and Economic Development promulgated a series of exchange control operational guidelines and compliance frameworks during this period. In particular, there was a requirement for banks to separate local Foreign Currency Accounts (FCAs) RTGS$

from the FCA Nostro US$ Accounts effective October 01, 2018. Although the rate was legally pegged at 1:1, multiple pricing practices and other transactions observed and reported publicly indicated exchange rates other than 1:1 between RTGS$ and US$, therefore the Council's reported transactions did not indicate the prevailing economic substance. In February 2019 there was a Monetary Policy statement which introduced RTGS$ and the interbank foreign exchange market.

Due to the fundamental nature of the issues raised and interplay of variables within the existing economic environment, I have not been able to determine the extent of misstatements and any adjustments that would have been necessary to correct the historical cost financial statements. The effects on the historical cost financial statements have an impact on the IPSAS 10 inflation adjusted financial statements.

ii. Stands sales revenue

I could not satisfy myself with the completeness and accuracy of the revenue recognized from stands sold at Neshuro, Lundi and Rutenga Business centres amounting to ZWL$ 2 724 814. I was not availed with the records of the actual number of residential stands sold during the year and the related details such as price per square metre and the size of each stand sold. Consequently, I could not ascertain the completeness and accuracy of the stand sales revenue.

iii. Mobile money balance

I was not availed with the mobile money (EcoCash) statements and certificate of balance supporting the disclosed balance of ZWL$1 144 736 in the financial statements. In addition, no monthly reconciliations were performed to ensure the accuracy of the mobile money balance. I therefore was unable to ascertain the accuracy and completeness of the disclosed balance.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Policies and procedures manuals

Finding

The Council was operating without key policies in place such as health and safety, asset management, travelling and subsistence, housing policy and information technology policies. Section 44 (1) (a) of the Public Finance Management Act [*Chapter 22:19*] states that a public entity shall ensure that it establishes and maintains effective, efficient and transparent systems of financial, risk management and internal controls.

Risk / Implication

Inconsistencies in the Council's operations.

Recommendation

Council should ensure that policies are put in place.

Management response

Noted. T and S allowance is by the way of Council resolution. The other policies will be in place since the Council is in the process of finalising them and as soon as they are done they will be availed to all employees.

1.2 Fuel benefits

Finding

The Council's five (5) head of departments were being issued with 50 litres of monthly fuel benefit. From September to December 2019 a total of 310 litres of diesel and 490 litres of petrol with a total monetary value of ZWL$15 744 were issued. I however, observed that the benefit was not taxed as it was being processed outside the payroll. This was contrary to the requirements of Income Tax Act [*Chapter 23:06*].

Risk / Implication

Fines and penalties may be levied for non-compliance with the Income Tax Act [*Chapter 23:06*].

Recommendation

All employee benefits should be processed through the payroll.

Management response

Noted. The tax benefit was processed through the payroll starting January 2020.

However, for those months in question the benefit will be taxed in June 2021.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Revenue from sales of stands

Finding

The Council sold residential stands in Rutenga, Neshuro and Lundi amounting to ZWL$2 724 814 which could not be substantiated. I was not availed with the schedule showing the total number of stands, rate that was used per square meter, stand size and total value. I could therefore not ascertain the accuracy and completeness of the revenue from stands sales.

Risk / Implication

Misappropriation of Council assets.

Misstatement of revenue.

Recommendation

The Council should maintain records of all stand sales.

Management response

Noted the template, which shows the stands, allocated and the square meters is being worked on and will be availed no later than end of 2021.

2.2 Accounting for game meat revenue

Finding

The Council received a donation of 16 411.50kgs of game meat from a local Conservancy which was sold for ZWL$93 418.

The conditions of the donation stipulated that the funds were to be used for repairs of schools, clinics and any other district projects. However, I was not availed with documentation on how the money was used as required by the conditions of the donation.

Risk / Implication

Misappropriation of funds.

Service delivery may be compromised

Recommendation

The Council should comply with conditions of the donation.

Management response

Noted. The game meat proceeds were not separately accounted for but the proceeds were realized in a pool of the funds.

2.3 Lease contract and management

Finding

The Council leased out 2 155 stands where the lessees were expected to pay lease rentals. However, there were no written lease contracts between Council (lessor) and the lessees detailing the lease terms. Furthermore, the Council did not maintain an individual account for each lessee, with details of the amount paid, by the lessee.

Risk / Implication

Loss of revenue.

Disputes may be difficult to resolve in the absence of a contract.

Recommendation

The Council should ensure that lease agreements are in place.

The Council should maintain individual accounts.

Management response

Noted. The Council will ensure that every stand has a lease document and every beneficiary has an account.

2.4 Maintenance of stands register

Finding

The Council did not maintain a proper stand register with sufficient details such as stand owner, lease numbers, stand size and date of allocation. Sarahuro had 44 stands, Neshuro 21 stands and Rutenga 124 stands which had incomplete information in the register.

The stand registers availed were counter books, which are not durable and there was no evidence of any backup.

Risk / Implication

Loss of information due to manipulation and damage to primary records.

Fraudulent allocation of stands.

Recommendation

The Council should maintain proper stand register.

Management response

Noted. The preparation of proper stands registers is work in progress and Rutenga register is almost complete.

2.5 Mobile money balance

Finding

The Council disclosed a balance of ZWL$1 144 736 in relation to mobile money balance (EcoCash). The EcoCash statements for the year ended December 31, 2019 were not availed for audit and there was no evidence that monthly reconciliations were being performed.

Risk / Implication

Fraud and error may go undetected which leads to financial loss.

Difficult to substantiate the mobile money balance without proper documentation.

Recommendation

Documents (EcoCash statement) should be kept and availed for audit inspection.

Monthly reconciliations should be done.

Management response

Noted. In future we will make sure that the reconciliations are done timeously and on monthly basis. The EcoCash balance in the financial statements is correct since we had substantial amounts realized on receipts from sale of stands. Efforts are being made to have the 2019 EcoCash statements from Econet Wireless. The funds were later on transferred to the roads and planning account from Econet (EcoCash account) on the 16th of January 2020.

3.0 SERVICE DELIVERY ISSUES

3.1 Manyuchi Clinic

Finding

Manyuchi Clinic had no maternity services (delivery room and post-natal room) and proper equipment necessary to assist during and after birth and have resorted to using the mother shelter for delivery purposes.

The clinic's observation room, treatment room, outpatient room and dispensary room have no lighting system despite the fact that a solar system has been put in place to provide electricity at the clinic. Upon enquiry at the clinic, they highlighted that the clinic needed only wiring and tubing for the lights to be connected. Furthermore, I noted that the clinic had no security services (Security fence and security personnel).

Risk / Implication

Poor maternity and post -natal services.

Poor lighting affects clinic services provided at night.

Clinic assets may be stolen or vandalised.

Management response

Noted. The solar system started in April 2021 funded by UNDP and is still work in progress. As for the maternity and post-natal, a step-by-step improvement on the structures will be engaged as soon as possible.

3.2 Rutenga dumpsite

Finding

The Council does not have an approved land fill instead it was making use of a dumpsite at Rutenga Business center. Management indicated that the Council had received a red score (which is the lowest rank) from EMA inspections on the dumpsite. I further noted that the dumpsite was not barricaded to prevent unauthorized access to the dumpsite.

Risk / Implication

The dumpsite may present an environmental hazard to the community.

Fines and penalties may be imposed to the Council by EMA.

Recommendation

The Council should work on having an approved landfill.

Management response

Noted. The Council is in the process of decommissioning the existing dumpsite and works for the construction of a new standard Landfill are in progress. We have so far engaged the consultant for Environmental Impact Assessment (EIA).

3.3 Manyuchi Primary School

Manyuchi Primary school had an enrolment of 283 students. I noted that the school had only two (2) classroom blocks which caters for ECD students and the other with two (2) classrooms catering for grade one (1) to seven (7) students. Most grades had no access to classrooms and as a result, were learning outside. In addition, the school had inadequate learning material with only a teacher's copy per subject for each grade.

Risk / Implication

Poor education facilities and learning materials compromises the quality of learning.

Recommendation

Council should facilitate further development of the school structures.

Management response

Noted. The school is a satellite school hence improvements to it are being done gradually. The Council has however since constructed the ECD block and further engagements with the local community are being put in place for resources mobilization so that more structures will be in place.

NKAYI RURAL DISTRICT COUNCIL 2020

I have audited the financial statements of Nkayi Rural District Council for the year ended December 31, 2020 and I issued a qualified opinion.

Qualified Opinion

In my opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Nkayi Rural District Council as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis of Qualified Opinion

i. Impact of incorrect date of application of International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates" on comparative financial information.

For the financial year ended December 31, 2020 the Council did not comply with IAS 21 "The effects of Changes in Foreign Exchange Rates" as it elected to comply with Statutory Instrument 33 of 2019 (SI 33/19) only from February 22, 2019. Prior to February 22, 2019, the transacting and functional currency of the Zimbabwean economy was the United States dollar (USD). On February 22, 2019, a currency called the RTGS dollar was legislated through Statutory Instrument 33 of 2019 (SI 33/19) with an effective date of February 22, 2019. SI 33/19 fixed the exchange rate between the RTGS Dollar and the United States Dollar (USD) at a rate of 1:1 for the period up to this effective date. The rate of 1:1 was consistent with that mandated by the RBZ at the time it issued the bond notes and coins into the basket of multi currencies. The below events were indicative of economic fundamentals that would require a reassessment of the functional currencies currency as required by the IAS 21 "The Effects of Changes in Foreign Exchange Rates".

The Council transacted using a combination of USD, electronic cash, bond notes and bond coins. Acute shortage of USD cash and other foreign currencies in the country resulted in an increase in the use of different modes of payment for goods and services, such as settlement through the Real Time Gross Settlement (RTGS) system and mobile money platforms. During the year, there was a significant divergence in market perception of the relative values between the bond note, bond coin, mobile money platforms, and RTGS Foreign Currency Account in comparison the USD. Although RTGS was not legally recognized as a currency up until February 22, 2019, the substance of the economic phenomenon, from an accounting perspective, suggested that it was a currency.

In October 2018, banks were instructed by the Reserve Bank of Zimbabwe ("RBZ") to separate and create distinct bank accounts for depositors, namely, RTGS FCA and Nostro FCA accounts. This resulted in a separation of transactions on the local RTGS payment platform from those relating to foreign currencies (for example, the United States Dollar, the British Pound, and the South African Rand).

Prior to this date, RTGS FCA and Nostro FCA transactions and balances were co-mingled. As a result of this separation, there was an increased proliferation of multi-tier pricing practices by suppliers of goods and services, indicating a significant difference in purchasing power between the RTGS FCA and Nostro FCA balances, against a legislative framework mandating parity.

For the period up to February 22, 2019, the Council maintained its functional currency as the USD, with transactions and balances reflected using an exchange rate of 1:1 in compliance with SI 33/19. From February 22, 2019, balances and transactions were retranslated at the legislative inaugural exchange rate of 1:2.5 between the USD and the RTGS$ in compliance with the requirements of SI 33/19.

Whilst the timing of this conversion was in line with the dictates of SI 33/19, it constituted a departure from the requirements of IAS 21, and therefore the 2019 financial statements were not prepared in conformity with IFRSs. Had the Council applied the requirements of IAS 21, the December 31, 2019 comparative inflation adjusted financial statements would have been materially impacted. The financial effects of this departure on the inflation adjusted financial statements have not been determined.

ii. Property, plant and equipment valuation

The Council's equipment was carried in the statement of financial position at ZWL$157 837 055 as at December 31, 2020. Management has not stated its assets at fair value despite the continuous depreciation of the currency, which is in contradiction with IAS 16. The Council's records indicate that the assets were last revalued in 2009; accordingly, the fixed assets are currently understated.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Policy documents and procedures manual

Finding

Policies such as Human Resources policy, Housing policy, Transport policy, Health and Safety policy and ICT were not in place.

Risk / Implication

Financial loss due to inconsistent treatment of the similar transactions.

Decisions made may not be binding in the absence of approved policies.

Recommendation

Policies and procedures manuals should be put in place.

Management response

The auditor's observation is correct. The Recruitment Policy and Gender Policy are awaiting adoption by the full Council. The IT policy, Housing Policy and Risk Policy are at formulation stage.

1.2 Public Sector Investment Program (PSIP) funds

Finding

The Council had a balance of US$174 640 in the Public Sector Investment Program (PSIP) bank account that has been lying idle since the year 2012. The funds were subsequently converted to ZWL$. Inquiry with management revealed that the funds were a remainder of PSIP funds intended for a township sewer reticulation project and the project could not continue due to funding gaps.

Risk / Implication

Service delivery may be compromised.

Financial loss due to loss in the purchasing power and time value of money.

Recommendation

Management should ensure that projects are completed.

Management should put in place a system that ensures financial resources are used in the best interest of the Council.

Management response

The Auditor's observation is true. The funds were intended for a township sewer reticulation project in 2013. The greater chunk of the funds was used for excavation and purchasing of pipes. The project ceased due to funding gaps. Council will commit the funds towards water and sanitation particularly extension of water points.

1.3 Assets register

Finding

The Council's equipment was carried in the statement of financial position at ZWL$157 837 055 as at December 31, 2020. Management has not stated its assets at fair value despite the continuous depreciation in the currency, which is in contradiction with IAS 16. The asset register was not up to date as it does not incorporate 2020 additions and depreciation charge for the year. The Council's records indicate that the assets were last revalued in 2009; accordingly, the fixed assets are currently understated.

Risk / Implication

Financial statements may be materially misstated.

Misappropriation of assets.

Recommendation

Movement of assets in and out of the Council may not be tracked easily in the absence of a comprehensive asset register.

Management response

Noted. Council will update the asset register.

2.0 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY

2.1 Beer levy

Finding

The Council did not avail evidence of traditional beer sales schedules to support the levy remitted of ZWL$58 835 by the commercial brewers. According to the Traditional Beer Act [*Chapter 14:24*], local authorities are mandated to collect levies from breweries within the Council's jurisdiction.

Risk / Implication

Potential loss of revenue.

Recommendation

The Council should engage the commercial brewers to ensure that beer sales schedules are provided.

Management response

Council shall engage all beer suppliers to establish an information system and control on beer levy.

RUNDE RURAL DISTRICT COUNCIL 2020

I have audited the financial statements of Runde Rural District Council for the year ended December 31, 2020 and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Runde Rural District Council as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

i. Valuation of property, plant and equipment

The Council did not comply with IAS 16 "Property, Plant and Equipment" which requires that an entity depreciates assets available for use up until the assets are derecognized. Management did not depreciate the Council's assets. In addition, Council did not carry out impairment test of its assets contrary to the requirements of IAS 36 "Impairment of Assets", despite the fact that there were indicators of impairment in the assets. As a result, I was unable to satisfy myself by alternative means concerning the valuation of property, plant and equipment (ZWL$29 294 387) and whether any adjustments were necessary.

ii. Unsupported transactions

I was not provided with the ledgers, bank statements, receipts, payment vouchers and supporting schedules for the Siboza housing account. As a result, I could not validate Income (ZWL$1 183 288), expenditure (ZWL$328 675), receivables (US$274 297), cash and cash equivalents (ZWL$1 173 587), reserves (ZWL$899 290) and accounts payable (ZWL$548 594). The customer database and transactions were being maintained by Bert Properties with which the Council had entered into a stands development agreement. There was no evidence of reconciliations between the Council and the entity. As a result, I was unable to satisfy myself by alternative means on the correctness of figures disclosed.

iii. Non-compliance with International Financial Reporting Standards IAS 29 – "Financial Reporting in Hyperinflationary Economies"

The Council was operating in a hyperinflationary economy for the year ended December 31, 2020. The financial statements have not been prepared in accordance with International Financial Reporting Standards in that the requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" have not been complied with in converting the financial statements for the year ended into applicable measurement base at the date of reporting.

The non-compliance by the Council constitutes a departure from IAS 29 "Financial Reporting in Hyperinflationary Economies". Had the financial statements been prepared in accordance with IAS 29, multiple elements would have been materially adjusted. As a result, the impact of the Council's inability to comply with IAS 29 has been determined as significant. The effects on financial statements of non- compliance with IAS 29 are considered material and pervasive to the financial statements, taken as a whole.

iv. Non-compliance with International Accounting Standards (IAS) 21- "The Effects of Changes in Foreign Exchange Rates "and IAS 8 – "Accounting Polices, Changes in Accounting Estimates and Errors"

The Council changed its functional and reporting currency from United States Dollar (US$) to Zimbabwe Dollars (ZWL) on February 22, 2019 in compliance with Statutory Instrument 33 of 2019. I however believe that the change occurred on October 1, 2018 in terms of IAS 21 given the significant monetary and exchange control policy changes witnessed in Zimbabwe from 2016 through to 2019.

My audit report for the year ended December 31, 2019 was therefore modified as management prospectively applied the change in functional currency from USD to ZWL from February 23, 2019, which I disagreed with. The correct approach would have been a retrospective restatement as a prior period error in terms of International Accounting Standards (IAS) 8 "Accounting Polices, Changes in Accounting Estimates and Errors."

As no restatements have been recorded in current year per IAS 8 to correct the above matters, my audit report on the financial statements for the year ended December 31, 2020 is further modified for the following reasons;

All corresponding amounts remain misstated on the Statement of Financial Position, Statement of Cash Flows, Profit or Loss and Changes in Equity. This also impacts comparability of the current period's figures, the effects of the above departures from IFRSs are material and pervasive to the financial statements.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Policies and procedure manuals

Finding

The Council was operating without critical policies and procedure manuals such as Risk Management, Information Technology, Procurement and Health & Safety. Other policies that were available were out-dated as they were not regularly reviewed. Documented policies and procedures are key in guiding employees in the discharge of their duties and they help the employer to monitor compliance against the same.

Risk / Implication

Council may overlook significant risks which may affect service delivery.

Possible inconsistences in application of processes and procedures.

Recommendation

The Council should put in place and review its policies.

Management response

Council will put in place the policies as follows;

-Risk Management - second quarter 2022
-Information Technology - third quarter 2022
-Procurement and Health and Safety - fourth quarter 2022
-Gender policy - December 2021
-Housing policy- First quarter 2022

1.2 Siboza housing development

Finding

The Council entered into contract with Bert Properties in 2013. Bert Properties was to service at least 3 000 residential stands and statutorily recommended stands such as commercial, recreational, educational, health and public and social amenities stands at the Siboza Business Centre. Ownership of the land remained vested in the Council. The proceeds of the sale of these stands were to be shared in the ratio 75:25 for Bert Properties and the Council respectively. The developer was maintaining the project stands database and was responsible for marketing and allocating the stands and proceeds from the sale of the stands were deposited directly into the Council's housing account. The Council would then transfer 75 percent net of VAT to the developer at the end of every month.

I noted that the stand beneficiaries (purchasers) database was being maintained by the developer and direct deposits into the Council account did not indicate the buyer's name and the respective stand being paid for. The customers' receivables accounts were therefore not being credited with the payments made. There was no evidence of any reconciliations between the Council and Bert properties.

The total receivables balance was stated in US$ as US$274 297. The balance owing was being converted to ZWL$ at the prevailing rate when a stand owner requested to make a payment on the outstanding balance. This resulted in the debtors having a credit balances amounting ZWL$548 594.

I was not provided with the ledgers, bank statements, receipts, payment vouchers and supporting schedules for the Siboza housing account. As a result, I could not validate income (ZWL$1 183 288), expenditure (ZWL$328 675), receivables (US$$274 297), cash and cash equivalents (ZWL$1 173 587), reserves (ZWL$899 290) and accounts payable (ZWL$548 594).

Furthermore, Bert properties had not fully serviced the 3000 stands as agreed in the 2013 contract. The eighteen (18) months contract expired in 2015. There were some correspondences between the Council and the developer on the extension of the contract, however there was no signed addendum to the initial contract. The project seemed to be continuing seven (7) years after expiration of the contract.

A visit to the project indicated that;

-The high-density stands were almost full in terms of occupancy however, they had no access to water and sewer reticulation services.
-Roads and storm water drainage systems were partly done for the medium density.

Risk / Implication

Financial statements were materially misstated.

Financial loss due to undeclared sales of stands.

Compromised service delivery.

Recommendation

Council should ensure proper accountability of stands development project to safeguard public resources.

Management response

Council is in the process of negotiating with the developer to amend the clauses which allowed the developer to sale stands on behalf of Council.

Council will get correct information from Bert properties and reconcile with beneficiaries.

Council has already reduced the land given to the developer due to capacity challenges.

1.3 Non- current assets

Finding

The Council did not comply with IAS 16 "Property, Plant and Equipment" which requires that an entity depreciates assets available for use up until the assets are derecognized. Management did not depreciate the Council's assets. In addition, the Council did not carry out impairment test of its assets contrary to the requirements of IAS 36 "Impairment of Assets", despite the fact that there were indicators of impairment in the assets. As a result, I was unable to satisfy myself by alternative means concerning the valuation of property plant and equipment (ZWL$29 294 387) and whether any adjustments were necessary.

The asset register was incomplete and was maintained manually. Assets such as schools and roads were not included as part of non-current assets.

Risk / Implication

Property, plant and equipment balances may be materially misstated.

Recommendation

The Council should comply with the requirements of IAS 16 and IAS 36.

Council should maintain an updated and comprehensive asset register.

Management response

Asset register to be updated and unrecorded assets to be included. The Council is in the process of creating a reliable softcopy of the asset register. Land register still outstanding as the Council does not have capacity to perform land valuation exercises.

RUSHINGA RURAL DISTRICT COUNCIL 2019

I have audited the financial statements of Rushinga Rural District Council for the year ended December 31, 2019 and I issued an adverse opinion.

Adverse Opinion

In my opinion, because of the significance of the matter described in the basis for adverse opinion section of my report, the financial statements do not present fairly the financial position of Rushinga Rural District Council as at December 31, 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

Non - compliance with International Accounting Standard (IAS) 21 - "The Effects of Changes in Foreign Exchange Rates"

The financial statements were presented in Zimbabwe Dollars (ZWL). In the prior year the financial statements were presented in United States Dollars (USD) at an exchange rate of 1:1 in accordance with the law. The Council identified some transactions that would not have been appropriate to measure at the legislated exchange rate in the prior year. In the current year, in compliance with the law, up to 22 February 2019, transactions in USD were converted at 1:1 to what has now become ZWL. Given that the Council have not segregated the foreign currency transactions in the comparatives and up to 22 February 2019, any impact on the current year has not been adjusted. This constitute a departure from the requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates" which requires use of a spot rate of exchange rate that is of immediate delivery to the currency. The rates used whilst complying with the law did not conform to IAS 21.

During the financial year, the economy was declared a hyper inflationary environment with effect from 01 July 2019 by the Public Accounting and Auditors Board (PAAB). This was evidenced by the rising in the Consumer Price Index (CPI). As a result, this triggered the applicability of the International Accounting Standard (IAS) 29 "Financial Reporting in Hyperinflationary Economies", to the financial results of the Council. These financial statements have not been prepared in conformity with IAS 29. In monitoring and assessing the performance of the Council, based on the historical cost financial statements and other relevant factors, the management do not consider the effects of the high rate of inflation in Zimbabwe. The Council believe that the cost of preparing inflation adjusted financial statements would be out of proportion to the perceived benefits to the members and other users particularly in an environment where the reliability of indices is subjective. Accordingly, the financial effects of non-compliance with IAS 29 have not been determined and therefore the financial statements have not been prepared in conformity with International Financial Reporting Standards.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Public Sector Investment Programme (PSIP) loan

Finding

The Council was not servicing its PSIP loan of ZWL$514 425. The loan should have been repaid in full by end of year 2015. Inquiry with management revealed that non-payment was due to funding challenges.

Risk / Implication

Financial loss due to interest and late payment charges.

Low credit rating resulting in challenges in raising funding in future.

Recommendation

Council should service their loan on a payment plan basis.

Management response

Council is in funding challenges, however funding modalities to pay out the loan are being organised.

ZAKA RURAL DISTRICT COUNCIL 2018-2020

I have audited the financial statements of Zaka Rural District Council for the years ended December 31, 2018, 2019 and 2020 and I issued adverse opinions.

Adverse Opinion 2018

In my opinion, because of the significance of matters described in the Basis of Adverse Opinion of my report, the financial statements do not present fairly, the financial position of Zaka Rural District Council as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs)**.**

Basis for Adverse Opinion 2018

Non-compliance with International Public Sector Accounting Standards (IPSASs) 4 "The Effects of Changes in Foreign Exchange Rates"

The financial statements are reported in US$ yet the following factors were applicable as of year-end:

There was evidence of existence of an exchange rate between USD and the Bond note prior to year-end as discounts existed when transactions were being done. At law the USD and Bond note were pegged at 1:1. Substance over form prescribes that a spot rate should have been used on recording transactions and balances at year end should have been translated into the reporting currency (USD) from the Bond note.

Financial institutions were directed to separate existing bank accounts into foreign Currency Accounts (FCA) RTGS for all balances originating from local transactions and FCA Nostro for all balances emanating from externally sourced foreign currency or foreign currency deposits. All the existing bank balance of the Council were allocated to the RTGS account.

Post year end (February 22, 2019) the RTGS was officially devalued by the Reserve Bank of Zimbabwe through the monetary policy confirming events that existed before year end. Therefore, it can be concluded that the functional currency and the reporting currency were different. This affects most balances in the financial statements.

Adverse Opinion 2019

In my opinion, because of the significance of matters described in the Basis of Adverse Opinion of my report, the financial statements do not present fairly, the financial position of Zaka Rural District Council as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs)**.**

Basis for Adverse Opinion

Non-compliance with International Public Sector Accounting Standards (IPSASs) 4 "The Effects of Changes in Foreign Exchange Rates"

The financial statements are reported in ZWL however, from January to February 22, 2019 we had a functional currency in USD, and thereafter the RTGS (ZWL) became the functional currency. Therefore, it can be concluded that the functional currency and the reporting currency were different. The financial statements are in violation of IPSAS 4 "Effects of Changes in Foreign Exchange Rates" as evidence exists that the USD was the functional currency from January to February 22, 2019. This affects most balances in the financial statements.

Adverse Opinion 2020

In my opinion, because of the significance of matters described in the Basis of Adverse Opinion of my report, the financial statements do not present fairly, the financial position of Zaka Rural District Council as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs**).**

Basis for Adverse Opinion

Non-compliance with IPSAS 4 – "Effects of Foreign Exchange Rates".

The financial statements are reported in ZWL however, the prior year 2019 financial statements were in violation of IPSAS 4 "Effects of Foreign Exchange Rates" as evidence existed that the USD was the functional currency from January 2019 to February 20, 2019 as well as the comparative financial statements of 2018. The 2019 financial statements form the opening balances for 2020 and this has a significant effect on the current financial statements. Opening balances affect all balances of financial statements hence are considered to have pervasive effects on current year reporting.

Below are material issues noted during the audit;

1.0 GOVERNANCE ISSUES

1.1 Unsupported expenditure

Finding

Some payments made by the Council were not supported. Supporting documentation such as invoices, delivery notes or goods receipt vouchers were not availed for audit. The table below refers;

Date	Supplier	Details	Voucher #	Amount ZWL$
04/3/2020	Creative Computers	Laptop core i7	2020/07	66 500
31/3/2020	MFS Group	Covid-19 PPE	2020/116	4 473
09/10/2020	Halsteds	Building Materials	2020/009	92 790
12/12/2020	LADS Africa	Computer Training	2020/019	40 000
Total				**163 763**

Risk / Implication

Financial losses due to misappropriation of funds.

Recommendation

All payments must be adequately supported by relevant documentation.

Management response

Receipts and invoices to be availed by the procurement officer and attached to the vouchers.

ANNEXURE A: AUDIT OPINIONS

	NAME OF LOCAL AUTHORITY	YEAR	OPINION EXPRESSED
	CITY COUNCILS		
1.	Gweru City Council	2018	Disclaimer Opinion
2.	Kadoma City Council	2018	Adverse Opinion
3.	Masvingo City Council	2020	Adverse Opinion
4.	Mutare City Council	2020	Adverse Opinion
5.	Victoria Falls City Council	2020	Qualified Opinion
	MUNICIPAL COUNCILS		
6.	Beitbridge Municipality	2019	Adverse Opinion
7.	Gwanda Municipality	2016 - 2019	Qualified; Qualified; Qualified & Adverse Opinion
8.	Marondera Municipality	2019 & 2020	Adverse & Qualified Opinion
9.	Redcliff Municipality	2020	Adverse Opinion
	TOWN COUNCILS		
10.	Chipinge Town Council	2018 & 2019	Adverse Opinions
11.	Karoi Town Council	2018	Adverse Opinion
12.	Norton Town Council	2020	Adverse Opinion
13.	Plumtree Town Council	2019	Adverse Opinion
14.	Rusape Town Council	2020	Qualified Opinion
15.	Shurugwi Town Council	2020	Adverse Opinion
	LOCAL BOARDS		
16.	Chirundu Local Board	2019	Adverse Opinion
	RURAL DISTRICT COUNCILS		
17.	Bikita Rural District Council	2020	Adverse Opinion
18.	Bindura Rural District Council	2020	Adverse Opinion
19.	Binga Rural District Council	2020	Qualified Opinion
20.	Buhera Rural District Council	2020	Adverse Opinion
21.	Chaminuka Rural District Council	2020	Adverse Opinion
22.	Chegutu Rural District Council	2020	Adverse Opinion
23.	Chikomba Rural District Council	2020	Adverse Opinion
24.	Chivi Rural District Council	2020	Adverse Opinion
25.	Gwanda Rural District Council	2020	Adverse Opinion
26.	Gokwe North Rural District Council	2020	Qualified Opinion
27.	Gokwe South Rural District Council	2020	Adverse Opinion
28.	Hwedza Rural District Council	2020	Qualified Opinion
29.	Kusile Rural District Council	2016 & 2017	Disclaimer Opinions
30.	Manyame Rural District Council	2020	Qualified Opinion

	NAME OF LOCAL AUTHORITY	YEAR	OPINION EXPRESSED
31.	Marondera Rural District Council	2020	Adverse Opinion
32.	Masvingo Rural District Council	2020	Adverse Opinion
33.	Matobo Rural District Council	2018 - 2020	Adverse Opinions
34.	Mberengwa Rural District Council	2020	Adverse Opinion
35.	Mhondoro-Ngezi Rural District Council	2019	Adverse Opinion
36.	Murewa Rural District Council	2020	Adverse Opinion
37.	Mutare Rural District Council	2019	Adverse Opinion
38.	Muzarabani Rural District Council	2020	Adverse Opinion
39.	Mwenezi Rural District Council	2019	Adverse Opinion
40.	Nkayi Rural District Council	2020	Qualified Opinion
41.	Pfura Rural District Council	2019	Adverse Opinion
42.	Runde Rural District Council	2020	Adverse Opinion
43.	Rushinga Rural District Council	2019	Adverse Opinion
44.	Zaka Rural District Council	2018 - 2020	Adverse Opinions
45.	Zvimba Rural District Council	2020	Adverse Opinion

ANNEXURE B: AUDITS IN PROGRESS AS AT MAY 31, 2022

	NAME OF LOCAL AUTHORITY	YEAR
	CITY COUNCILS	
1.	Bulawayo City Council	2019-2020
2.	Harare City Council	2019
3.	Gweru City Council	2019
4.	Kadoma City Council	2019-2021
5.	Kwekwe City Council	2020
6.	Masvingo City Council	2021
7.	Mutare City Council	2021
8.	Victoria Falls City Council	2021
	MUNICIPAL COUNCILS	
9.	BeitBridge Municipality	2019
10.	Bindura Municipality	2020
11.	Chegutu Municipality	2021
12.	Chinhoyi Municipality	2020
13.	Chitungwiza Municipality	2019
14.	Gwanda Municipality	2020
	TOWN COUNCILS	
15.	Chipinge Town Council	2020
16.	Gokwe Town Council	2019
17.	Karoi Town Council	2019
18.	Mvurwi Town Council	2019
19.	Shurugwi Town Council	2021
20.	Zvishavane Town Council	2020 & 2021
	LOCAL BOARDS	
21.	Chirundu Local Board	2020
22.	Epworth Local Board	2020
23.	Hwange Local Board	2017 - 2019
24.	Lupane Local Board	2020
	RURAL DISTRICT COUNCILS	
25.	Bubi Rural District Council	2018
26.	Buhera Rural District Council	2021
27.	Bulilima Rural District Council	2020
28.	Chegutu Rural District Council	2021
29.	Chipinge Rural District Council	2018 - 2020
30.	Chiredzi Rural District Council	2020
31.	Chirumanzi Rural District Council	2020
32.	Gokwe South District Council	2021
33.	Goromonzi Rural District Council	2021
34.	Guruve Rural District Council	2020
35.	Hwange Rural District Council	2017
36.	Hwedza Rural District Council	2021
37.	Insiza Rural District Council	2019

	NAME OF LOCAL AUTHORITY	YEAR
38.	Kusile Rural District Council	2018
39.	Marondera Rural District Council	2021
40.	Masvingo Rural District Council	2021
41.	Makoni Rural District Council	2021
42.	Mazowe Rural District Council	2019
43.	Mbire Rural District Council	2019
44.	Mhondoro-Ngezi Rural District Council	2020
45.	Mudzi Rural District Council	2019
46.	Murewa Rural District Council	2021
47.	Mutare Rural District Council	2020
48.	Mutasa Rural District Council	2020
49.	Nyaminyami Rural District Council	2016 & 2017
50.	Nyanga Rural District Council	2019
51.	Tongogara Rural District Council	2020
52.	Runde Rural District Council	2021
53.	Rushinga Rural District Council	2020
54.	Tsholotsho Rural District Council	2019
55.	Umguza Rural District Council	2019
56.	UMP (Zvadaida) Rural District Council	2021
57.	Umzingwane Rural District Council	2021
58.	Vungu Rural District Council	2019

ANNEXURE C: AUDITS AT SIGNING STAGE AS AT MAY 31, 2022

	NAME OF LOCAL AUTHORITY	YEAR
	CITY COUNCILS	
1.	Mutare City Council	2020
2.	Victoria Falls City Council	2020
	MUNICIPAL COUNCILS	
3.	Redcliff Municipality	2020
	RURAL DISTRICT COUNCILS	
4.	Bindura Rural District Council	2020

ANNEXURE D: ACCOUNTS NOT YET SUBMITTED FOR AUDIT AS AT MAY 31, 2022

	NAME OF LOCAL AUTHORITY	YEAR
	CITY COUNCILS	
1.	Bulawayo City Council	2021
2.	Harare City Council	2020 & 2021
3.	Gweru City Council	2020 & 2021
4.	Kwekwe City Council	2021
	MUNICIPAL COUNCILS	
5.	Beitbridge Municipality	2020 & 2021
6.	Bindura Municipality	2021
7.	Chinhoyi Municipality	2021
8.	Chitungwiza Municipal Council	2020 & 2021
9.	Gwanda Municipality	2021
10.	Kariba Municipality	2021
11.	Marondera Municipal Council	2021
	TOWN COUNCILS	
12.	Chipinge Town Council	2021
13.	Chiredzi Town Council	2020 & 2021
14.	Gokwe Town Council	2020 & 2021
15.	Karoi Town Council	2020 & 2021
16.	Mvurwi Town Council	2020 & 2021
17.	Norton Town Council	2021
18.	Plumtree Town Council	2020 & 2021
19.	Rusape Town Council	2021
	LOCAL BOARDS	
20.	Chirundu Local Board	2021
21.	Epworth Local Board	2021
22.	Hwange Local Board	2020 & 2021
23.	Lupane Local Board	2021
24.	Ruwa Local Board	2021
	RURAL DISTRICT COUNCILS	
25.	Beitbridge Rural District Council	2020 & 2021
26.	Bikita Rural District Council	2021
27.	Bindura Rural District Council	2021
28.	Binga Rural District Council	2021
29.	Bubi Rural District Council	2019 - 2021
30.	Bulilima Rural District Council	2021
31.	Chaminuka Rural District Council	2021
32.	Chikomba Rural District Council	2020 & 2021
33.	Chipinge Rural District Council	2021
34.	Chiredzi Rural District Council	2021
35.	Chirumanzu Rural District Council	2021
36.	Gokwe North Rural District Council	2021
37.	Guruve Rural District Council	2021

	NAME OF LOCAL AUTHORITY	YEAR
38.	Gutu Rural District Council	2021
39.	Hwange Rural District Council	2018 - 2021
40.	Hurungwe Rural District Council	2021
41.	Insiza Rural District Council	2020 & 2021
42.	Kusile Rural District Council	2019 - 2021
43.	Makonde Rural District Council	2020 & 2021
44.	Mangwe Rural District Council	2020 & 2021
45.	Manyame Rural District Council	2021
46.	Matobo Rural District Council	2020 & 2021
47.	Mazowe Rural District Council	2020 & 2021
48.	Mberengwa Rural District Council	2021
49.	Mbire Rural District Council	2020 & 2021
50.	Mhondoro-Ngezi Rural District Council	2021
51.	Mudzi Rural District Council	2020 & 2021
52.	Mutare Rural District Council	2021
53.	Mutasa Rural District Council	2021
54.	Mutoko Rural District Council	2021
55.	Muzarabani Rural District Council	2021
56.	Mwenezi Rural District Council	2020 & 2021
57.	Nkayi Rural District Council	2021
58.	Nyaminyami Rural District Council	2019 - 2021
59.	Nyanga Rural District Council	2020 & 2021
60.	Pfura Rural District Council	2020 & 2021
61.	Rushinga Rural District Council	2021
62.	Sanyati Rural District Council	2020 & 2021
63.	Tongogara Rural District Council	2021
64.	Tsholotsho Rural District Council	2020 & 2021
65.	Umguza Rural District Council	2020 & 2021
66.	Vungu Rural District Council	2020 & 2021
67.	Zaka Rural District Council	2021
68.	Zibagwe Rural District Council	2020 & 2021
69.	Zvimba Rural District Council	2021