



**REPORT**

**of the**

**Auditor-General**

**for the**

**FINANCIAL YEAR ENDED DECEMBER 31, 2015**

**ON**

**LOCAL AUTHORITIES**

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*Presented to Parliament of Zimbabwe: 2016*

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**Office of the Auditor-General of Zimbabwe**  
5<sup>th</sup> Floor, Burroughs House  
48 George Silundika Avenue  
Harare, Zimbabwe

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

Dear Sir,

I hereby submit my report on the audit of Local Authorities in terms of Section 309(2) of the Constitution of Zimbabwe read together with Section 10(1) of the Audit Office Act [*Chapter 22:18*], for the year ended December 31, 2015.

Yours faithfully,

**M. CHIRI,**  
**AUDITOR-GENERAL**

June 15, 2016

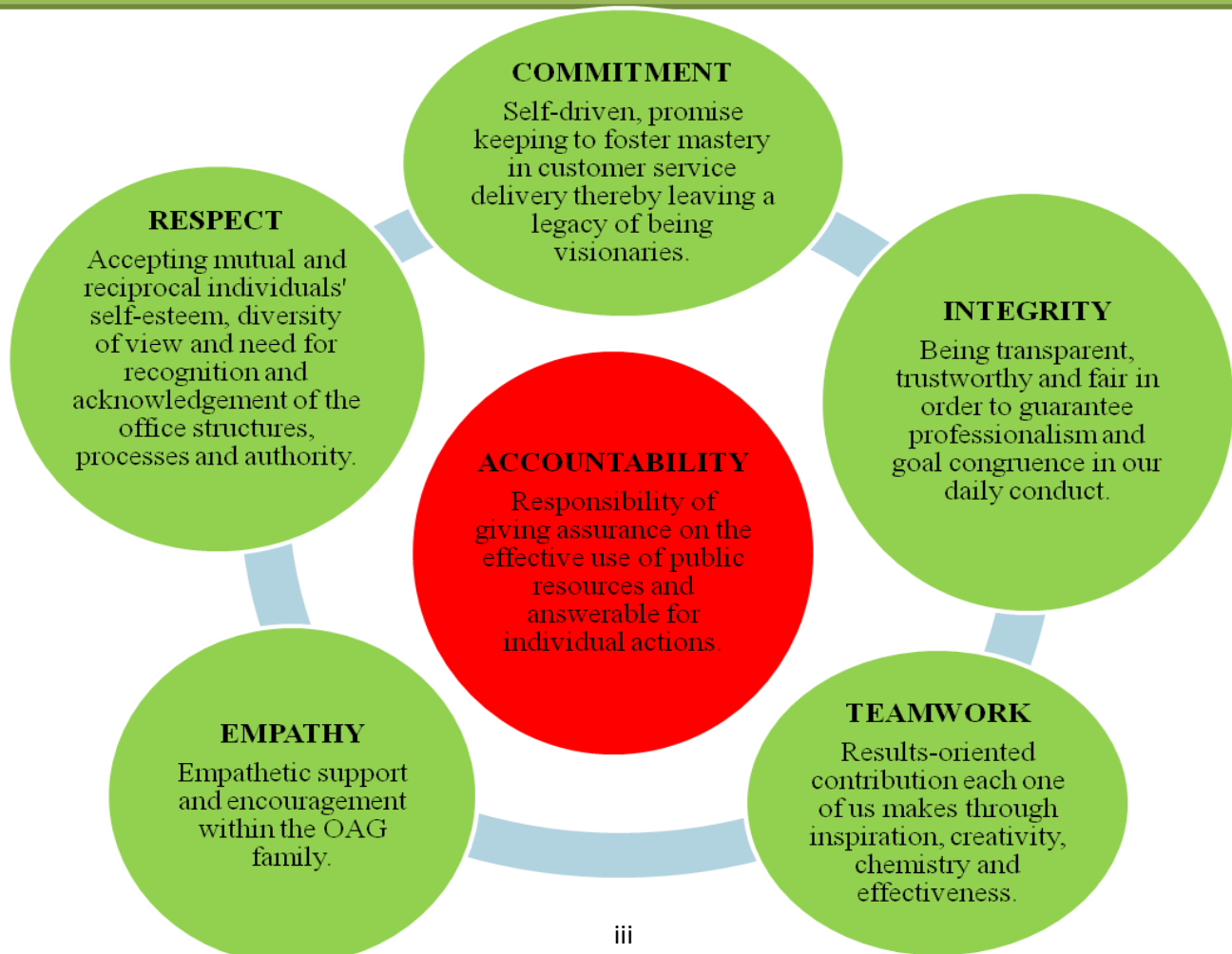


## OAG Vision

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.





## **LIST OF ACRONYMS**

1. BIQ- Business Intelligence Quotient
2. CEO- Chief Executive Officer
3. EMA- Environmental Management Agency
4. ERP-Enterprise Resource Planning
5. IFRS- International Financial Reporting Standards
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. PSIP- Public Sector Investment Programme
13. PSMAS- Premier Services Medical Aid Society
14. SDL- Standards Development Levy
15. SPB- State Procurement Board
16. UCPF- Urban Councils Pension Fund
17. UNICEF- United Nations Children Education Fund
18. VAT- Value Added Tax
19. WDC- Ward Development Committee
20. ZIMDEF- Zimbabwe Manpower Development Fund
21. ZIMRA- Zimbabwe Revenue Authority
22. ZINARA- Zimbabwe National Roads Agency
23. ZINWA- Zimbabwe National Water Authority

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## **EXECUTIVE SUMMARY**

### **Audit mandate**

My duties as set out in the Constitution of Zimbabwe and amplified in the Audit Office Act [*Chapter 22:18*] are, in addition to examining, auditing and reporting on accounts of all persons entrusted with public monies or state property, to audit all Provincial and Metropolitan Councils and all Local Authorities, and at the request of Government carry out special audits of the accounts of any statutory body or government- controlled entity.

While my Office is in the process of building capacity to address the new mandate of auditing local authorities, I have decided to report on the audit findings from audits carried out by various contracted audit firms.

### **Audit approach**

I conducted my audit in accordance with International Standards on Auditing (ISAs). Those 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 misstatements.

My audit approach was designed to enable me to express an opinion on the Local Authorities' activities, systems, procedures and internal controls in existence during the period under review.

All aspects of the Local Authorities' activities and procedures may not have been examined. I consider maintenance of adequate internal controls to be the responsibility of Council 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 audit 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 from material misstatement.

### **Financial reporting framework**

Local Authorities are responsible for the preparation and fair presentation of financial statements in accordance with Generally Accepted Accounting Practice (GAAP).



Local Authorities are applying either International Public Sector Accounting Standards (IPSAS) or International Financial Reporting Standards (IFRS) as the financial reporting framework. These frameworks are considered useful both for accountability and decision making purposes and to ensure consistency and comparability of financial statements. In addition, the Local Authorities are required to use Council Fund Accounting as required by the Urban Councils Act [*Chapter 29:15*] and Rural District Councils Act [*Chapter 29:13*].

The report outlines material audit findings noted during the audit of Local authorities. The audit findings are classified under governance issues, revenue collection, management and debt recovery, procurement of goods and services and employment costs. Also included under each audited account are possible risks/implications associated with the audit findings, audit recommendations, management responses in respect of the findings, audit comments to management responses where necessary. Generally some of the issues identified cut across the majority of the Local Authorities.

## **1. GOVERNANCE ISSUES**

The majority of Councils were not upto date with their audited financial statements, with some being as far behind as 2012 financial year. Annexures A and B refers.

The majority of Councils maintain multiple bank accounts and generally bank reconciliations were not upto date. In some instances these bank balances did not reconcile to the cash book balances resulting in unexplained variances. Some of these councils were; Harare City Council, Gweru City Council, Mutare City Council, Kariba Municipality, Victoria Falls Municipality, Beitbridge Town Council, Chiredzi Town Council, Karoi Town Council, Mvurwi Town Council, Norton Town Council, Mutare Town Council, Karoi Town Council, Ruwa Local Board, Kwekwe City Council, Marondera City Council and Matobo Rural District Council.

Harare City Council did not reconcile its cashbook overdrawn balance of \$ 208 430 777 as per financial statements to the bank overdraft balances of \$ 7 590 828 giving a significant variance of \$200 839 949.

Harare City Council suffered huge losses on fresh water supplies averaging 56%. Water supplied from Morton Jaffray plant totaled 163 497 365 cubic meters whilst the billed quantity was 71 640 400 cubic meters resulting in a loss of 91 856 965 cubic meters.

Instances were noted where some benefits were not being taxed. Some of these are Mutare City Council, Karoi Town Council, Zvishavane Rural District Council, Ruwa Local Board, and Marondera Rural District Council.

The Ministry of Local Government, Public Works and National Housing prescribed 30:70 as the ratio to which employment costs were supposed to be in comparison to total expenditure. A number of Local Authorities did not adhere to this prescribed ratio. These include Mutare City Council, Victoria Falls Municipality, Norton Town Council, Beitbridge Rural District Council, Chiredzi Rural District Council, Marondera Rural

District Council, Mberengwa Rural District Council, Mwenezi Rural District Council, Rushinga Rural District Council, Nyanga Rural District Council, Umguza Rural District Council, Lupane Local Board, Gutu Rural District Council, Matobo Rural District Council and Nkayi Rural District Council.

Most Local Authorities lagged behind in remitting withheld statutory deductions to the relevant authorities. These included Mutare City Council, Chegutu Municipality, Victoria Falls Municipality, Chiredzi Rural District Council, Rusape Town Council, Zvishavane Town Council, Chaminuka Rural District Council, Chipinge Rural District Council, Gokwe North Rural District Council, Mazowe Rural District Council, Murewa Rural District Council, Mutoko Rural District Council, Uzumba Maramba Pfungwe Rural District Council, Marondera City Council, Bindura Rural District Council and Matobo Rural District Council.

The valuation rolls for Gweru City Council and Kariba Municipality were not updated. As a result, rates which were being used were outdated or based on estimates. The properties not included in the valuation roll were not billed for owners' rates and supplementary charges.

Harare City Council had weaknesses in internal controls which resulted in significant variances between the system and financial statements. Cash and bank balances, receivables and property, plant and equipment had variances of \$317 254 823, \$114 237 875, and \$486 701 941 respectively.

Some revenue was being lost through inadequate/ lack of controls on sale of stands, lease agreements and shop licences. A number of councils were not creating debtors at the time the stands were sold. Outstanding balances could not be established because the Councils were only recognising the actual cash payments made for stands as sales. Furthermore, there were no reconciliations performed leading to variances between the housing department stand sales balances and the finance department stand sales balances. Some Councils had no lease agreements for their rented properties from which they were collecting rental income. Some Councils were not accounting for the properties they were leasing out.

I also noted that some Councils had no database for shops licences.

A number of Councils did not have adequate controls over inventory. Some could not reconcile stores ledger balances to physical stock count listings.

## **2. REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

There were inadequate controls over receipting of payments in respect of accounts receivables in a number of Councils. Most district offices in Harare are not networked to the data centre to allow for online real-time processing of receipts. Information of receipts collected from the district offices is being transferred on removable data storage devices, creating room for manipulation of the receipts on entry into the main accounting system.

Gweru City Council and Karoi Town Council were not maintaining records of Estates debtors and as such revenue accrued from the sale of stands on credit was not recognized in the financial statements. The Estates debtors' data bases were incomplete.

Chegutu did not maintain database for commercial and industrial stands.

### **3. PROCUREMENT OF GOODS AND SERVICES**

In some instances tender procedures were not followed.

### **CONCLUSION**

The audit findings warrant the attention of management and those charged with governance. The audit revealed that most of the weaknesses emanated from governance issues, revenue collection and debt recovery, employment cost and procurement of goods and services.

## DEFINITION OF TERMS USED

“**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) The 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.

# **CITY COUNCILS**

## **GWERU CITY COUNCIL 2013**

I have audited the financial statements of Gweru City Council for the year ended December 31, 2013. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Bank reconciliations**

##### **Finding**

Council did not prepare bank reconciliations for most of the bank accounts for the year 2013. Bank reconciliations are a key internal control tool in the management of cash and bank resources. In addition, bank reconciliations enable the Council to explain the inherent variances that exist between the cash book and bank statement.

The following is a list of accounts for which the bank reconciliations were not prepared:

<b>Bank Account</b>	<b>Cash book balance \$</b>	<b>Balance per bank statement \$</b>	<b>Variance \$</b>
Stanbic land sales	(556 597)	46 130.18	(602 727)
CBZ land sales	335 413	12 815	322 598
FBC land sales	276 151	117 443	158 710
PSIP-Kingdom	298 219	226 409	71 810

##### **FBC Revenue Accounts**

<b>Account</b>	<b>Cash Book balance \$</b>	<b>Bank statement balance \$</b>	<b>Variance \$</b>
Rates	(10 039 884)	(236 134)	(9 803 44)
Estates	(316 228)	720	(316 948)
Properties	2 516 301	896	2 515 405
Water	4 538 991	21 095	4 517 896
Housing	2 924 654	27 553	2 897 101
Welfare	134 789	1 285	133 504
Education	304 003	1 772	302 231

**Risk/ Implication**

Material errors and irregularities may go undetected.

**Recommendation**

Bank reconciliations should be prepared on a monthly basis and any differences investigated.

**Management response**

**Management is equally concerned about the status of the bank reconciliations. This is attributed to the shortage of manpower in the cashbook section with vacant posts for Senior Accountant, Accountant and Accounting Officer. Permission has since been granted for the recruitment of Senior Accountant and we also try to use students on attachment for smaller accounts.**

**1.2 Investment in Go Beer Breweries****Finding**

The City Council did not account for a subsidiary company in the financial statements for the year under review. Gweru City Council owned Go Beer Brewery (Private) Limited, a wholly owned subsidiary and as such the requirements of IPSAS 6 (Consolidated and Separate Financial Statements) should have been applied in the disclosure and presentation of the Council's consolidated financial statements.

In addition, the City Council did not prepare financial statements for Go Beer Brewery for the period under review.

**Risk/ Implication**

The Council financial statements were materially misstated.

Council failed to comply with the requirements of IPSAS 1, 6, 7 and 29.

Decision making on Go Beer Brewery related issues may be difficult in the absence of financial statements.

**Recommendation**

Council should account for the investment in Go Beer Brewery and also consolidate the operations of this subsidiary in line with the financial reporting framework.

## **Management response**

**Go Beer Breweries financial statements were not prepared and audited for the year under review.**

### **1.3 Inter-funds transactions**

#### **Finding**

The inter-funds disclosed in the financial statements could not reconcile. There was a balance of \$643 813 (inter-funds payable) that remained outstanding. I was unable to perform further work as there was no audit trail.

#### **Risk/ Implication**

Material errors and irregularities may go undetected.

#### **Recommendation**

The inter-fund transactions should be reconciled.

## **Management response**

**We acknowledge the non-eliminating inter-funds which are emanating from non-preparation of bank reconciliation. We are investigating the difference and it should be reconciled.**

### **1.4 Property, plant and equipment**

#### **Finding**

The property, plant and equipment balance disclosed in the financial statements of \$61 015 435 could not be reconciled to the supporting asset listing value of \$52 995 765 by \$8 019 670. The Council did not have an up-to-date register and was instead using an asset listing. The asset listing only contained the description of the asset and the corresponding value.

In addition, the Council did not provide for depreciation in accordance with the requirements of IPSAS 17. Consequently, I was unable to satisfy myself of the valuation of property and equipment.

#### **Risk/ Implication**

Council may not fully account for its assets.

Misstatement of property, plant and equipment values.



Misappropriation of assets.

### **Recommendation**

Council should investigate the discrepancies and update its fixed asset register.

Council should also make use of the PROMUN assets register module.

### **Management response**

**All effort is being made to activate the asset module in the PROMUN system.**

## **1.5 External loans**

### **Finding**

The Council's loans balance in the financial statements of \$5 652 239 could not be reconciled to the confirmed balance of \$6 666 748. The variance could not be traced to underlying records and management could not explain.

I was therefore unable to satisfy myself as to the completeness and accuracy of the loan balances.

Loan balances as per ledger against confirmed balances

<b>PSIP Loans</b>	<b>Balance per ledger \$</b>	<b>Confirmed Balance \$</b>	<b>Variance \$</b>
PSIP Loans	3 263 350	4 404 195	(1 140 845)
Kingdom	1 417 143	1 417 143	-
FBC	521 746	423 188	98 558
FBC	250 000	222 222	27 778
FBC	200 000	200 000	-
<b>Total</b>	<b>5 652 239</b>	<b>6 666 748</b>	<b>(1 014 509)</b>

### **Risk/ Implication**

The loan balances disclosed in financial statements may be misstated.

### **Recommendation**

Council should reconcile its loan ledger accounts to confirmed balances.

### **Management response**

**Council was allocated one million (\$1 000 000) dollars by the Ministry of Local Government and Council signed a memorandum of understanding with the**

**ministry on the above stated amount. However, only \$92 000 was disbursed by IDBZ on behalf of the ministry. We still await to receive the outstanding balance of \$908 000.**

## **1.6 Inventory**

### **Finding**

The Council could not reconcile the stores ledger balance of \$224 546 to the physical stock count listing of \$362 700, resulting in an imbalance of \$138 154. The Council could not establish the cause of the discrepancy and in that regard the financial statements have not been adjusted. I therefore could not verify the accuracy, completeness and valuation of inventory.

### **Risk/ Implication**

Council inventory may be misstated in the financial statements.

### **Recommendation**

Council should reconcile the stores ledger to stock listings used to prepare the financial statements.

### **Management response**

**Stores ledger in PROMUN had problems in 2013. The problem has since been rectified in the 2014 financial period.**

## **1.7 Valuation roll**

### **Finding**

The Council's valuation roll was updated in January 2009 and in June 2013. However, the 2013 valuation roll was not conclusive as some properties were still to be valued. The properties not included in the valuation roll were not billed for owners' rates and supplementary charges.

### **Risk/ Implication**

Loss of revenue arising from properties not being billed.

### **Recommendation**

Council should consider updating its valuation roll in order to maximise revenue by billing all properties.

## **Management response**

**We will engage the Ministry of Local Government, Public Works and National Housing for a general revaluation of the City. The funding has been provided for in the 2015 Council budget which is yet to be approved.**

### **1.8 Procedures manuals**

#### **Finding**

The procedure manuals for rent income and owners' rates and supplementary charges availed for audit were outdated as they were drafted in 1987 and 1988 respectively. They were never updated to reflect changes that have taken place over time. One key area relates to billing which used to be done twice a year but was now done monthly.

#### **Risk/ Implication**

Documented procedures may be at variance with current standard procedures which may prejudice the Council.

#### **Recommendation**

The operating procedure manuals should be updated to reflect current systems in place.

## **Management response**

**We will review the procedures manual and update them to align with the current operational systems.**

### **1.9 Related party disclosures**

#### **Finding**

Council had transactions with a local company belonging to one of the Councillors. These transactions were not disclosed in the financial statements as provided for in IPSAS 20.

The transactions for 2013 were as follows:

<b>Date</b>	<b>Details</b>	<b>Voucher number</b>	<b>Amount \$</b>
08 Aug 13	30t truck hire: cold premix tar Bulawayo-Gweru	130345	700
04 Jun 13	2x30t truck: cold premix tar Gweru-Harare-Gweru	130640	2 400
12 Jun 13	Medical Goods from UNICEF Harare – Gweru	1306110	700

10 Jul 13	2x30t truck: cold premix tar Gweru-Harare-Gweru	130750	2 400
25 Jul 13	30t truck hire: cold premix tar Harare-Gweru (Zinara)	130715	1 200
06 Aug 13	30t truck hire: cold premix tar Gweru-Harare-Gweru (Zinara)	130819	1 200
20 Dec 13	30t truck hire: cold premix tar Gweru-Harare-Gweru (Zinara)	13012174	1 200
	<b>Total</b>		<b>9 800</b>

### **Risk/ Implication**

Transactions may not have been conducted at arm's length.

### **Recommendation**

Council should disclose all related party transactions in the financial statements.

### **Management response**

**Your recommendation has been noted and Council will comply.**

## **1.10 Fuel management and supporting documents**

### **Finding**

An inspection of the fuel issue books revealed that fuel was at times issued in excess of the stipulated weekly allowances for management and Councillors. The excesses were claimed as "emergency trips". However, the claims for emergency trips did not have supporting documentation.

### **Risk/ Implication**

Management override of controls.

Irregular activities may go unnoticed.

### **Recommendation**

Council should follow laid down procedures on fuel allocations.

### **Management response**

**The Mayor and the Town Clerk have no fuel limit and other members of management can only withdraw above limit in the event that they are going out of town on official business. We will however devise a system to provide documentation for such withdrawals.**

## **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1 Estates debtors**

#### **Finding**

The Council was not maintaining a record of Estates debtors and as such, revenue accrued from the sale of stands on credit was not recognized in the financial statements. The Estates debtors' data base was incomplete, as such receipts were not being posted to the individual Estate debtor's account. As a result, the Council could not establish the amount owed by Estates debtors. Consequently I was unable to satisfy myself of the completeness, accuracy and valuation of Estates debtors.

#### **Risk/ Implication**

Financial loss as receivables may not be recovered in full.

#### **Recommendation**

The Council should maintain complete records on Estates debtors.

#### **Management response**

**Some purchase prices for stands sold were not raised in the respective ledger accounts and hence payments made against these stands could only be allocated into a temporary account called Estates Reserve. In addition there was no co-ordination between the finance and the housing departments. The issue is being addressed in the current accounting period.**

### **2.2 Water billing estimates**

#### **Finding**

Billing of water consumption for some of the properties in the City were based on estimates. Upon enquiry, I noted that the estimates had to be used as some meters were non-functional or faulty.

#### **Risk/ Implication**

Council may be under or overcharging consumers.

#### **Recommendation**

Council should ensure that faulty and non-functional water meters are replaced.

## **Management responses**

**It is true that where there are non-functional meters, the meter readers will use estimates. However, there has been joint effort with our development partners to replace non-functional meters and we hope the situation will greatly improve.**

### **3 EMPLOYMENT COSTS**

#### **3.1 Payroll benefits**

##### **Finding**

The Council's senior employees were being paid holiday and education allowances outside the payroll, as a result the allowances were not being taxed.

##### **Risk/ Implication**

Penalties and fines may be levied for non-compliance with the Income tax Act [*Chapter 23:06*].

Misstatement of tax obligations.

##### **Recommendation**

All allowances and benefits should be paid through the payroll.

##### **Management response**

**These benefits were also picked by ZIMRA during their audits and we await their report. However, beginning January 2014, the benefits have been processed through the payroll system and they now appear on the pay slips.**

#### **3.2 Employment costs to total expenditure ratio**

##### **Finding**

The Council's employment costs were 51% of the total expenditure which was above the stipulated ratio of 30:70.

##### **Risk/ Implication**

Service delivery may be compromised.

##### **Recommendation**

Council should consider working towards attaining the 30:70 ratio as stipulated by the Ministry.

### Management response

**There have been rampant employment over the years and now the workforce is bloated. We are trying to trim the workforce to meet the 70/30 ratio as required by the Ministry.**

### 3.3 Leave days

#### Finding

Council employees had accrued leave days beyond the stipulated ceiling set by both Council and in accordance with the Labour Act [*Chapter 28:01*] which stipulates a ceiling of (90) ninety days.

The following were instances noted during the audit.

Employee	Basic Salary \$	Annual Gross \$	Ceiling	No. of Days	Excess Days	Leave Pay
E1	910	10 920	93	115.40	22.40	4 989
E2	910	10 920	99	178.35	79.35	7 607
E3	964	11 568	117	224.66	107.66	10 131
E4	910	10 920	99	246	147	10 413
E5	1 084	13 008	111	328.67	217.67	16 501
E6	764	9 168	99	267	168	9 473
E7	1 084	13 008	117	244.25	127.25	12 358
E8	764	9 168	90	235	125	5 934
E9	1 291	15 492	90	192	102	8 885
E10	910	10 920	87	134.50	47.5	5 765
E11	1 291	15 492	90	389	299	23 123
E12	1 537	18 444	117	249	132	17 881
E13	764	9 168	99	265	166	9 392

#### Risk/ Implication

The Council creates a huge liability in the form of cash in lieu of leave days.

#### Recommendation

The Council should encourage employees to go on leave.

### Management response

**The majority of members on the list are members of Middle Management who have been accruing leave days over a long period of time. This has mainly been caused by shortage of staff resulting in pressure of work and consequently failure to proceed on leave. The financial challenges facing the entity has denied the same members the**

**chance to en-cash some of the leave days. The same observation appeared in your Management letter of 2012 which was taken to Council.**

**Council concurred that the liability has already been created and resolved that the excess leave days be set aside and will get paid when one leaves the organization. As for the current accruals members have been encouraged to proceed on leave.**



## HARARE CITY COUNCIL 2012

I have audited the financial statements of Harare City Council for the year ended December 31, 2012. The following are material issues that were noted during the audit.

### 1 GOVERNANCE ISSUES

#### 1.1 Water infrastructure versus population growth

##### Finding

The City of Harare has two main sources of water namely:

Lake Chivero (established in 1952); and

Lake Manyame (established in 1975).

The reservoirs being used at the Morton Jaffray and Prince Edward Waterworks which receive water from Lake Chivero and Lake Manyame have not been upgraded to cater for increases in demand since 1992. The capacity of the Waterworks at Morton Jaffray is 614 mega litres.

Furthermore, the 1 300mm diameter pipes that transport water from Pump house 3 at Morton Jaffray to Warren Control (feeding pumps 7 to 10) were commissioned in 1976 and have not been upgraded from then till this current period despite a significant growth in population.

Below is a table that demonstrates increase in the population receiving services from Harare Water:

<b>Harare</b>	<b>1992</b>	<b>2002</b>	<b>2012</b>
Harare Rural District	20 606	23 023	113 599
Harare Urban District	1 184 169	1 435 784	1 485 231
Chitungwiza District	274 035	323 260	356 840
Epworth District	-	114 067	167 462
<b>Total</b>	<b>1 478 810</b>	<b>1 896 134</b>	<b>2 123 132</b>
Population growth	0.00%	28.22%	11.97%
<i>Source: Central Statistics Office, Zimbabwe</i>			

##### Risk/ Implication

Water shortages for new developing areas in Harare such as Southlea Park and Zimre Park.

## **Recommendation**

The Council should consider increasing the capacity of Waterworks by building new waterworks plants to cater for increase in demand.

## **Management response**

**Management agrees with audit recommendations. The Harare population has grown phenomenally due to rural-urban migration. The Kunzwi dam project has been on the cards for a very long time and has been classified as a national (government) project. Council gets water/ abstraction rights from the Ministry of Water Resources and Development. Currently the construction plan is at a standstill and as a result the Council needs to partner with the government.**

## **1.2 Bank reconciliations**

### **Finding**

The financial statements presented by management showed an overdrawn position of \$208 430 777 as at 31 December 2012. A bank statement provided by the City of Harare showed an overdrawn position of \$7 141 678 as at 31 December 2012. In addition, the bank confirmed another overdraft of \$449 150 as at 31 December 2012 giving a total of \$7 590 828.

A comparison of the overdrawn position as per management's financial statements and the bank overdraft balances showed a significant variance of \$200 839 949.

### **Risk/ Implication**

Misstatement of cash and cash equivalents.

Fraud and error may go undetected.

### **Recommendation**

Management should ensure that overdraft balances reported in the financial statements are reconciled to the overdraft balances confirmed by the bank and sector accounts reflect the correct position of the cash and bank balances.

### **Management response**

**Reconciliation is currently being performed to isolate cashbook postings for payments which were not lodged with the bank. The overdraft relates to creditors purported to have been paid as a result of premature raising of journals prior to the actual payments.**

### 1.3 BIQ system modules

#### Finding

The BIQ system, used by Council, is an Enterprise Resource Planning system that has many modules. The system has been in use since June 2006. My review and enquiries revealed that some modules in BIQ were not fully developed. Furthermore, the modules that were developed were not being fully utilised.

Information which was not in BIQ system was being maintained on excel spreadsheets.

The following table shows the usage of the modules developed:

BIQ Module	Development status %	Usage %
People and entities	99	75
Property database	99	65
Services and loans	99	90
Receipting	99	99
General ledger	95	35
Budgets	99	45
Capital budget	99	50
Expenditure and stores	90	35
Assets	95	30
Vehicles	95	25
Cash flow	99	0
Costing	95	90
Salaries	99	90
Human Resources	95	30

#### Risk/Implication

Information kept in excel spreadsheets can be altered easily.

Reduced efficiency on data processing which adversely affects decision making.

#### Recommendation

Council should ensure that all the modules in BIQ are fully developed and put to use.

#### Management response

**The modules are fully developed, however the usage is low mainly because of lack of connectivity and inadequate hardware. The audit recommendation is noted, however the City is now going on line and hardware is being distributed to most of the users. As from the 27<sup>th</sup> October 2015 thirty (30) sites connectivity and hardware provision have been completed and the remaining sixty four (64) will be completed by 2016 year end.**

Percentage usage of the modules which is the true view of what is on the ground is given below:

Module	%Usage from	% Usage to
General ledger	35	95
Budgets	45	95
Capital Budgets	50	95
Expenditure and stores	35	60
Assets	30	55
Vehicles	25	85

#### 1.4 Accrual accounts

##### Finding

The Harare Water accrual accounts were being maintained in Microsoft Excel instead of the BIQ system used by Council. The BIQ system has a lumped up figure of the accrual balances and no individual ledgers were availed for audit.

##### Risk/Implication

Fraud and errors may go undetected.

Incorrect allocation of liability settlements.

##### Recommendation

Council should ensure that payables accrual accounts are created in the BIQ system to maintain control over supplier balances.

##### Management response

**The accruals are currently being posted in BIQ. Management will make efforts to create uniformity on all operations in Harare water with those in the Council. The accruals referred in the recommendation will be posted in the BIQ system by December 2015.**

#### 1.5 Accounting for interests in controlled entities and joint ventures

##### Finding

City of Harare wholly owns Harare Sunshine Holdings (Private) Limited and Rufaro Marketing (Private) Limited.

Harare Sunshine Holdings (Private) Limited is an investment company incorporated to undertake key non-core projects of the Council. This entity has a number of projects which it operates on a go-it-alone (GIA) or through joint ventures in which it contractually agreed to share control over the operating and economic activities of the joint venture companies/operations. Discussions with management revealed that the projects / companies for which joint ventures agreements have been signed under Harare Sunshine Holdings (Private) Limited are as follows:

<b>Company</b>	<b>Nature of relationship</b>	<b>Percentage holding in agreement</b>
Harare Sunshine Holdings (Private) Limited	Subsidiary	100%
Rufaro Marketing (Private) Limited	Subsidiary	100%
City Parking (Private) Limited	Subsidiary	100%
Easipark (Private) Limited	Joint Venture	60%
Mabvazuva Private Limited	Joint Venture	not specified
City Parking (Private) Limited	Joint Venture	not specified
Shawasha Business Complex	Joint Venture	not specified
Pearl City	Joint Venture	not specified
CC City	Joint Venture	not specified
Gulf Sunshine Bazaar	Joint Venture	not specified
Tariro / Hopely Business Complex	Joint Venture	not specified
Warren Hills Land Business Complex	Joint Venture	not specified
Warren Hills Housing	Joint Venture	not specified
Harare Sunshine Hospital	Joint Venture	not specified
Rufaro Stadium	Joint Venture	not specified
Harare Madokero (Civic Centre)	Joint Venture	not specified
Cleveland Resort	Joint Venture	not specified
Pomona Dumpsite	Joint Venture	not specified
Mbare Bus Termini and Markets	Joint Venture	not specified
Basic Parking Systems Limited	Joint Venture	not specified
Smart Park (Private) Limited	Joint Venture	not specified
Sunshine Meats	Joint Venture	not specified

My review of the Memorandum and Articles of Association of City Parking (Private) Limited and the joint venture agreements for Easipark (Private) Limited and Mabvazuva (Private) Limited revealed that the Council's shareholding in City Parking (Private) Limited, and the joint venture agreements for Easipark (Private) Limited and Mabvazuva (Private) Limited are in fact under City of Harare and not Harare Sunshine Holdings (Private) Limited.

The investments in the controlled entities were not included in the separate financial statements of City of Harare. The interests in Rufaro Marketing (Private) Limited, City Parking (Private) Limited and Harare Sunshine Holdings (Private) Limited and the interests in joint venture companies were not consolidated.

**Risk/ Implication**

Misstatement of financial statements.

Non-compliance with IPSAS 6.

**Recommendation**

The Council should consolidate all its subsidiaries.

**Management response**

**Management agrees with the audit recommendation. Management is currently soliciting for the financial reports of all controlled entities and joint ventures to facilitate the consolidation of financial statements.**

**1.6 Payment journals****Finding**

A review of the BIQ ERP system revealed that payment journals were being processed before the actual payment had been made. Purchases of goods and services were credited in the payables account and a debit was posted in the 'vote and item' account. Immediately after that, the cash control account was credited and a debit made to the trade payables accounts as if actual payment has been made at this stage.

Discussions with management revealed that the journal posted in the cash control account and trade payables was just an entry without actual payment done to the creditor(s).

**Risk/ Implication**

Misstatement of trade payables.

Fraud and errors may go undetected.

**Recommendation**

Management should ensure that a payment journal is only raised when actual payment to creditors is done and trade payables are maintained in BIQ ERP system.

**Management response**

**Management will ensure that a payment journal is raised only when the payment has been made and this will also be facilitated by the automation of the Supply Chain module in BIQ to allow online payments to suppliers.**

## **1.7 Segregation of duties when effecting entries in the BIQ**

### **Finding**

A review of the purchase cycle revealed that the Stores Accounts Clerk performs incompatible duties in the BIQ system.

The table below summarises the processes performed by the Stores Accounts Clerk in BIQ ERP System:

<b>Function/duty</b>	<b>Performed by</b>
Raising the stores requisition	Stores Accounts Clerk 1
Raising the purchase order	Stores Accounts Clerk 1
Capturing the invoice	Stores Accounts Clerk 1
Raising the Goods Received Note	Stores Accounts Clerk 1
Raising the combined order of cheques	Stores Accounts Clerk 1
Raising the payment journal	Stores Accounts Clerk 1

### **Risk/ Implication**

Fraud and errors may go undetected.

### **Recommendation**

Management should ensure that raising of stores requisitions, purchase orders, capturing of delivery notes (DN) and raising of goods received notes (GRN) are processed by the buying personnel into BIQ and no individual performs all the duties either in buying or accounting cycles.

### **Management response**

**The observation is noted. Management will revisit the designs and profiling in the BIQ to bring operational effectiveness.**

## **1.8 Variances between BIQ trail balance figures and the statement of financial position (SFP).**

### **Finding**

A comparison of balances obtained from the BIQ trial balance as at December 31, 2012 and balances per financial statements presented by management as at December 31, 2012 revealed significant variances. Most of the balances in the financial statements were not in the BIQ trial balance.

The table below summaries the variances between figures extracted from the BIQ trial balance and those on the statement of financial position:

<b>Details</b>	<b>Balances extracted from BIQ trial balance \$</b>	<b>Balances as per financial statements \$</b>	<b>Variance \$</b>
Cash and bank balance	326 930 851	9 676 028	317 254 823
Receivables from exchange transactions	(1 032 170)	113 205 705	(114 237 875)
Receivables from non-exchange transactions	-	77 905 595	(77 905 595)
Inventories	-	17 177 977	(17 177 977)
Property, plant and equipment	-	486 701 941	(486 701 941)
Trade and other payables from exchange transactions	-	(61 467 038)	61 467 038
Refundable deposits from consumers	-	( 256 464)	256 464
Provisions	-	(13 251 162)	13 251 162
Employee benefit obligations	-	(56 257 505)	56 257 505
Bank overdraft	(237 031 182)	(190 435 245)	(46 595 937)
VAT payable	-	(7 049 430)	7 049 430
Deferred income - business licenses	-	(4 725 377)	4 725 377
Long term loan	-	(2 721 708)	2 721 708
Deferred grant income	-	( 4 797)	4 797
Functional currency change reserve	-	(566 978 590)	566 978 590
Revenue Contribution to Capital Outlay	-	(5 568 224)	5 568 224
Deferred grants reserve	-	( 392 323)	392 323
Statutory funds	-	(1 099 877)	1 099 877
Accumulated deficits	-	205 540 494	(205 540 494)

Some transactions, for example, those related to property, plant and equipment, were being processed in excel, outside the BIQ system because the fixed asset module has not been fully operationalised.

### **Risk/ Implication**

Transactions processed in excel are susceptible to manipulation.

Misstatement of financial statements.

Fraud and errors may go undetected.

Failure by the Council to maximise benefits from the BIQ system.



## **Recommendation**

Management should ensure that all modules in BIQ system are fully operationalised to avoid processing transactions outside the system and compel the IT department to check proper configurations or linking of accounts within the BIQ system.

## **Management response**

**Management agrees with the audit recommendations. The BIQ will be developed to produce automated accounts including the trial balance by 2016. The service provider of BIQ will train staff in ICT to successfully develop the system.**

### **1.9 Inter- account debtors (Rufaro Marketing)**

#### **Finding**

Related party balances in respect of rentals were being accrued in the accounting records of Rufaro Marketing as being payable to City of Harare. However, the revenue and the corresponding related party receivables had not been accounted for in the books of City of Harare. The cumulative balance of \$39 873 as at 31 December 2009 had risen to \$151 663 as at 31 December 2012.

#### **Risk/ Implication**

Misstatement of financial statements

#### **Recommendation**

All transactions with related party companies should be properly recorded and disclosed in the financial statements.

#### **Management response**

**Management agrees with the audit recommendations and all related party receivables will be accounted for in the financial statements. Reconciliations will be carried out to determine the level of indebtedness and to enable appropriate adjustments to be effected.**

### **1.10 Accounting for donations received**

#### **Finding**

A review of the Council's board minutes for the year ended December 31, 2012 revealed that the Council received donations during the year.

No record of the donations was available in the Council's accounting records. The donations were not included in the Council's financial statements for the year ended December 31, 2012.

According to IPSAS 23 paragraph 95; "Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably".

The table below shows a list of donations received by the Council during the year ended December 31, 2012:

<b>Minutes date</b>	<b>Description of donation</b>	<b>Value of donation \$</b>
8/11/2012	Cash	50 000
8/11/2012	5 tonnes mealie meal	Not ascertained
8/11/2012	Books and clothing	5 000
8/11/2012	475 water pipes and 60 bins	27 484
8/11/2012	Councils ICT	500 000
8/11/2012	75% cost ambulance and water bowser.	Not ascertained
29/11/2012	Cash for library resuscitation	1 000 000
18/12/2012	5 tonnes mealie meal	Not ascertained
18/12/2012	Cash	5 000
24/01/2012	Cash	600 000

### **Risk/ Implication**

Misstatement of revenue and assets.

Misappropriation of donated assets.

### **Recommendation**

Management should ensure that donations are recorded in the Council's accounting records; revenue from donations and the related assets are recorded in the financial statements in line with IPSAS 23 (Revenue from non-exchange transactions) and a register of all donations made to the Council is maintained.

### **Management response**

**Management will comply with the audit recommendations. The lack of reporting was a result of insufficient information. According to the Councils Policy on Donations, all donations should be reported to the Council. All the assets without values will be assigned values and there will be improved accounting on donations.**

## **1.11 Water billing**

### **Finding**

My review of the consumers' statements and meter reading books revealed that some consumers were charged based on estimates. There were significant variances between units billed based on estimates and actual units for water consumed obtained from the meter reading books. Some estimates had significant variances which averaged 105 cubic litres per household.

Some of the estimated units charged were for non-functional meters where no actual meter readings could be obtained. Further review of the consumers' meter reading books revealed that there was no investigation and solution implemented for non-functional meters.

### **Risk/ Implication**

Over or under billing of consumers.

### **Recommendation**

The Council should ensure that metre readings are done periodically.

New meters should be installed for all customers with non-functional meters.

### **Management response**

**Consumers are billed on actual monthly consumptions basis; however estimates are used on malfunctioning meters. The estimates have been used when a reading cannot be obtained and when there is a malfunction meter. Malfunction meters constitute 60% of our total meters.**

**Not all meters function well in the City and estimates have to be done, however the estimates should be used on the basis of the historical average consumption of the property. Investigations of malfunctioned meters is performed separately and recorded for management to action on it.**

**We agree with the recommendations to install new meters to replace malfunctioned meters.**

**There is a programmed meter replacement program but in the meantime, a pilot project on smart meters, is underway and is scheduled for completion in the first quarter of 2016. An initial two thousand smart meters will be installed. This is because we have two types of water meters which are the metric and the imperial. The imperial is subject to conversion when billing.**

## **1.12 Accounting for leased properties**

### **Finding**

The Council owns properties which it leases out to various tenants. A review of the Council's accounting records and financial statements revealed that these properties had not been recorded and accounted for.

In addition, there was no valuation performed to determine the value of properties the Council was leasing.

Below is a table of some of the properties that were not accounted for in the financial statements:

<b>Rented property</b>	<b>Vote</b>
Mbare hostels	5113
Trafalgar court	5105
Dzivarasekwa houses	5134
Mufakose houses	5124
Mabvuku houses	5180
Glen Norah houses	5152
Tafara houses	5129
Highfield houses	5140
Glen View houses	5171
Kuwadzana houses	5157

### **Risk/ Implication**

Understatement of investment property balance.

### **Recommendation**

The fixed asset register should be updated to include rented property owned by the Council.

### **Management response**

**Management agrees with Audit findings. Council intends to engage independent professional valuer's in 2016 to carry out a comprehensive asset valuation exercise.**

### 1.13 Accounting for Council acquired land

#### Finding

Inquiries with management revealed that land owned by Council was not included in the financial records. There was no valuation performed to determine the value of land the Council lets out.

Below is a table of some of the property that was not accounted for in the financial statements:

<b>Township</b>	<b>Stand number</b>	<b>Proposed use</b>	<b>Size of stand (HA)</b>	<b>Number of stands</b>
Arcadia	3149A	Sports field	2.675	1
Ardbennie	1669 Ardbennie	Home industry	0.825	29
Ardbennie	1706 Ardbennie	Flats	0.91	1
Ardbennie	1/A/46 Ardbennie	Church and Crèche	1.7357	1
Ardbennie	Lot 1 of lot 46 Ardbennie	Offices and Training	2.7067	1
Athlone	298 Athlone 3 of 2A Green grove	Recreational	19.4527	1
	298 Athlone 3 of 2A Green grove	Recreational	10.4271	1
Adylinn	106 Adylinn T/ship	Reservoir site	3.2376	1
Borrowdale	72-73 Greystone	Open space	1.336	1
Mt Pleasant	144 Northwood	Church	6.2481	1
Prospect	109 Prospect	Service industry	2.5438	1

#### Risk/ Implication

Understatement of investment property balance.

Misstatement of financial statements.

#### Recommendation

The fixed asset register should be updated to include all land owned by the Council.

#### Management response

**Management have noted the audit recommendations. The fixed asset register will be updated progressively when valuations are being carried out and the exercise is expected to be completed by end of 2016.**

**Council is working flat out to update the land bank register and this will facilitate the recording of council assets.**

**A register of all land leased since 2009 will be updated to facilitate lease reviews by end of February 2016.**

#### **1.14 Fixed assets register**

##### **Finding**

There was no asset register from the time assets were revalued in February 2009. Information available in terms of asset listing was only in respect of additions from 2009 to the year under audit (2012).

##### **Risk/ Implication**

Misstatement of property, plant and equipment.

Misappropriation of assets may go undetected.

##### **Recommendation**

Property acquired before 2009 should be physically inspected for existence and condition, for impairment in order to build up an asset register.

The Council should have supporting documents for all their assets such as registration books for motor vehicles.

##### **Management response**

**The Asset register exists but is incomplete. An asset valuation exercise was conducted in two fronts, that is, by management and the Council insurers. A complete and comprehensive external valuation could not be done by independent valuers as a result of the funding constraints.**

**It is the Council's wish to engage professional valuers to undertake this exercise.**

#### **1.15 Lease agreements**

##### **Finding**

City of Harare owns residential properties that it lets through the housing department. A review of rental income revealed that City of Harare was receiving rental income from various tenants. Upon request for lease agreements, management revealed that there were no lease agreements between City of Harare and some of its tenants. In addition, some of the tenants had expired leases.

The table below shows examples of tenants that had no lease agreements and expired lease agreements:

Area	Stand Number	Monthly rental
		\$
Budiriro	11251	Not started
Mbare	2612D	20
Mbare	2612F	20
Mbare	2612A	20
Mbare	2612B	20
Mbare	72202	20
Mbare	72201	20
Budiriro	11155	400
Budiriro	11156	340
Budiriro	11157	300
Budiriro	11163	270
Budiriro	11164	250
Budiriro	11237	400

### **Risk/ Implication**

The Council may have no legal recourse in the event of disputes.

### **Recommendation**

Lease agreements should be drawn for all properties and in addition renewals should be done on time.

### **Management response**

**Management agrees with audit observations. However, Council has already started taking corrective measures and notably by October 28, 2015 about 90% of the leases had been up dated and the exercise will be complete by year end. The tenants have signed the new leases.**

**However, initially all leases had been converted to United States dollar values and tenants were being charged in US dollars although agreements were not concluded, hence the above action plan.**

## **1.16 Shareholders' agreement for Easipark**

### **Finding**

The joint venture agreement signed in 2009 between EasiHold (Private) Limited and City of Harare provides that a shareholders' agreement shall be prepared and signed by both

parties. My review and inquiries with management of the Council's joint arrangements revealed that the shareholders' agreement had not been signed.

The joint venture agreement does not provide the basis on which the shareholding comprising 60% City of Harare and 40% EasiHold (Private) Limited was determined. In addition, the Council's interests in Easipark (Private) Limited, the joint venture company between City of Harare and EasiHold (Private) Limited were not being accounted for in the financial statements. There is a pending legal case in the courts between City of Harare and EasiHold (Private) Limited.

### **Risk/ Implication**

Misstatement of financial statements since the Council's investment in Easipark (Private) Limited and the related share of any distributions or dividends, if any, were not accounted for.

Inadequacy of oversight by the Council on the operations of Easipark (Private) Limited since there is no shareholders' agreement which stipulates the rights and obligations of City of Harare in the Joint Venture company.

### **Recommendation**

Subject to the outcome of the pending court case, management should ensure that the shareholders' agreement for Easipark (Private) Limited has been concluded and signed to enhance the Council's supervision of the operations of the joint venture company.

The value of the Council's investment in Easipark (Private) Limited should be ascertained for inclusion in the financial statements of City of Harare.

### **Management response**

**Currently no signed Shareholders agreement is in place. The Town Clerk's office is handling the issue on behalf of Council.**

**The Easipark issue is under arbitration and the value of the investment can only be determined after the outcome of the award.**

## **1.17 Council schools donations**

### **Finding**

The assets donated by the Schools Development Committees (SDC) to the respective primary schools were not included in the Primary Schools fixed asset register and the general ledger.

The following table shows examples of donated assets which were not included in the fixed asset register and the general ledger:



<b>Name of school</b>	<b>Asset donated</b>	<b>Year acquired/donated</b>	<b>Asset Donor</b>
Kuwadzana 1	School bus (Nissan Civilian)	2010	SDC
	Generator	2012	SDC
	Grinder	2012	SDC
Kuwadzana 2	Bus AAE 7832 (Civilian)	2011	SDC
	Borehole	Not included	SDC
Kuwadzana 5	School bus	2012	SDC
Kuwadzana	School bus	Not included	SDC
	6 Printers	Not included	SDC
	3 Laptops	Not included	SDC
	54Desktop computer	Not included	SDC
Kuwadzana 9	Kombie (Nissan Caravan)	2012	SDC
	Riso	2012	SDC
	Desktop computer	2012	SDC
Hatcliffe	25 LCD Monitor,CPU	Not included	SDC
	Printer	Not included	SDC
	Generator	Not included	SDC
Budiriro 1	20Computers	Not included	SDC
Budiriro 4	Bus	2012	SDC
Warren park 4	Bus (Nissan Civilian)	2012	SDC
Glen view 7	Isuzu KB 280 (Truck)	2012	SDC
	Bus (Nissan Civillian)	2010	SDC
	Deep freezer	2012	SDC
Glenview 8	School bus (Nissan Civilian)	Not included	SDC

### **Risk/ Implication**

Understatement of fixed assets.

Asset stripping may go undetected.

### **Recommendation**

Donated assets should be recorded in the Councils books at their fair value.

The fixed asset register should be updated.

## **Management response**

**It is important to come out with a donation standard operating procedure. Management will ascertain the values and all relevant information of all donations and improve their future accounting including asset register up dates.**

## **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1 Water unit variance**

#### **Finding**

Production records at Morton Jaffray showed that the amount of water supplied during the year ended 31 December 2012 was 163 497 365 cubic metres. Records from the billing section at Rowan Martin showed that the amount of water billed during the year ended 31 December 2012 was 71 640 400 cubic metres. A review of the two sets of figures shows that there was water loss of 91 856 965 cubic metres; representing 56% of water supplied from Morton Jaffray.

#### **Risk/ Implication**

Loss of potential revenue.

Wastage of chemicals used in treating water / failure to recover costs.

#### **Recommendation**

Management should investigate causes of water losses and take corrective action to contain the losses.

#### **Management response**

**We agree with the observations. Pumps at Warren Control Pump station are being replaced. Burst pipes are a recurring problem and these pipes are being repaired under the Revenue Budget's repairs and Maintenance vote at an estimated budgeted figure of \$9.5 million. This project will be completed end of 2017.**

## **3 PROGRESS IN IMPLEMENTATION OF PRIOR YEAR ISSUES**

I reviewed the progress made towards the implementation of prior year recommendations and found that there was room for improvement in respect of the following recommendations;

### **3.1 Transfer of information between the District offices and the City Treasurer's office**

#### **Finding**

Information submitted by the District Offices through discs are open to manipulation between the District Office and the City Treasurer's office. Furthermore, the discs were not encrypted with passwords thus making it easy for anyone to view and/or edit the information on the discs.

#### **Risk/Implication**

Creates room for fraud.

Financial loss due to unauthorised deletion.

#### **Recommendation**

Management should ensure that the means used to transfer information between the District offices and the City Treasurer's office is secure i.e the discs should be encrypted with passwords.

#### **Management comments**

**Admittedly the installation of WAN would provide a permanent solution to the transfer of information in a secure, effective and efficient manner. This project has been on hold due to scarcity of resources. Currently file updates on the BIQ system is done through flash discs which are encrypted to avoid unauthorised editing.**

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

### **3.2 Revenue is potentially materially understated**

#### **Finding**

I noted that there is room for the employees at the billing side to create fake receipts that can be used to receipt customers when they come to settle their monthly bills.

#### **Risk/Implication**

There are significant opportunities for the creation of fictitious receipts which might lead to significant financial loss to the Council.

Cash from the fake receipts can be converted to personnel use.

Understatement of revenue.

### **Recommendation**

Management should ensure that proper controls are established when receipting customers. The City Treasurer should have a digital tool that detects all malpractices before time runs out.

### **Management response**

**The receipting system has been upgraded to reduce loopholes that existed before by the introduction of pre-printed stationery with security features in place.**

## **3.3 Receipts created outside the official receipting system**

### **Finding**

Two anonymous computers were being used to bill customers each month. The IT Department at City of Harare failed to detect the computers that were being used to generate these bills.

Therefore there is room for the employees to create fake receipts that can be used to receipt customers when they settle their monthly bills.

### **Risk/Implication**

Financial loss due to fraudulent issuing of receipt.

### **Recommendation**

Billing should be carried out from specific identifiable computers by authorised personnel only.

The Treasurer should perform ad-hoc visits to City banking halls from time to time and also make use of digital forensic tools to detect fraudulent activities.

The City Treasurer should consider utilising CCTV even though these do not detect digital fraud, but assist to some extent in monitoring activities.

### **Management response**

**A system has been put in place to monitor the number of receipting machines on a daily basis and a register of pre-printed receipts with security features introduced.**

**Council has installed CCTV cameras in the Rowan Martin Building banking Hall and Basement area in July and August 2015 respectively. In 2016 Council has budgeted to improve CCTV cameras in the banking hall to show the cash transactions between consumers and cashiers.**

## **KWEKWE CITY COUNCIL 2013**

I have audited the financial statements of Kwekwe City Council for the year ended December 31, 2013. The following are material issues that were noted during the audit.

### **1. GOVERNANCE ISSUES**

#### **1.1. Land and Infrastructure**

##### **Finding**

The Council's land in Sable Park with an area of 44.56 hectares, Mimosa farms with an area of 515 361 hectares, Sewer farm with an area of 55.74 hectares, serviced stands and plots, road network with a length of 264 kilometers, underground water reticulation system with an estimated length of 125 kilometers and sewer reticulation system with an estimated length of 88 kilometers have not been recognized in the financial statements. The assets of the Council disclosed in the financial statements are understated by the value of these assets.

##### **Risk/ Implication**

Asset balances may be misstated.

##### **Recommendation**

The Council should value and recognize these assets in the financial statements.

##### **Management response**

**Funds permitting we will comply.**

#### **1.2. Survey fees**

##### **Finding**

During the year under review, survey fees and servicing costs for 154 stands amounting to \$199 598 were capitalized as additions to property, plant and equipment. However, the land which was surveyed and serviced was not recognized in the financial statements. This resulted in partial recognition of the asset through the creation of an asset account described as Stand survey fees.

##### **Risk/ Implication**

Misstatement of asset values.

### **Recommendation**

The Council should account for the stands in its financial statements.

### **Management response**

**The inventory value can be disclosed in accordance to IPSAS 12 if the record of such stands is well maintained and the value can be measured reliably. This is a process which Council is currently undergoing by having a database of all such stands. This is work in progress.**

**The major setback that we have is that our General Plans are yet to be approved by the Provincial Planning Officer in the department of Physical Planning. Only then can we have the inventory of stands in our statement of financial position.**

**Once the surveyed stands have been passed by physical planning and Surveyor General we will incorporate them in our financial statements. However, this does not prevent us from recognizing the survey fees in our accounts in the meantime.**

## **1.3. Bank reconciliations**

### **Finding**

The Council's bank reconciliation statements had an unexplained reconciling figure of \$2 569 043 which could not be traced to any underlying transactions.

### **Risk/ Implication**

Unreconciled balances may be used to conceal irregular activities.

### **Recommendation**

The Council should investigate and clear the reconciling item.

### **Management response**

**We have since implemented this.**

## MUTARE CITY COUNCIL 2013

I have audited the financial statements of Mutare City Council for the year ended December 31, 2013. The following are material issues that were noted during the audit.

### 1 GOVERNANCE ISSUES

#### 1.1 Bank balances

##### Finding

Bank reconciliation statements were not prepared timely. There were un-reconciled items on the bank reconciliation statement in the form of outstanding deposits of \$3 281 846 and untraced debits/ unsupported withdrawals of \$44 284. Council could not avail for audit supporting documents in relation to the disbursement of these withdrawn amounts.

In addition, direct deposits were not being receipted. The table below shows reconciling items in the form of deposits not receipted:

Account Name	Amount \$
FBC Main account	73 168
Kingdom Water	439 298
ZB Stands	520 323
CBZ Roads	74 073
FBC Salaries	239 901
Kingdom Estates	25 933
CBZ Loan Account	742 500
Kingdom Old salaries	688 354
CBZ Main	477 947
Kingdom Projects	350
<b>Totals</b>	<b>3 281 846</b>

The table below shows unsupported withdrawals / untraced reconciling items:

Bank	Month	Amount \$
KINGDOM	15 Sept 2012	2 716
KINGDOM	March 2013	17 349
KINGDOM	May 2013	15 803
KINGDOM	August 2013	2 539
CBZ	February 2013	2 002
CBZ	April 2013	815
CBZ	May 2013	2 840
CBZ	June 2013	220
<b>Total</b>		<b>44 284</b>



**Risk/ Implication**

Errors and omissions may go undetected.

Council may suffer financial loss through fraudulent activities.

**Recommendation**

Bank reconciliations should be performed monthly.

Council should investigate and clear all un- reconciled items.

Supporting documents to all withdrawals made should be availed for audit and all direct deposits should be traced and receipted.

**Management response**

**It is true that there were some debits which could not be traced at the time of audit. The delays in noting such debits were largely due to bank reconciliation statements that were lagging behind, a situation that has greatly improved. Some of the debits were endorsed on the respective payment vouchers of which the debits relate to. However, investigations are underway to establish whether there was any malice on officers who did not record fully the necessary transactions and auditors will be advised before end of August 2015.**

**Outstanding deposits were remaining as such because the department would not have been given documents pertaining to such deposits to facilitate receipting of the same. Increased efforts are now being done to clear all outstanding deposits. The department has already commenced reconciling daily receipts to the following day's deposits so as to detect any anomalies in actual deposits to amounts collected. The cashbook differences on the CBZ accounts are emanating from the differences on the take-on balance of 2012 as a result of mis-postings after period end. The take-on balances have thus been adjusted.**

**The Kingdom Bank account imbalance is as a result of the commitment figure of \$644.00 for the 2012 added to the already existing balance of \$166.07 as at 2012 which was omitted on working papers for 2012. The commitment figure is not part of the cashbook balances and should be excluded when determining the actual balance.**

## **1.2 Bank overdraft facility**

### **Finding**

The Council had a bank overdraft facility with FBC bank of \$4 162 154 as at December 31, 2013. This source of finance was expensive as the Council paid \$1 215 349 as interest and service charges during the period under review. Revenue collected was being consumed by the interest and service charges resulting in failure to pay short term obligations.

### **Risk/ Implication**

High interest charges may worsen the liquidity of the Council.

### **Recommendation**

Council should consider other cheaper sources of funding to finance short term operations.

### **Management response**

**The audit observation is correct. Financing operations with an overdraft of that magnitude has increased Council's accumulated deficit and is unsustainable given the fact that salaries are in arrears. At the moment emphasis has been placed on intensifying debt collection in order to reduce the overdraft so as to finance operations with own revenues.**

## **1.3 Inventory management**

### **Finding**

I could not confirm the accuracy and completeness of the inventory balance written off during the year amounting to \$2 160 691. The amount was not substantiated and I was not availed with sufficient information necessary to validate the write-off.

### **Risk/ Implication**

Unsupported stock write offs may be used to conceal misappropriation.

### **Recommendation**

Inventory write-offs should be adequately supported.

The Council should ensure that the stores ledger is reconciled with physical stock count records to ensure that inventory is disclosed accurately in the financial statements.

## **Management response**

**It is true that at 31 December 2013 there was a variance of \$2 160 691 between the stock listing and financial statements. Such variance is attributed to issues that were made from the stores and not posted to the system. Furthermore, there were purchases using the stores vote but were supplied direct to the user department.**

### **1.4 Mutare City Council Medical Aid Society**

#### **Finding**

The Council established Mutare City Council Medical Aid Society (MCMAS) in the year 2013. This medical aid was meant to cover all Council employees and their immediate family. I however noted that the medical aid society was not registered, it did not have a separate bank account and there were no guidelines on maximum benefits a member may claim. In addition, the society did not have an administration officer.

#### **Risk/ Implication**

Financial loss due to unlimited claim by individuals.

Reputation risk due to the failure to efficiently run the medical aid society.

#### **Recommendation**

Council should ensure that the Medical Aid is registered, it has a separate bank account and it has an Administration officer.

The Council should come up with guidelines on the upper limits of claims.

## **Management response**

**The audit observation is correct. The medical aid fund was formed as an alternative to PSMAS whose tariffs had become unsustainable to council. The council's medical aid fund is still in its infancy and yet to be registered. A bank account has already been opened and contributions will be deposited with the account effective January 2015.**

### **1.5 Taxation of management benefits**

#### **Finding**

Benefits and allowances awarded to the Council's management were not subjected to PAYE in contravention of the Income Tax Act [*Chapter 23:06*]section 8(1). The table

below shows the monthly benefits and allowances awarded to management that were not subjected to PAYE during the period under review;

<b>Position</b>	<b>Housing \$</b>	<b>Electricit y \$</b>	<b>Cell phone \$</b>	<b>School fees per year \$</b>
Town Clerk	Market rental of council house	192	292	26 344
City Engineer	500	120	152	11 793
Finance Director	Market rental of council house	120	122	18 074
Director of Housing	500	120	335	R69 800
Chief Planning Officer	500	120	228	R124 600
Chief Hygiene Officer	500	120	392	R106 959
Human Resources manager	650	120	135	11 058
Acting Chamber Secretary	600	120	179	17 912 (Excluding 2 <sup>nd</sup> term fees)
Chief Security Officer	650	120	112	-
Senior Planning Officer	500	120	114	-

### **Risk/ Implication**

Financial loss due to penalties and interest that may be charged to the Council for failure to deduct and remit tax on taxable benefits and allowances.

### **Recommendation**

The Council should deduct and remit the tax on taxable benefits and allowances in line with the provisions of the Income Tax Act [*Chapter 23:06*].

### **Management response**

**It is true that for the period under review the benefits in question were not being taxed. The issue had already been discussed with ZIMRA whereat they agreed for Council to pay the tax component only and deduct the amounts from respective**

employees. ZIMRA agreed to forgo the penalty after having considered Council's financial position. Council commenced taxing the benefits in April 2014.

## **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1 Sale of stands**

#### **Finding**

The Council was not creating debtors at the time the stands were sold. Debtors' accounts were only created when the beneficiaries made payments towards these stands. It was impractical to extend my examination beyond the receipts actually recorded. The misstatement could not be quantified as payments made could not be matched to their respective periods.

#### **Risk/ Implication**

Financial loss as audit trail of the debt of those beneficiaries not created may be lost.

#### **Recommendation**

Debts should be created once a stand has been allocated to a beneficiary.

#### **Management response**

**Your observation is correct. Correctional measures have been put in place to rectify the anomaly. Council has set up a sub-committee to look into the issue in 2013 in a view to regularise all stands that were not capitalised.**

**The sub-committee tasked the Accounting Assistant to capitalise all negative accounts area by area and this is work in progress. The remaining negative accounts are as a result of delays from other relevant departments in furnishing the Treasury department with all the applicable information relating to land sales.**

### **2.2 Faulty water meters**

#### **Finding**

A total of 7 575 water meters were non-functional and billing was based on estimates with some properties being levied fixed charges for water consumption. There was no program in place to replace them. This was contrary to the Ministerial directive contained in Circular CX 1/54 dated 31 May 2010 which stated that "1( All Councils should be providing actual meter readings as a basis for billing and actual meter readings should be undertaken at least once a quarter. 2) Councils should undertake a programme to repair/replace meters to

ensure the concept of ‘user pays’ principle is operationalised to its fullest extent”. The distribution of the non-functioning meters was as follows:

<b>Area</b>	<b>Number of faulty meters</b>
Town Area	1 743
Dangamvura	2 778
Chikanga	1 739
Sakubva	1 315
<b>Total</b>	<b>7 575</b>

### **Risk/ Implication**

Financial loss as a result of undercharging for water consumption.  
Reputation risk due to overcharging rate payers.

### **Recommendation**

The Council should replace faulty meters as this will enable the billing of actual consumption.

### **Management response**

**It is true there are substantial water meters within Mutare which are not functional. Water consumption to respective premises is being charged based on estimates. Hence Council could be losing potential revenue where the estimates are lower than actual consumption. The replacement of such water meters has not taken place due to financial constraints. However, Council is in the process of reviewing water by- laws so that the responsibility of having functional meters is borne by the consumers.**

## **3 EMPLOYMENT COSTS**

### **3.1 Employment costs and budgetary control**

#### **Finding**

The City Council was failing to comply with the required 30:70 employment costs to total expenditure ratio. An amount of \$4 959 829 meant for employment costs in the Council’s 2013 annual budget was included under the heading “Repairs and maintenance” in order to meet the required ratio for budget approval purposes. After budget approval this amount was later on re directed and expensed as employment costs.

## **Risk/ Implication**

Informed decision may be difficult to make with information misrepresented.

## **Recommendation**

The Council should seek approval for the virement of the \$4 959 829 that was approved for repairs and maintenance but used for employment cost.

## **Management response**

**The audit observation is correct**

**The salary threshold ratio of 30:70 as prescribed by the Ministry of Local Government, Public Works and National Housing is still an issue of debate between local authorities and the Ministry. Questions continue to be raised as to what constitutes employment costs and what constitutes service delivery. A good example would be salaries paid to workers in the refuse removal section whose work is purely service delivery. Alternatively if such services are contracted out, the corresponding costs would be classified under service delivery.**

**The Ministry further complicates the issue by always insisting on budgets conforming to the 30:70 ratio, a situation which is impractical on the ground. For the 2012 financial year, City of Mutare's employment costs constituted approximately 77% of the budgets. For 2013, the Ministry wanted this ratio to be reduced to 30%. In all fairness, this is an unattainable feat given the scarcity of resources. To make matters worse the Ministry did not even want to approve the budget unless it complied with that ratio. In most cases most local authorities were either overstating their revenue projections or understating expenditure especially salaries in order to have their budgets approved. For City of Mutare, salaries for employees directly linked to service delivery were reported under service delivery for the respective cost centres.**

**Through the Finance Directors' Forum, engagements with Ministry officials continued in respect to this threshold ratio and the way budgets were being compiled. A breakthrough was finally made towards the end of 2013 whereat Finance Directors agreed with Ministry officials that budgets should reflect the prevailing situations and be accompanied with say 4 or 5 year strategic plans of how Councils would work towards complying with the 30:70 ratio. It will also be noted that from 2014 onwards the budgets have now become more realistic and focus is now on attainment of the ratio.**

### 3.2 Acquittal of travel and subsistence allowances

#### Finding

The Council could not avail supporting documentary evidence for acquittals of travel and subsistence allowance advances amounting to \$13 617 given to the City's Town Clerk in various months of the 2013 financial year.

The table below shows a list of Travel and Subsistence Allowances not acquitted;

Voucher number	Date	Amount \$
25508	31/05/13	1 100
26301	16/12/13	829
26297	16/12/13	875
61089	14/03/13	3 040
25539	15/07/13	1 054
25514	6/6/2013	2 723
25393	16/04/13	2 823
25390	11/4/2013	1 173
<b>Total</b>		<b>13 617</b>

#### Risk/ Implication

Council funds may be misappropriated.

#### Recommendation

Council should ensure that all T&S claims are done according to the Council policies and regulations and avoid overriding of internal controls by Council management.

#### Management response

**Your observation on travelling and subsistence allowance has been noted. However it should be noted that in terms of those allowances are costs related to accommodation and meals and tollgate fees. Hence other payments such as per diem allowance and mileage cannot be acquitted.**

The following information best clarifies the issue:

Voucher number	Date	Total paid \$	Accommodation and meals \$
25508	31/05/13	1 100	440
26301	16/12/13	829	248



<b>Voucher number</b>	<b>Date</b>	<b>Total paid \$</b>	<b>Accommodation and meals \$</b>
26297	16/12/13	875	462
61089	14/03/13	3 040	934
25390	11/04/13	1 173	680
<b>Total</b>		<b>7 016</b>	<b>2 764</b>

**Voucher number 25539 dated 15 July 2013 was for payment per diem and mileage only. Accommodation and meals were catered for by the donor who hosted the workshop that was attended. Voucher number 25514 was paid on unproven basis hence there was no need for acquittal. The non-acquittals listed do not in any way imply non-attendance to workshops or meetings that were being travelled for. Oversights could have been made in collecting hotel receipts when checking out a situation that is already being addressed.**

# **MUNICIPAL COUNCILS**

## **CHEGUTU MUNICIPALITY 2013**

I have audited the financial statements of Chegutu Municipality for the year ended December 31, 2013. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Loan**

##### **Finding**

In the year 2012, the Council received loan disbursements amounting to \$1 550 000 from the Infrastructural Development Bank of Zimbabwe towards the funding of the water treatment plant. According to the loan agreement section 3 (3.5), the Council failed to create a sinking fund for the purpose of loan repayment when it falls due. At the time of audit the Council had not yet started paying its installments.

##### **Risk/ Implication**

Financial loss due to litigation, interest and penalty charges.

##### **Recommendation**

Council should consider servicing its loan with IDBZ or negotiate with the lender for loan rollover relief to avoid incurring interests and penalties.

##### **Management response**

**We have not been able to honor our loan repayment installment due to cash flow problems.**

#### **1.2 Remittance of statutory deductions**

##### **Finding**

Statutory deductions were not being remitted. The amounts had accumulated to \$883 473 (ZIMRA \$746 679, ZIMDEF \$48 707 and NSSA \$88 087) as at December 31, 2013.

In addition, the Municipality owed an amount of \$438 960 to Local Authorities Pension Fund (LAPF).

##### **Risk/ Implication**

Council may be penalized as well as charged interest.

Council employees may fail to access services.

### **Recommendation**

Statutory deductions should be remitted timely and Council should arrange payment plans.

### **Management response**

**We are still having cash flow problems although we are making efforts to reduce such liabilities on a monthly basis according to our payment plans.**

## **1.3 Donated assets**

### **Finding**

The Council received donated assets but did not record them in the asset register and their values were not included in the financial statements. The property, plant and equipment balance was misstated due to the exclusion of donated assets in the financial statements. The misstatement could not be quantified due to the absence of adequate information such as the assets value. Below are donated assets which were not included in the Council's asset register:

<b>Location</b>	<b>Description</b>
Clifton Dam Pump Station	1 handling equipment (1,5 Ton)
Mupfuri River Pump Station	1 new submersible pump 2 new control panels (pumps No 1 and 3)
Chegutu Water Treatment Works	1 new dosing pumps and PVC piping 3 new pump set (No 1, 2 and 3) 1 new electric portable submersible pump
Tapstand Installation in Hintonville	1 submersible dewatering pump 1 generator 4,5 KVA

### **Risk/ Implication**

The fixed assets balance disclosed in the financial statements may be understated due to the non-valuation of donated assets.

### **Recommendation**

Council should value and account for all donated assets when compiling the financial statements.

### **Management response**

**Assets have since been included in the asset register. However, values cannot be ascertained because donors did not give us a break down of the values of the equipment donated.**

## **1.4 Inter-funds transactions**

### **Finding**

The Council was not maintaining ledger accounts for inter-fund transactions. As a result, the inter-fund balances disclosed in the financial statements could not reconcile by a debit balance of \$2 339 185 which could not be explained by the Council. I was unable to trace the movements of this account in the absence of ledger accounts.

### **Risk/ Implication**

Material errors and irregularities may go undetected.

### **Recommendation**

The Council on reconciliation should eliminate inter-fund balances.

### **Management response**

**This was a result of opening balances which were not corresponding from previous years however Council will write off these inter-funds in 2014.**

## **1.5 Suspense account**

### **Finding**

A suspense account balance of \$19 046 was written off without establishing the cause for the imbalance. A suspense account is a temporary account for imbalances which are subject for investigation and subsequent clearance. There was no satisfactory explanation and supporting documentation of the write off. Due to the absence of an audit trail, I was unable to perform any further work.

### **Risk/ Implication**

Material errors and irregularities may go undetected.

Fraud may be perpetrated through suspense account write offs.

### **Recommendation**

The Council should investigate and clear all suspense accounts.

### **Management response**

**We do acknowledge that in 2012 beer fund record keeping was very poor and some transactions were omitted from the financial records not necessarily that there was misappropriation of funds.**

## **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1 Accounts Receivables**

#### **Finding**

There was no database maintained for commercial and industrial stands and I could not ascertain and verify the accuracy and completeness of receivables.

#### **Risk/ Implication**

Revenue projections may be distorted and debtors balance misstated.

#### **Recommendation**

A data base of commercial and industrial stands should be maintained.

#### **Management response**

**This has since been corrected in 2014 and all the listed stands which were under this item are now sold.**

### **2.2 Direct deposits**

#### **Finding**

A total of \$542 510 was deposited directly into the bank accounts of the Council and was not subsequently receipted. Included were some direct deposits which could not be traced to the customer as they lacked customer details. However, these amounts were expended without establishing the depositors and receipting the respective amounts.

From an examination of the bank statements from January to December 31, 2013 below are the significant amounts that were not receipted.

<b>Account</b>	<b>2011 \$</b>	<b>2012 \$</b>	<b>2013 \$</b>	<b>Total \$</b>
Rates- Stanbic	173 231	79 046	34 372	286 650
Salaries 1- ZABG	68 289	13 000	-	81 289
Rates- Agribank	-	1 531	84 335	85 866
Water- CBZ	-	-	285	285
Estate- Agribank	-	1 246	87 174	88 420
<b>Total</b>	<b>241 520</b>	<b>94 823</b>	<b>206 166</b>	<b>542 510</b>

### **Risk/ Implication**

Cash flow forecasts may not be accurate.

Reputation risk due to lack of communication between the Council and rate payers.

### **Recommendation**

The Council should redesign their deposit forms to enable customers to deposit and provide the necessary details to enable the Council to timely credit the customer accounts.

The Council should investigate with a view of establishing the depositors and adjust the ledgers accordingly.

### **Management response**

**Most of these direct deposits were identified and receipted in 2015.**

## **3 EMPLOYMENT COSTS**

### **3.1 Salaries and wages**

#### **Finding**

There was an unexplained variance of \$166 729 between the payroll and the financial statements and neither was it adjusted for.

#### **Risk/ Implication**

Errors and irregularities may go undetected.

#### **Recommendation**

The Council should investigate the variance and reconcile payroll summaries to the financial statements.

**Management response**

**Council is going to establish the causes for the variance and take corrective measures.**



## **KARIBA MUNICIPALITY 2014**

I have audited the financial statements of Kariba Municipality for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Valuation roll**

##### **Finding**

The Council did not have an updated valuation roll as required by the Urban Councils Act [*Chapter 29:15*] section 253(a)-(f). The purpose of the valuation roll is to assist in the determination of rates. Council last updated its valuation roll in 2006, and it is no longer compatible with the current economic environment following the multi-currency adoption.

##### **Risk/ Implication**

Financial losses as the rates are collected on the basis of an outdated valuation roll.

##### **Recommendation**

Council should consider updating the existing valuation roll and use it when billing its ratable properties.

##### **Management response**

**Council has since engaged property valuers from Ministry of Local Government, Public Works and National Housing to come up with an updated valuation roll.**

### **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

#### **2.1 Receivables**

##### **Finding**

I was unable to confirm the accuracy, completeness and validity of prior year receivables written off totaling \$1 103 543. Council could not provide documentation that supports the write off.

The Council's debtors were not aged. In addition, recoverability of receivables was doubtful. Tests for subsequent payments indicated that the majority of the debtors were not honoring their debts, yet the Council did not provide for doubtful debts.

**Risk/ Implication**

Receivables may be overstated.

**Recommendation**

Receivables should be periodically aged to assist in assessing collectability and concerted effort should be made to follow up debts.

**Management responses**

**The Council will come up with a policy that governs the implementation of bad debts provision.**

## **MARONDERA MUNICIPALITY 2013**

I have audited the financial statements of Marondera Municipality for the year ended December 31, 2013. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1. Reporting framework**

##### **Finding**

The Council did not comply with the requirements of IPSAS 17 on Property, plant and equipment. IPSAS 17 requires that an entity applying the standard should depreciate its non-current assets which Council failed to do. Assets were recorded and carried at historical cost and depreciation was not provided for.

##### **Risk/ Implication**

Misstatement of financial statements.

##### **Recommendation**

The Council should ensure that International Public Sector Accounting Standards are complied with and applied consistently.

##### **Management response**

**The comments are noted and Council is addressing this matter with effect from 2014 final accounts.**

#### **1.2. PROMUN system**

##### **Finding**

The Council's PROMUN accounting system was not being fully utilized. The Council was only using billing and debtors' modules whilst financial statements were being prepared manually.

##### **Risk/ Implication**

Errors and irregularities may go undetected.

##### **Recommendation**

The Council should fully utilise all modules on the PROMUN ERP system.

## **Management responses**

**Two reasons have contributed to the suspension of the full automation of the PROMUN programs.**

**Council's audit backlog of 5 years created a similar backlog of balance reconciliations to brought forward balances particularly for the general ledgers. The plan is therefore to import the correct audited balances beginning of 2016 financial year when the audits are completed. The completion of the audits will ensure that correct audited balance is used for the general ledgers and the computerised system.**

**Manual preparation presents staff with training and appreciation of the processes involved in maintaining accurate information. The observed challenges on capacity necessitated that staff be fully acquainted with the full manual processes before reverting to computerised accounts.**

**Council plans to export all manual balances to PROMUN from January 2016 and to plan more PROMUN trainings in 2016.**

### **1.3. Vehicle registration**

#### **Finding**

I noted that there were motor vehicles purchased by the Council that had not been registered with Central Vehicles Registry (CVR). The following vehicles were not registered; Isuzu Fire tender, Seddon Atkinson refuse truck, New Holland TT5 tractor and two Enduro motor bikes.

#### **Risk/ Implication**

Financial loss as the Council may be fined.

Council may fail to prove ownership of the vehicles and cannot insure them.

#### **Recommendation**

The Council should register all its vehicles to comply with the requirements of the Vehicle Registration and Licensing Act [*Chapter 13:14*].

#### **Management response**

**The audit comments are noted and acknowledged, however the delay has been caused by absence of the required documents to process the registration. However, Council will pursue the matter with the relevant authorities.**

#### **1.4. Bank reconciliations**

##### **Finding**

Council had long outstanding bank reconciling items which appeared as deposits not yet cleared. The deposits amounting to \$49 143 have been outstanding since 2012.

##### **Risk/ Implication**

Fraud and material errors may go undetected.

##### **Recommendation**

All the outstanding deposits should be investigated and cleared.

##### **Management response**

**We acknowledge the observations made by the external auditors pertaining to the long outstanding reconciling items in the form of deposit not cleared.**

#### **1.5. Council rented properties**

##### **Finding**

The Council could not avail for my inspection lease agreements on rented accommodation. In that regard, I could not verify the accuracy and completeness of Council lease rentals amounting to \$25 289.

##### **Risk/ Implication**

There may be no legal recourse in the event of a dispute.

##### **Recommendation**

The Council should ensure that all rented accommodation has lease agreements.

##### **Management response**

**The auditors are correct that lease agreements were not signed in 2013. However, it is important to note that most of these tenants took occupation of the houses in the 1980s and early 1990s. During that time the lease agreements did not specify for how long the lease agreements was valid for. This basically means that the lease agreement remained valid until either party to the agreements elects to terminate it. The procedure for terminating is stated in the agreement. The issue of loss of revenue arising from the absence of a lease therefore falls away since the leases in essence were not time bound and they did not state the rental amount. However, it is important to note that the issue of rentals was in fact stated in the annual budgets of Council.**

## **1.6. Dump site**

### **Finding**

The Council was using Hunyani dumping site which was not registered as provided for by Environmental Management Agency (EMA) regulations.

### **Risk/ Implication**

Financial loss due to penalties and fines for failure to comply.

Health hazards to the community due to improper dumping of waste at undesignated areas.

### **Recommendation**

Council should regularise the Hunyani dump site issue as required by Environmental Management Agency guidelines.

### **Management response**

**It is true that Council has not registered Hunyani dump site and Council is in the process of regularising the dumping site so as to avoid fines from EMA.**

## **2 EMPLOYMENT COSTS**

### **2.1 Salaries and wages**

#### **Finding**

The Council was not performing monthly salary reconciliations on the net salary arrears for its employees. The net salaries creditors' figure of \$1 253 441 was not supported by the appropriate listing. I could not verify the accuracy of the disclosed figure in the financial statements.

#### **Risk/ Implication**

Errors and irregularities may not be detected on time.

#### **Recommendation**

The Council should maintain a salaries and wages control account.

#### **Management response**

**Reconciliations were done.**

### **Auditor's comment**

*The net salaries outstanding was not reconciled, the breakdown given with a balance of \$1 764 217 was not reconciling to the \$1 253 441 disclosed in the financial statements.*

## **2.2 Remittance of statutory deductions**

### **Finding**

Statutory deductions were not being remitted. The amounts had accumulated to \$4 297 889 (ZIMRA \$3 635 697, ZIMDEF \$108 169, Standards development levy \$68 794 and NSSA \$485 229) as at December 31, 2013.

In addition, the Municipality owed an amount of \$1 809 914 to Local Authorities Pension Fund (LAPF).

### **Risk/ Implication**

Financial loss arising from penalties and fines which may be levied by the authorities.

### **Recommendation**

Statutory deductions should be remitted timely and where this is not possible the Council should arrange payment plans.

### **Management response**

**Council gross collections are below Council payroll for the last 5 years, with Council payroll accounting for over 68% of Council budget. The need to comply with service delivery demands that resources are rationed between the bloated Council payroll and service delivery.**

**Council now has managed to agree with staff through the works Council for the need to rationalize its payroll through retrenchment. Council payroll is the cost driver for the statutory obligations noted above brought about by a bloated staff compliment. Council has designed a cost effective Organogram that ensures compliance with the 70/30 directive policy by the Government which will ensure more resources are applied to service delivery and that statutory obligations are manageable through effective and sustainable payment plans.**

**Meanwhile Council is negotiating with LAPF, NSSA, ZIMDEF, ZESA and others for debt swap through other service assets e.g ZESA owes Council for servitude rates. NSSA and ZIMRA are also being engaged to settle the balance through payment plans over extended time due to the critical cash flow challenges facing Council.**

## **REDCLIFF MUNICIPALITY 2013**

I have audited the financial statements of Redcliff Municipality for the year ended December 31, 2013. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Agreements of sale**

##### **Finding**

An analysis of stand files inspected revealed that most of the agreements of sale were not signed. The agreements of sale seemed to have been prepared post allocation and terms of agreement varied depending on the initial deposit made. Some of the initial deposits were as low as five dollars (\$5).

##### **Risk / Implication**

The Council may have no legal recourse in the event of a dispute.

##### **Recommendation**

All allocations should have signed agreements of sale.

##### **Management response**

**Council agreed on these initial deposits, e.g Zimbabwe Defenses Forces members we re allowed to pay \$30 as stand purchase deposit. The agreements of sale are being prepared.**

#### **1.2 Segregation of duties**

##### **Finding**

There was no segregation of duties in the procurement section. The buyer sourced for quotations; prepared purchase orders, handled cash for payments on behalf of the Council and had custody of the purchased goods.

##### **Risk/ Implication**

Possible manipulation of the procurement system by the buyer.

##### **Recommendation**

The Council should ensure that there is effective segregation of duties.



## **Management response**

**Noted, this was mainly due to staff shortages in the section, however as a mitigatory control, the Acting Principal Accountant Expenditure checks and verifies all the transactions that the buyer does. The buyer also does not receive the goods, this is now being done by the receiving clerk and issues are done by a separate clerk. Improvements would be done to enhance the controls.**

### **1.3 Sewerage treatment and sanitation situation**

The Municipality was discharging raw sewage into Kwekwe River. The Council operated three sewerage treatment plants that received and treated effluent for three townships (Redcliff, Rutendo and Torwood). These treatment works were partially treating sewage as all units were continuously breaking down.

#### **Risk/ Implication**

Possible contamination of the environment.

Non-compliance with EMA regulations.

#### **Recommendation**

There is need for the rehabilitation and refurbishment of the sewerage treatment plants.

## **Management response**

**Council managed to secure funding to rehabilitate the plants. Routine maintenance is being done on broken down units.**

### **1.4 Staffing**

#### **Finding**

The Council had thirteen (13) vacant key posts. The key posts included the following; Town Engineer, System Administrator, Internal auditor, Water Reticulation Superintendent, Sewage Reticulation Superintendent, Works and maintenance Superintendent, Chamber Secretary and Buyer.

#### **Risk/ Implication**

Service delivery might be compromised.

### **Recommendation**

The Council should consider filling in the vacant posts.

### **Management response**

**The positions of Town engineer and Systems administrator were filled in 2015.**

**An application for approval to fill the other posts was submitted to the Parent Ministry and Council is still awaiting a response.**

## **1.5 Bank overdraft**

### **Finding**

Council's CBZ bank account was in overdraft with an amount of \$400 000. The Council was unable to service the overdraft facility as the loan interest continues to be compounded.

### **Risk/ Implication**

Council's creditors may attach property which could lead to operational handicap.

### **Recommendation**

The Council should negotiate with the bank to come up with the payment plan to clear the overdraft.

### **Management response**

**Poor inflows continue to affect council as the local economy continues to shrink and most of the big companies in the area are closing.**

## **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1 Estate debtors**

#### **Finding**

An analysis into the performance of Estate debtors revealed that the majority of the debtors who acquired stands from the Council after the introduction of multi-currency had not yet been servicing their debts. The debtors in some cases paid as low as five dollars (\$5) which was considered as a deposit fee. Below is a table showing examples

<b>Stand No.</b>	<b>Area</b>	<b>Allocation date</b>	<b>Purchase Price \$</b>	<b>Amount paid \$</b>	<b>Balance \$</b>
1230	Engelbrecht –low density	19/02/09	7 950	1 300	6 650
5708	Rutendo Extension	15/04/10	1 500	20	1 480
6090	Rutendo Extension	13/11/09	712	5	707
4258	Engelbrecht – low density	22/06/09	6 912	600	6 312
4207	Engelbrecht –low density	27/10/09	5 247	160	5 087
4253	Engelbrecht –low density	29/07/10	5 988	180	5 808
15076	Renin Estate	-	27 450	1 500	25 950
4654	Millenium Park	-	7 878	500	7 378
15080	Renin Estate	-	16 400	1 640	14 760

### **Risk/Implication**

The Council is being deprived of revenue which could be used to develop these new areas

The Council may face liquidity challenges.

### **Recommendation**

The Council should find ways of collecting outstanding revenue.

### **Management response**

**It's noted, the way forward is to:**

**Send letters of demand to beneficiaries and to place a notice in the newspaper calling upon beneficiaries to come and pay.**

## **3 PROCUREMENT OF GOODS AND SERVICES**

### **3.1 Cash withdrawals**

#### **Finding**

The payments listed below amounting to \$12 130 appeared on the Estate Account's CBZ bank statements as cash withdrawals. No payment vouchers and supporting documents were availed. The table below shows the breakdown of some of the withdrawn amounts.

<b>Date</b>	<b>Description</b>	<b>Amount (\$)</b>
06/08/13	No payment voucher	3 650
18/09/13	No payment voucher	1 500
24/09/13	No payment voucher	830
30/09/13	No payment voucher	1 700
04/10/13	No payment voucher	1 950
15/10/13	No payment voucher	2 500
<b>Total</b>		<b>12 130</b>

**Risk / Implication**

Misappropriation of cash.

**Recommendation**

All payments should be supported by adequate supporting documents.

**Management response**

**Noted, Council is still investigating the anomaly and audit will be appraised.**

## **VICTORIA FALLS MUNICIPALITY 2014**

I have audited the financial statements of Victoria Falls Municipality for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Estates Capital account**

##### **Finding**

The Council spent an amount of \$1 500 000 to meet recurrent revenue expenditure (payment of salary arrears) from the Estates Capital account. This was in violation of the provisions of the Urban Councils Act [*Chapter 29:15*] section 300 (2) which clearly spells out the expenditure that can be met from Estates Capital account and prohibits the use of capital receipts to meet recurrent revenue expenditure. As at December 31, 2014 this amount had not been reimbursed.

##### **Risk/ Implication**

Non-compliance with Urban Councils Act [*Chapter 29:15*] section 300 (2).

Service delivery may be compromised.

##### **Recommendation**

The Council should adhere to the provisions of the Urban Councils Act [*Chapter 29:15*].

Concerted efforts to reimburse the borrowed funds should be made.

##### **Management response**

**Administration fees on the sale of land of \$3, 5 million was \$875 000 an advance of \$625 000 from Estate is outstanding and will be repaid. The Council resolution of June 16, 2014 authorized the utilization of \$1, 5 million from the \$3.5 million and the \$2 million was invested towards the development of sewer ponds.**

#### **1.2 Non- functional water meters**

##### **Finding**

According to the engineering department's report, there were over 2 000 non-functional water meters in aggregate from various suburbs of the Municipality. This impacted

negatively on revenue billing as the Council was billing water consumption based on estimates instead of using the actual readings.

**Risk/ Implication**

Financial loss as a result of undercharging for water consumption.

Reputation risk due to overcharging ratepayers.

**Recommendation**

The Council should make efforts to replace or repair the non-functional water meters so as to bill actual charges on water consumption.

**Management response**

**Noted. Estimates were raised to encourage consumers to buy new meters.**

**1.3 Investments**

**Finding**

The Council did not maintain an investment register which supports the investments made during the year. The investment closing balance of \$289 000 disclosed in the financial statements as at December 31, 2014 was not supported by books of original entry. I was unable to substantiate the investment income of \$5 051 from these investments.

**Risk/ Implication**

Irregularities and fraud may go undetected.

**Recommendation**

Council should maintain an investment register which supports the investments balances disclosed in the financial statements.

**Management response**

**Investment call back of \$131 267 to Estate Account and \$156 606 to CDF account was posted in error to Interest received.**

***Auditor's Comment***

***Whilst I appreciate the response from management, the comments given do not address the finding.***

#### **1.4 Inter- Fund transactions**

The Municipality had an inter-fund transactions balance of \$311 609 as at December 31, 2014. This amount should have been eliminated on consolidating all the fund accounts.

##### **Risk/ Implication**

Errors and irregularities may go undetected.

##### **Recommendation**

The Council on consolidating the fund accounts should eliminate all inter-fund accounts balances.

##### **Management response**

**The balance is attributed to salaries owing for the clinic account which should be written off. Noted. Transfer letters will be raised for salary payments to properly account for inter-funds arising there on.**

#### **1.5 Remittance of statutory deductions**

##### **Finding**

Statutory deductions were not being remitted and the amounts had accumulated to \$404 072; PAYE \$316 716, ZIMDEF \$10 364 and NSSA \$77 012) as at December 31, 2014.

In addition, the Council owed a total amount of \$1 343 219 to; Urban Councils Pension Fund (UCPF) \$1 205 446, PSMAS \$112 887, Moonlight \$1 205, Doves funeral services \$3 237, First Mutual \$13 063 and CALM Health \$7 382.

##### **Risk/ Implication**

Financial loss due to penalties and interest charges.

Council employee may fail to access services.

##### **Recommendation**

Statutory deductions should be remitted timely and Council should arrange payment plans, and ensure that employees are not deprived of their rights to medical services.

## **Management response**

**Council has payment plans with ZIMRA, PSMAS, UCPF and ZIMDEF and is paying on a monthly basis as per payment plan. As for Doves and Moonlight, they will be cleared in 2015. First Mutual and CALM Health was negotiated to cover staff and will be cleared.**

## **2 EMPLOYMENT COSTS**

### **2.1 Employment costs to total expenditure ratio**

#### **Finding**

An analysis of the Municipality's annual expenditure revealed that more than 30% of total expenditure incurred for the year under review was towards meeting salaries and wages expenses. According to the Government Circular dated May 31, 2010 reference: CX1/54 from the Ministry of Local Government, Public Works and National Housing the ratio of employment costs to total expenditure should be 30:70.

#### **Risk/ Implication**

Service delivery may be compromised due to inadequate funding.

#### **Recommendation**

There is need to align salaries and wages to 30:70 ratio so that Council will be able to provide a service to all its residents.

## **Management response**

**In 2014 Council salary ratio was 39:61. For 2015, it has improved to 35:65. Council is working to achieve the 30:70 by 2016.**



# **TOWN COUNCILS**

## **BEITBRIDGE TOWN COUNCIL 2014**

I have audited the financial statements of Beitbridge Town Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1. GOVERNANCE ISSUES**

#### **1.1 Inter-fund accounts**

##### **Finding**

The Council had an inter-fund transaction with a negative balance of \$996 763 as at December 31, 2014. This amount should have been eliminated on reconciliation of all fund accounts.

##### **Risk/ Implication**

Errors and irregularities may go undetected.

##### **Recommendation**

The Council should investigate the cause of the inter-funds variance.

##### **Management response**

**This is mainly caused by inter-fund to salaries account. Management is still checking the cause.**

### **2 PROCUREMENT OF GOODS AND SERVICES**

#### **2.1 Tenders**

##### **Finding**

The Town Council awarded tenders to suppliers that were not on the approved suppliers list.

##### **Risk/ Implication**

The Council was contravening the State procurement regulations.

##### **Recommendation**

Council should award tenders to approved suppliers.

### **Management response**

**Agreed. However, Council staff underwent training from State Procurement Board (SPB) on procurement procedures. Matters relating to the SPB approved suppliers list versus an organization's approved suppliers list were discussed and it was agreed that the e-procurement system will address inherent challenges faced by various public institutions.**

## **CHIREDDI TOWN COUNCIL 2014**

I have audited the financial statements of Chiredzi Town Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Policy documents and procedures manual**

##### **Finding**

Policies such as Human Resources policy, Housing policy, and Transport policy, Health and Safety and the ICT Policy were not in place. In addition some policies were at draft stage.

##### **Risk/ Implication**

Financial loss due to inconsistent treatment of the same issues.

Decisions made may not be binding in the absence of approved policies.

##### **Recommendation**

Policies and procedures manuals should be put in place.

##### **Management response**

**Noted. As Council we shall ensure that these policies are adopted as most of them are still at draft stage.**

#### **1.2 Remittance of statutory deductions**

##### **Finding**

Council was not remitting statutory and other payroll deductions on time. As at December 31, 2014 Council owed a total of \$1 953 789 (NSSA \$46 287, LAPF \$368 700, ZIMRA - PAYE \$409 524 and VAT \$1 012 455, ZIMDEF \$28 220, Standard Development Levy \$36 614 and PSMAS \$51 990.

In addition, a total amount of \$20 813 was owed to Funeral insurance and the worker's union, being \$17 822 and \$2 991 respectively.

**Risk/ Implication**

Financial loss due to penalties and fines.

Council employees may fail to access services.

**Recommendation**

Council should consider remitting statutory deductions to the relevant authorities on time.

The Council should engage the relevant authorities with the view of coming up with a payment plan.

**Management response**

**Council is working towards recovering outstanding debts to pay up its obligations.**

**1.3 Stand sales****Finding**

According to full Council meeting minutes and resolution of February 6, 2014, Council authorised the sale of six hundred and eleven (611) high density stands. However, the information availed from the Housing department showed that eight hundred and ten (810) stands were sold, giving an excess of one hundred and ninety nine stands (199). There was no explanation for the difference.

In addition, stand sales amounting to \$3 815 183 could not be reconciled to the ledger balance of \$ 4 748 888 resulting in an unexplained variance of \$933 705.

Audit also noted that there was no segregation of duties in the department of housing and community services.

**Risk/ Implication**

Completeness of income from sale of stands may be difficult to ascertain and authenticity of sales may not be determined.

**Recommendation**

Sale of stands should be authorised by a Council resolution.

Finance department should have copies of approved documents supporting sale of stands filed, signed/ stamped by the appropriate personnel in Estates.

### **Management response**

**Work in progress with a view to computerise the housing department.**

**The difference was a balance from previous allocations.**

**Council is in the process of recruiting a housing officer to assist the Director of Housing and Community services.**

## **1.4 No lease agreements for rented properties**

### **Finding**

I noted that Council did not have lease agreements for its rented properties although Council was receiving rentals averaging \$213 000 per annum.

### **Risks/ Implication**

Council might be losing revenue because of the absence of lease agreements.

The absence of a lease agreement with properly drafted clauses limits the leverage either party may have when it comes to rent review, period of lease and issues to do with subletting and maintenance of the property.

### **Recommendation**

Council should draft leases for all the tenants occupying Council properties.

### **Management response**

**Work in progress**

## **1.5 High density stands sold at same price**

### **Finding**

I noted that high density stands were sold at a uniform price of \$2300.00. The norm is, stands should be sold per square metre and the price is calculated on the total area of the stand. However, Council decided to sale at a standard price. The following are examples:

<b>Cost of Stand (USD\$)</b>	<b>Stand Size(square metres)</b>
2 300	325
2 300	300
2 300	320
2 300	400

**Risks/ Implication**

Council could have lost revenue by not selling stands according to their sizes.

**Recommendation**

Council should sell land according to size not using a flat price.

**Management response****Noted**

**Charge per square meter has been proposed for all future land sales.**

**1.6 Stand sales receivables****Finding**

I noted that there were no stand files for individuals who had bought stands from the Council paying through instalments. Furthermore, the Estates debtors were not captured in the PROMUN system. Council's land sales receivables were computed on an excel worksheet.

The table below shows examples of outstanding amounts for beneficiaries that have made payments but did not have files:

<b>Cost of Stand</b>	<b>Balance Outstanding</b>
2 300	1 602
2 300	1 840
2 300	1 840
2 300	1 471

**Risk/Implication**

Stand sales receivables disclosed in the financial statements may be misstated.

**Recommendation**

Council should activate the module in PROMUN system which captures estates transactions.

The Council, through the Housing department should maintain a file for each stand sold.

## **Management response**

**Council maintains a stand sales debtors system in pastel. Balances will be transferred to PROMUN after verification.**

### **1.7 Estates receivables**

#### **Finding**

Estates debtors were not settling their debts on time. Most of these debtors had not paid/were not paying anything on their accounts. The total estate debtors amounted to \$5 352 183.

#### **Risk/ Implication**

Council funds may be tied up in long outstanding receivables.

#### **Recommendation**

Council should continue to engage all its debtors to recover amounts owed.

## **Management response**

#### **Noted**

**Council is considering repossession after following the normal procedures and reallocating to those who can afford**

### **1.8 Payables**

#### **Finding**

Council was not performing monthly creditors' reconciliations. There was a variance of \$504 240 between ledger balance of \$2 914 502 and the suppliers' statements balance of \$2 410 262. An analysis of trade payables and responses made by Council creditors through letters circularized revealed that some creditors were disputing the amounts.

In addition, creditors amounting to \$809 141 had no creditors' reconciliation statements and were not confirmed.



**Risk/Implication**

The accuracy, completeness, rights and obligations of payables disclosed in the financial statements could not be verified.

**Recommendation**

Council should periodically reconcile its account payables to the source documents of purchases, payments and/or returns.

**Management response**

**Council will make use of creditors' module in PROMUN to manage creditors and reconcile balances.**

**1.9 Shops database****Finding**

I noted that Council had no database for shops in its area of jurisdiction where it was collecting licence fees.

**Risks/Implication**

Loss of revenue due to non-collection of operating licence fees.

**Recommendation**

Council should come up with a database for all shops and businesses operating in its area of jurisdiction.

**Management response**

**Licensing is done after the health inspector has done some inspections on the premises. A database is a challenge because each year licence holders change classes/vacate their original premises. However, Council will make an effort to maintain a record of all licence holders in their respective categories.**

## **KAROI TOWN COUNCIL 2012 AND 2013**

I have audited the financial statements of Karoi Town Council for the years ended December 31, 2012 and December 31, 2013. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Maintenance of ledger accounts**

##### **Finding**

There were no ledger accounts being maintained for accounts payable, accounts receivable, inventory, assets and inter-funds. In addition monthly creditor's and inventory reconciliations were not being performed. Liabilities could have been understated as expenditure incurred may not have been recorded. The extend of the adjustments necessary could not be determined.

##### **Risk/ Implication**

Fraud and errors may go undetected.

##### **Recommendation**

Prime books of accounts should be maintained

##### **Management response**

**Ledger accounts cannot be maintained given the number of debtors and creditors. We are considering that we are on manual. Also the volume of transaction per day cannot be over emphasized. However, Council is working on computerization and very soon these problems will be historical.**

#### **1.2 Bank reconciliations**

##### **Finding**

The Council was not preparing bank reconciliation statements on a monthly basis.

##### **Risk/ Implication**

Fraud and error may go undetected.

### **Recommendation**

Council should perform bank reconciliations on monthly basis.

### **Management response**

**We have been operating with a backlog in terms of financial statements preparation due to manual system and the delay in valuation of properties. We are now in a position to do bank reconciliations timely from now onwards.**

## **1.3 Inter- Fund transactions**

The Town Council had an inter-fund transactions credit balance of \$15 654 and a debit of \$75 806 for 2012 and 2013 respectively. These amounts should have been eliminated on reconciliation of the fund transactions.

### **Risk/ Implication**

Material errors and irregularities may go undetected.

### **Recommendation**

The Council should investigate the cause of the inter-fund variance.

### **Management response**

**All this is as a result of the manual system that we are using. However, computerisation is underway and all these accounting deficiencies will be a thing of the past. Meanwhile we devised a form to segregate and account for each fund.**

## **1.4 Estates capital account**

### **Finding**

The Town Council was operating without an Estate Capital Account. The Town Council deposited all Estate funds in the Housing account from where it was used to meet revenue expenditure in violation of provisions of section 300(2) of the Urban Councils Act [Chapter 29:15] which states that the monies concerned shall not be used for any purpose other than:- The purchase of land; or Investment in terms of section 302; or Servicing of stands and all other related costs and advances for the purpose of financing any capital expenditure or for creation or replacement of an asset, repayable to this account at an interest. The net inter-funds balance owed to Estates account as at December 31, 2013 amounted to \$1 489 142.

**Risk/ Implication**

Stand sales revenue may be misappropriated.

Funds meant for the development of residential may not be used for the intended purpose.

**Recommendation**

The Council should deposit all Estate funds in the Estates account.

The Estates funds should only be used for the purposes they are earmarked for.

**Management response**

**Council made a resolution to borrow from Estate Account since the money was always being garnished by statutory bodies. The amounts that were seen in other revenue accounts were direct deposits from beneficiaries. However, Council has however rectified that and is now depositing estate funds into estate account. Council is also reimbursing the funds to estate account. Please note that the figure \$1 489 142 is accumulated figure from dollarization to date.**

**2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY****2.1 Land sales debtors****Finding**

The Council was not creating debtors at the time the stands were sold. The exercise was being left to be administered by the housing staff, a function which should have been segregated from departments. Outstanding balances could not be established because the records were incomplete (there were no dates of payments and monthly reports on stand sales).

**Risk/ Implication**

Financial loss arising from the absence of audit trail related to beneficiaries of land sales.

**Recommendation**

The Council should establish a comprehensive record of all land beneficiaries with outstanding debts which should indicate the amounts owed as at a particular cut-off date.

## **Management response**

**Recommendation is noted and will advise Council Management. Stand Registers are being updated.**

### **2.2 Home ownership scheme**

#### **Finding**

Council did not maintain a record of Council rented accommodation and home ownership scheme despite evidence of the existence of beneficiaries of these schemes. To this effect the audited financial statements for the period under review did not include the balance still being owed in this respect.

#### **Risk/ Implication**

Council was being deprived of the much needed revenue in the form of monthly rented accommodation and home ownership rentals.

#### **Recommendation**

There is need to establish the number of Council properties which should be under rented accommodation.

The Council should facilitate signing of new lease agreements with the sitting tenants so that Council can benefit from monthly rental income.

## **Management response**

**Recommendations noted, valuations have been done by the Ministry and Council is in the process of putting all the particular houses on Home ownership.**

### **3 EMPLOYMENT COSTS**

#### **3.1 Taxation of Employee allowances/ benefits**

#### **Finding**

Benefits and allowances awarded to the Council's management were not subjected to PAYE in contravention of the Income Tax Act [*Chapter 23:06*] section 8 (1). Council was not deducting tax on the following taxable benefits; motoring, housing, school fees, grocery, educational loans and free mileage fuel allocation. The benefits were not disclosed in the payroll for tax purposes.

**Risk/ Implication**

Financial loss due to penalties and interest that may be charged on the Council for failure to deduct and remit tax on taxable benefits and allowances.

**Recommendation**

The Council should deduct and remit the tax on taxable benefits and allowances in line with the provisions of the Income Tax Act [Chapter 23:06].

**Management response**

**The issue of taxing housing and motoring benefits is being looked at by Council and very soon council will be implementing.**

**3.2 Salaries and wages reconciliation****Finding**

The financial statements for the year ended December 31, 2012 had a Salaries and Wages amount of \$1 777 309 while the payroll balance was \$1 681 953 giving a variance of \$95 356. In addition, the financial statements for the year ended December 31, 2013 had a Salaries and Wages amount of \$ 2 125 965 while the payroll balance was \$1 541 108 giving a variance of \$584 858. There was no explanation for the unreconciled variances.

**Risk/ Implication**

Material errors and irregularities may go undetected.

**Recommendation**

The Council should investigate the cause of the variances and adjust accordingly.

**Management response**

**The anomaly was noted. The Accountant and the salaries office are working on the reconciliations.**

## **MVURWI TOWN COUNCIL 2014**

I have audited the financial statements of Mvurwi Town Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Insurance of assets**

##### **Finding**

All Council assets were not insured except for the Council motor vehicles.

##### **Risk/ Implication**

Service delivery and continuity of operations may be affected if assets are lost through fire breakouts or theft.

##### **Recommendation**

Council should consider insuring all movable assets and increasing security on immovable assets.

##### **Management response**

**The audit observation is noted and corrective measures will be made. However, dwindling resources has been the major reason for failure to insure Council resources.**

### **2 PROCUREMENT OF GOODS AND SERVICES**

#### **2.1 Approved suppliers list**

##### **Finding**

Council had no approved suppliers list to ensure transparent procurement of goods and services.

##### **Risk/ Implication**

Council may procure from entities without the capacity to supply resulting in financial loss and failure to ensure timely service delivery.

##### **Recommendation**

Council should establish and make use of an approved suppliers list.

**Management response**

**When Council advertised an invitation for suppliers to come and register as Council's suppliers, a few responses were received; hence no supplier listing is in place. However, the Council will re-advertise.**



## **NORTON TOWN COUNCIL 2014**

I have audited the financial statements of Norton Town Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

#### **1.1 Billing of lease fees**

##### **Finding**

The Council was not collecting all its lease fees for Incorporated areas (that is the areas under the control of the Council).

##### **Risk/ Implication**

Loss of revenue thereby compromising service delivery.

##### **Recommendation**

The Council should collect all the fees due and improve service delivery.

##### **Management response**

**Noted, lease rentals charges will be billed on a monthly basis with effect from August 2015.**

### **2 EMPLOYMENT COSTS**

#### **2.1 Employment costs**

##### **Finding**

Council had total employment costs of \$3 108 321 out of a total expenditure of \$5 022 069 indicating that employment costs constituted 62% of the total expenditure. This was in violation of the Ministerial directive prescribing a ratio of 30:70.

##### **Risk/ Implication**

The Council may not be able to cater for other operating expenses as a significant portion of the collections would be going towards paying salaries thereby compromising service delivery.

**Recommendation**

Council should consider utilisation of collections based on the stipulated 30:70 prescribed ratio.

**Management response**

**Government through the Ministry of Local Government has given a directive on the rationalisation of salaries.**

## **RUSAPE TOWN COUNCIL 2014**

I have audited the financial statements of Rusape Town Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Underutilisation of the PROMUN system**

##### **Finding**

The following system modules were not being fully utilized, hence Council was using a manual system to prepare its final accounts reports:- human resources, creditors, expenditure, trial balance and property, plant and equipment.

##### **Risk/ Implication**

Material errors and irregularities may go undetected.

##### **Recommendation**

Council should fully utilise all modules on the PROMUN ERP system so as to minimise errors and ensure accuracy of financial information.

##### **Management response**

**We have since come up with a training programme for responsible sections to ensure full operations of the system.**

#### **1.2 Remittance of statutory deductions**

##### **Finding**

The Town Council did not remit statutory deductions to the respective authorities. The total amount outstanding to these authorities was \$1 743 409 (NSSA \$28 219, ZIMRA \$601 168 and LAPF \$1 114 022) as at December 31, 2014.

##### **Risk/ Implication**

Financial loss as penalties and interest may be charged.

Council employees may not access services.

##### **Recommendation**

The Town Council should negotiate payment plans to avoid surcharges and penalties.

### **Management response**

**The balances on these statutory deductions were too large since they accrued from 2009. During the period under review Council is in the process of liquidating these balances.**

## **2 PROGRESS IN IMPLEMENTATION OF PRIOR YEAR ISSUES**

I reviewed the progress made towards the implementation of prior year recommendations and found that there was room for improvement in respect of the following recommendations;

### **2.1 Verification of debtors and deferred income**

#### **Recommendation**

Council should continue engaging residents to sign acknowledgements of debt, so that the recoverability of the amount can be determined.

#### **Progress made**

**Council has set up an inter-departmental task force to speed up the process of lease signing.**

## **ZVISHAVANE TOWN COUNCIL 2014**

I have audited the financial statements of Zvishavane Town Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Policy documents**

##### **Finding**

The Council was operating without approved policy and procedures documents, some of which were still in draft form. To this effect the operational functions of the Council were executed without approved guidelines or set standards. The table below shows policies that were not in place and that were still at the draft stage:

<b>Policy documents</b>	<b>Comments</b>
Information Technology (IT)	Not in existence
Housing Policy	Not in existence
Housing Policy	Not in existence
Recruitment and selection Policy	Not in existence
Risk management policy	Not in existence
Employment code of conduct and grievance handling procedure	Not in existence
Procedure Manual for central stores	Not in existence

##### **Risk/ Implication**

Decisions made on draft policy documents may not be binding.

Non-existence of policy documents may deter or hinder decision making.

Absence of policies may result in inconsistent approaches to issues or implementation of Council resolutions.

##### **Recommendation**

The Council should ensure that policies are approved and put in place.

## **Management response**

**Some policies are available but may require reviewing and putting in place while others are non-existent. Management acknowledges that Policy documents are important tools to manage the organisation. Council has also since crafted the Strategic Plan for 2015-2019, Service Charter and Gender Policy.**

### **1.2 Sale of stands**

#### **Finding**

The Council was not creating debtors at the time the stands were sold. Outstanding balances could not be established because the Council was only recognising the actual cash payments made for stands as sales. Furthermore, there were no reconciliations performed leading to a variance of \$116 903 between the housing department stand sales balance of \$182 884 and the finance department stand sales balance of \$65 981.

#### **Risk/ Implication**

Council may fail to recognize and collect revenue which it is entitled to.

Financial loss due to understatement of debtors.

#### **Recommendation**

Debtors should be created at the time of stand sales in compliance with the accrual concept.

Reconciliations between housing department and finance department should be done.

Council should consider integrating the housing department and finance department modules.

## **Management response**

**Noted. Management will synchronise the system.**

### **1.3 Billing of properties**

#### **Finding**

The housing database was not being updated by the finance department to reflect the current status of rateable properties. There was no co-ordination between the Council's engineering department and the finance department. As a result 102 properties were not being billed for water consumption, rates, refuse collection and other services.

The table below shows some of these units:

<b>Location</b>	<b>Engineering department records</b>	<b>Finance department records</b>	<b>Variance</b>
Makwasha Extension	336	238	98
Highlands Extension	501	500	1
Izayi Park(commercial)	8	5	3
<b>Total</b>			<b>102</b>

### **Risk/ Implication**

Financial loss as a result of unbilled properties resulting in compromised service delivery.

### **Recommendation**

Council should ensure that the housing database is updated and ensure that all qualifying properties are billed.

### **Management response**

**Noted. Management will make sure that the recommendations are implemented to the full.**

## **1.4 Remittance of statutory deductions**

### **Finding**

The Council did not remit statutory deductions to the respective authorities. The total amount outstanding to these authorities was \$234 671 (NSSA \$28 241, ZIMRA \$45 084, ZIMDEF \$33 377, Trade Union \$2 930 and LAPF \$125 039) as at December 31, 2014.

### **Risk/ Implication**

Financial loss as penalties and interest may be charged.

Council employees may not access services.

### **Recommendation**

The Council should negotiate payment plans to avoid surcharges and penalties.

### **Management response**

**Council had payment plans to service the arrears.**

## 1.5 Internal controls on beer hall stocks

### Finding

Council was not maintaining an independent control record (sales ledger) useful for reconciliations and accountability of beer hall stocks. There was no perpetual inventory record and as such inventory usage was not tracked and all variances were automatically written off and stock purchases were fully expensed at once.

In addition, the internal audit report revealed that stock to the value of \$112 681 was unaccounted for during the year.

The table below shows stock items which were distributed to selling counters but did not reach the intended selling points;

Stock Item	Date	Receiving Counter	Quantity Issued	Quantity acknowledged by the recipient	Variance
Scuds	5/12/14	Chibuku	564	240	324
	10/12/14	Madiro Bar	300	-	300
300ml cokes	8/12/14	Off sales	336	48	288
	22/12/14	Lounge	1800	1080	720
Ordinary beer pints	7/12/14	Magamba Bar	840	-	840
	4/12/14	Off sales	369	-	369
Pilsner pints	17/12/14	Magamba Bar	840	816	24

### Risk/ Implication

Financial loss and irregularities arising from weak internal controls.

### Recommendation

Internal controls should be strengthened to deter theft and fraud.

Council should investigate the variances and take corrective action.

### Management response

**Noted. An independent stores ledger to be maintained at the Finance department.**

### *Auditor's comment*

*Whilst I appreciate management's response, the Council should investigate the variances and take corrective action.*



## **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1 Staff debtors**

#### **Finding**

Council management was receiving weekly sixty five (65) litre fuel allocations. The disbursed fuel amounts were supposed to be acquitted with receipts and invoices. There were no acquittals relating to the disbursements resulting in the creation of a \$6 352 staff debtor's balance emanating from fuel. The table shows some of the outstanding amounts;

<b>Designation</b>	<b>Outstanding balance as at 31 Dec 2014 \$</b>
Town Secretary	1 959
Director of Finance	2 309
Director of Housing	484
Director of Engineering	1 600

#### **Risk/ Implication**

The recoverability of these balances may be doubtful as there could be management override of controls.

#### **Recommendation**

Management should acquit all fuel disbursements.

Council should allocate fuel upon acquittal of previous disbursements.

#### **Management response**

**Noted, Internal audit is carrying out a verification exercise to ascertain the correct balances. However, a framework to recover the monies has been put in place.**

## **3 EMPLOYMENT COSTS**

### **3.1 Management benefits and allowances**

#### **Finding**

Benefits and allowances awarded to the Council's management were not subjected to PAYE in contravention of the Income Tax Act [Chapter 23:06] section 8(1). A total amount of \$235 495 was paid as motoring benefit, housing, cell phone and fuel allowances for the

year under review. In addition, school fees benefits were paid tax free to all Council employees.

### **Risk/ Implication**

Financial loss due to penalties and interest that may be charged on the Council for failure to deduct and remit tax on taxable benefits and allowances.

### **Recommendation**

The Council should deduct and remit the tax on taxable benefits and allowances in line with the provisions of the Income Tax Act [*Chapter 23:06*].

### **Management response**

**ZIMRA carried out an audit of Council pay roll from 2009 to 2013 and we complied. In any case some benefits are taxable at source. There is a difference between tax avoidance and tax evasion.**

### ***Auditor's comment***

***Whilst I appreciate management's response, the Council should take note that the issue under consideration relates to non-compliance with tax legislation in the period under review.***

# **LOCAL BOARDS**

## **LUPANE LOCAL BOARD 2014**

I have audited the financial statements of Lupane Local Board for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Accounting procedures manual**

##### **Finding**

The Local Board had no accounting procedures manual to govern its operations.

##### **Risk/ Implication**

Inconsistencies in treating issues of a similar/ operational nature.

Employee discretion which creates room for fraud.

##### **Recommendation**

The Local Board accounting procedures manual should be put in place.

##### **Management response**

**Noted, currently we rely heavily on the Public Finance Management Act [*Chapter 22:19*] as well as the Urban Councils Act [*Chapter 29:15*].**

#### **1.2 Receivables**

##### **Finding**

Cash amounting to \$43 828 received in respect of debtors was not allocated to the individual debtors accounts. In that regard the individual debtors accounts were not adjusted to reflect payments that had been made.

##### **Risk/ Implication**

Misstatement of receivables.

Material errors and irregularities may go undetected.

##### **Recommendation**

All the cash receipts should be allocated to the individual debtor's accounts.

### **Management response**

**This is due to the fact that this figure was received by finance department as a lump sum and it was not possible to have it broken down.**

## **2 EMPLOYMENT COSTS**

### **2.1 Employment costs to total expenditure ratio**

#### **Finding**

An analysis of the Local Board's annual expenditure revealed that 42% of total expenditure incurred for the year under review went towards meeting salaries and wages. According to the Government Circular dated May 31, 2010 reference: CX1/54 from the Ministry of Local Government, Public Works and National Housing, the ratio of employment costs to total expenditure should be 30:70.

#### **Risk/ Implication**

Service delivery may be compromised as the greater part of the revenue is channeled towards salaries and wages.

#### **Recommendation**

The Council should work towards achieving the 30:70 ratio.

### **Management response**

**Employment costs for 2014 was at \$151 097 against actual collection of \$445 072 which translates to 34% against the budgeted 30%.**

## **RUWA LOCAL BOARD 2012**

I have audited the financial statements of Ruwa Local Board for the year ended December 31, 2012. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Internal controls**

##### **Finding**

The Council's internal controls were observed to be weak and lacked general enforcement. The IT administrator had custody of accounting records and was performing accounting functions. Bank reconciliations were not being performed. Receipting and banking was not being supervised.

The IT administrator had all rights to access and to reconfigure the master files. In addition the IT administrator passed several unauthorized journals reversing transactions in the PROMUN system.

##### **Risk/ Implication**

Errors and irregularities may go undetected.

##### **Recommendation**

Council should adopt, design and implement effective internal controls.

There should be effective segregation of duties.

##### **Management response**

##### **Noted and in the process of implementing changes**

#### **1.2 Fixed assets register**

##### **Finding**

The Council was operating with an incomplete asset register for all its non-current assets. The PROMUN asset register was last updated in the year 2010 after an asset revaluation exercise. In addition the register was incomplete in respect of asset values, dates of acquisition and disposal, assets additions, and identification serial numbers. All additions made in the years 2011 and 2012 were not recorded in this register. The value of assets in the asset register was \$7 413 831 whereas the assets disclosed in the financial statements are \$13 505 646.

Table below indicates 2012 asset additions not recorded in the register:

<b>Description</b>	<b>Year</b>	<b>Value \$</b>
Vehicles and Bicycles	2012	207 120
Cell phones	2012	160
Poly Clinic assets & Equipment	2012	3 182
Lawn Mower	2012	950
Other Equipment	2012	16 167
Furniture and fitting	2012	1 798
Land and Buildings	2012	40 097
<b>Total</b>		<b>269 474</b>

### **Risk/ Implication**

Lack of accountability on Council assets exposes it to theft and misappropriation.

### **Recommendation**

The Council should maintain an up to date non-current asset register for all its assets.

All Council assets should be uploaded on the PROMUN asset module.

### **Management response**

**We noted the observation, however, it has to be noted that the register was not complete in terms of values, dates of acquisition and disposal at the beginning of the audit. Council however, made an effort to update the register during the audit and was complete by end of audit.**

### *Auditor's comment*

*Council only updated the asset register with the acquisitions made in 2012 amounting to \$269 474. However, the variance noted still remained significant in excess of \$6 091 814 .*

## **1.3 Vehicle log books**

### **Finding**

An inspection of Council vehicles revealed that 20% of the total Council fleet of thirty-one (31) vehicles was being used without log books. Of the total obtained log books, 10% of these log books were used up and more than 16% were last recorded in the year 2011. Log books are a mandatory source of documentation used for monitoring for the usage of vehicles.

I was therefore unable to determine whether pool cars were used for Council designated duties and whether the mileage covered was commensurate with the requested litres of fuel.

**Risk/ Implication**

Assets are subject to abuse.

**Recommendation**

Every vehicle should have its own log book and all drivers should consistently update their log books for easy monitoring of the Council fleet and fuel usage.

**Management response**

**Audit observation was noted. Refueling authorization sheets are being processed after review of previous allocation. We are going to make sure all pool vehicles are used accompanied by a duly completed log book so as to curb abuse as observed by audit.**

**1.4 Financial records**

**Finding**

The Council had incomplete accounting records, cash books and ledgers were incomplete and bank reconciliations dating back to 2009 were not prepared. There was an unexplained variance of \$11 232 014 between the system trial balance of \$16 144 995 and the manual trial balance of \$27 377 009. The two sets of records were not reconciled, as a result I could not verify the accuracy , completeness and validity of the transactions recorded in the financial statements.

**Risk/ Implication**

Fraudulent activities and accounting errors may go undetected.

**Recommendation**

Cash books and ledgers should be maintained, balanced, reconciled and checked by senior personnel.

Bank reconciliation statements should be prepared on a monthly basis, and reconciling items be cleared timely to allow for the prompt identification and rectification of errors.

**Management response**

**Council was in the process of computerizing all its financial transactions and as such discrepancies are most likely to be encountered. Efforts are being made so as to fully computerize thereby ensuring that the cash book and the ledger relate and reconciled.**



## **1.5 Estates reserves**

### **Finding**

There were no ledger accounts maintained for the Estate reserve and the Endowment fund. As a result I was unable to ascertain the accuracy of Estate reserve amount of \$416 989 and the Endowment fund amount of \$552 619 disclosed in the financial statements.

### **Risk/ Implication**

Material errors and irregularities may not be detected.

### **Recommendation**

Council should ensure that ledgers are maintained for each account.

### **Management response**

**No management response was provided.**

## **1.6 Bank reconciliations**

### **Finding**

Bank reconciliations were not being prepared for the Rates and Supplementary charges account which is the Council's main account since the introduction of multicurrency in 2009. In addition, I noted that direct deposits were not being receipted.

### **Risk/ Implication**

Material errors and irregularities may go undetected.

Overstatement of debtors.

### **Recommendation**

The Local Board should ensure that bank reconciliations are prepared on a monthly basis.

The Council should receipt all direct deposits.

### **Management response**

**Council had faced challenges during the year of dollarization in terms of bank reconciliations; however, we had made efforts to ensure our reconciliations are up to date.**

## **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1 Asset disposal proceeds**

#### **Finding**

During the year under review, the Council disposed vehicles and realized \$12 830. These proceeds were deposited into the Administration account instead of the capital development fund in contravention to statutory provisions as outlined in Urban Councils Act [*Chapter 29:15*] section 298(2) (d). The core mingling of funds resulted in the capital funds being used for revenue purposes.

#### **Risk/ Implication**

Capital development projects would be deprived of the funding as capital receipts were used to fund revenue expenses.

#### **Recommendation**

Capital funds should be channeled towards acquisition of capital items as stipulated by regulations.

#### **Management response**

**Corrective measures are going to be made to make sure the realised proceeds are transferred to the relevant capital fund.**

### **2.2 Receivables**

#### **Finding**

The audited closing balances for the year ended December 31, 2011 for accounts receivable were not brought forward as opening balances. There was no documentation and satisfactory explanation for the reduction of this account balance by \$368 380. In addition the Council did not make a provision for doubtful debts in accordance with the Council's policy that requires all debts over 90 days to be provided for. I also noted that direct deposits were not being receipted.

#### **Risk/ Implication**

Fraud and errors may go undetected.

Misstatements of financial statements.

## **Recommendation**

Council should explain the change to opening balances. In addition, the Council should provide for credit losses.

## **Management response**

**A significant number of debtors are not servicing their accounts due to the ailing economic situation be devilling our country.**

### **2.3 Collection of shop licensing fees**

#### **Finding**

The Board has been licensing shops on credit and shop operators have been defaulting in honouring their obligations. The Board failed to employ effective ways of collecting shop license fees. There was therefore a sharp decrease of shop license fees collections from \$335 188 in 2011 to \$190 794 in 2012.

#### **Risk/ Implication**

Failure by Council to collect revenues has a direct impact on service delivery.

## **Recommendation**

The Council should adhere to the provisions of the Licensing Act and issue licenses on cash basis. In addition, there should be a concerted effort by the Council to recover the outstanding amounts.

## **Management response**

**We have noted the observation.**

### **3 EMPLOYMENT COSTS**

#### **3.1 Employee allowances and benefits**

#### **Finding**

Benefits and allowances awarded to the Council's management were not subjected to PAYE in contravention of the Income Tax Act [*Chapter 23:06*] section 8 (1). Council was not deducting tax on the following taxable benefits; motoring, housing, school fees, grocery, educational loans and free mileage fuel allocation. The benefits were not disclosed in the payroll for tax purposes.

### **Risk/ Implication**

Financial loss due to penalties and interest that may be charged on the Council for failure to deduct and remit tax on taxable benefits and allowances.

### **Recommendation**

The Council should deduct and remit the tax on taxable benefits and allowances in line with the provisions of the Income Tax Act [*Chapter 23:06*].

### **Management response**

**At the time of audit motoring benefit and school fees allowances were not being taxed, however, since then these allowances have now been subjected to taxation as required by statutes.**

## **4 PROCUREMENT OF GOODS AND SERVICES**

### **4.1 Tender procedures**

#### **Finding**

The Local Board procured vehicles worth \$203 900 without conducting an informal tender. Table below shows acquisitions made without following tender procedures:

<b>Account</b>	<b>Description</b>	<b>Date</b>	<b>Payment Voucher Number</b>	<b>Amount \$</b>
CDF	Nissan Navarra	24/04/2012	T/100/12	36 000
CDF	2X Junbei Minibus	24/04/2012	T/99/12	129 900
CDF	Hover Truck 2.5 ti	23/04/2012	T/101/12	38 000
	<b>TOTAL</b>			<b>203 900</b>

The Board also entered into a contract to procure fuel from Power Fuels without following tender procedures.

### **Risk/ Implication**

Financial loss due to procuring at more than competitive prices.

Non- compliance with State Procurement Board regulations.

### **Recommendation**

The Council should adhere to tender procedures to ensure transparency and realize value for money in the awarding of tenders.

### **Management response**

**We acknowledge that a tender was not done.**

## **4.2 Payment for goods**

### **Finding**

The Council made a payment of \$1198 for protective clothing based on a quotation contrary to Council's procurement procedures which require payments to be based on invoice. The goods were never received by Council. The payment was made without proper authorization.

### **Risk/ Implication**

Financial loss due to payment for goods not received.

### **Recommendation**

Council should follow procurement procedures and every payment should be based on invoices rather than quotations.

The Council should take measures to assess the suppliers' ability to deliver before making payments.

### **Management response**

**Note all bank transfers are processed when the authorized signatories have endorsed for such a payment. Payment to Conte Shoes was on an understanding that they were the sole manufacturer, who supplied protective shoes to Council. It was however unfortunate that, this company went for liquidation. On priority and weight of debt, the Council and other companies did not receive any restitution as highlighted in the High Court of Zimbabwe ruling case number HC 1912/12/04<sup>th</sup> of April 2014.**

# **RURAL DISTRICT COUNCILS**

## **BEITBRIDGE RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Beitbridge Rural District Council for the year ended December 31, 2014. The following is a material issue that was noted during the audit.

### **1. EMPLOYMENT COSTS**

#### **1.1. Employment costs to total expenditure ratio**

##### **Finding**

The Council's total employment costs were 55% of its total expenditure which was in excess of the 30% stipulated in a Government Circular dated May 31, 2010 reference: CX1/54 from the Ministry of Local Government, Public Works and National Housing which states that the ratio of employment costs to total expenditure should be 30:70.

##### **Risk/ Implication**

Service delivery may be compromised.

##### **Recommendation**

The Council should rationalize its operations so that 70% of its expenditure is channeled towards service delivery.

##### **Management response**

**Council has compiled with the government directive on salary rationalization. Senior management salaries were reduced by July 2015.**

## **BIKITA RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Bikita Rural District Council for the year ended December 31, 2014. The following is a material issue that was noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Debtors database**

##### **Finding**

The Council had an incomplete shop license and leased properties database. As a result the Council was not creating shop license and lease rental debtors and shop licenses. Lease rentals were being billed only when cash was received.

##### **Risk/ Implication**

Financial loss arising from the absence of audit trail related to shop license and lease rental debtors.

Misstatement of financial statements arising from failure to recognize shop license and lease rental debtors.

##### **Recommendation**

Management should ensure that all shop licenses and leases are billed regardless of whether cash has been collected or not.

The Council should establish a comprehensive record of all shop license and lease rental debtors.

##### **Management response**

**Council is in the process of updating its database on leases and licenses so that debtors are properly recorded which in turn make it easy in the follow up of the same.**



## **BINDURA RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Bindura Rural District Council for the year ended December 31, 2014. The following are material issues noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Submission of statutory returns**

##### **Finding**

The Council submitted monthly statutory returns such as NSSA and PAYE after the statutory deadlines during the year under review. Consequently, the Council was garnished by NSSA. Included in the amounts garnished was \$30 981 which the Council had received as a grant from ZINARA.

##### **Risk/ Implication**

Financial loss arising from penalties and fines being levied by the authorities.

Service delivery may be compromised.

##### **Recommendation**

Statutory returns should be submitted within the stipulated period.

##### **Management response:**

**Statutory returns for PAYE were remitted to ZIMRA during the period under review. We will ensure that returns are submitted timely as per the auditor's recommendation. We have already done works amounting to the garnished value as agreed with ZINARA.**

### **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

#### **2.1 Shop licences**

##### **Finding**

Shops at Manhenga and Matepatepa centers, in the Bindura district did not have shop licences.

##### **Risk/ Implication**

Loss of revenue as a result of non-payment of fees by shop owners.

##### **Recommendation**

The Council should enforce its by-laws and collect licence fees from all shop owners who operate within the district.

**Management response**

**The current situation was a result of the delayed approval of the Council 2015 budget and we could not enforce the licences. Licenses are now being enforced following the approval of our budget. Services of the Ministry of Health and ZRP will be enlisted.**

## **BINGA RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Binga Rural District Council for the year ended December 31, 2014. The following is a material issue that was noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Asset register**

##### **Finding**

The Council was operating with an incomplete asset register. The assets register did not have information of new additions, cost of the assets and office tags.

##### **Risk/ Implication**

Theft and misappropriation of assets may go undetected.

##### **Recommendation**

The Council should maintain an up to date asset register.

##### **Management response**

**We are currently working on producing a comprehensive asset register and will ensure that these are updated regularly.**

**Audit recommendations are being adopted to strengthen internal controls.**

## **BULILIMA RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Bulilima Rural District Council for the year ended December 31, 2014. The following is a material issue that was noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Community dividends**

##### **Finding**

There is a standing arrangement that the community is entitled to 50% of all trophy fees realized from trophy sales each year. The community's entitlement is known as community dividends and is supposed to be recognized on an accrual basis. However, the community dividends balance recorded in the financial statements relates only to dividends released to the community during the year and excludes the balance due to the community as at 31 December, 2014.

##### **Risk/ Implication**

Misstatement of community dividends in the financial statements.

##### **Recommendation**

Community dividends should be accounted for on an accrual basis.

##### **Management response**

**In 2014 nothing was owed to communities at year end, community share was used to top up acquisition of a backhoe. Council shot five elephants valued at \$10 500 each, and four elephant trophies with a value of \$42 000 to pay for the backhoe and balance financed council running costs.**

## **CHAMINUKA RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Chaminuka Rural District Council for the year ended December 31, 2014. The following is a material issue that was noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Remittance of statutory deductions**

##### **Finding**

The Council was not remitting statutory and other payroll obligations. The total amount outstanding was \$244 045 (NSSA \$31 937, NEC \$21 192, Pension \$137 309, Workers union \$8 702, ZIMRA \$17 934, ZIMDEF \$6 061, Standard development levy \$3 501, medical aid \$17 409 and other payroll deductions of \$35 901) as at December 31, 2014.

##### **Risk/ Implication**

Financial loss as penalties and fines may be charged.

Employees may not access pension and medical aid cover when they need it.

##### **Recommendation**

Council should negotiate workable and manageable payment plans.

##### **Management response**

**The figure pertaining to UCPF amounting to \$137 309 included in the creditors list needs to be removed. The figure relates to an amount which UCPF should remit to Old Mutual. However, audit observation is noted, proactive cash flow management and effective revenue collection measures are in progress and meanwhile summons have been issued to all those who have outstanding dues to council as litigatory measures.**

## **CHIPINGE RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Chipinge Rural District Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Key vacant posts**

##### **Finding**

The Treasurer and Senior Internal Auditor posts have been vacant since 2013 and had not been filled as at April 2015.

##### **Risk/ Implication**

The absence of substantive officers compromises effective service delivery as individuals in acting capacities cannot make strategic decisions for the Council.

##### **Recommendation**

Council should fill the vacant posts.

##### **Management response**

**Council completed recruitment process of the above vacant posts in 2014 and is still waiting for Ministerial approval of successful candidates submitted.**

### **2 EMPLOYMENT COSTS**

#### **2.1 Computation of Pay As You Earn**

##### **Finding**

Council did not withhold the correct amount of pay as you earn tax from the following employees:

<b>Position</b>	<b>Amount of undercharge \$</b>
CEO	2 267
Engineer	1 509
Senior Administration Officer	2 448
Town Superintendent	1 311
<b>Total</b>	<b>7 535</b>

**Risk/ Implication**

Penalties and fines may be levied on Council by the Zimbabwe Revenue Authority.

**Recommendation**

Council should withhold the correct PAYE and remit on time to ZIMRA.

Recoveries of undercharged tax should be made and the amounts forwarded to the tax authorities.

**Management response**

**Observation noted. Council is using Final Deduction System in the computation of pay as you earn. The system problem has since been reported to the service provider for attention.**

**2.2 Remittance of statutory deductions****Finding**

The Council was not remitting timely amounts deducted from the employees' earnings. As at December 31, 2014 Council owed a total amount of \$118 950; (NSSA \$7 134; ZIMDEF \$7 412; ZIMRA \$95 555; SDL \$6 261 and NEC \$2 588). In addition, the Council owed a total of \$182 344 (Pension Fund \$179 227, Medical Aid \$2 270 and Life Assurance \$847) to payroll creditors.

**Risk/ Implication**

Financial loss as penalties and interest may be charged.

Council employees may not access services.

**Recommendation**

The Council should negotiate payment plans to avoid surcharges and penalties.

**Management response**

**Observation noted. Council is facing financial constraints that it failed to clear all the outstanding amounts in the past. However measures were put in place by Council to clear all the outstanding statutory and other deductions in the long run. Council made payment plans which are being religiously complied with in order to clear all the outstanding amounts within the agreed time frame.**

## **CHIREDDI RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Chiredzi Rural District Council the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Authorisation of payment vouchers**

##### **Finding**

Payment vouchers were not being authorized. The table below contains a sample of such;

<b>Date</b>	<b>Details</b>	<b>Reference</b>	<b>Amount \$</b>
13/01/2014	Transfer to other departments	344204	1 912
06/05/2014	Clinic refurbishments	C50054	1 728
15/10/2014	Allowance	UNC007	1 160
15/10/2014	Allowances	UNC025	1 160
03/10/2014	Stationery	UNC007	700

##### **Risk/ Implication**

Financial loss due to material irregularities that may go undetected.

##### **Recommendation**

All payment vouchers should be authorized before payments are made.

##### **Management response**

**This will be implemented forthwith, adequately.**

#### **1.2 Employee performance measurement**

##### **Finding**

No performance appraisals were carried out for the Council's junior staff members in the year under review.

##### **Risk/ Implication**

Employees' training needs and personal dimensions may not be identified on time for possible rectification.



### **Recommendation**

Council should ensure that employee performance appraisals are done at least once per year for all junior staff.

### **Management response**

**Management shall do all employees performance appraisals at least once per year starting in 2015.**

## **1.3 Refuse dumpsite**

### **Finding**

The Council's Chikombedzi refuse dump site did not meet specific standards required by the Environmental Management Agency (EMA) and as a result was not registered.

### **Risk/ Implication**

Financial loss due to penalties and fines for failure to comply.

Health hazards to the community due to improper dumping of waste at undesignated area.

### **Recommendation**

Council should register the Chikombedzi dumpsite as required by Environmental Management Agency guidelines.

### **Management response**

**Council is in the process of and applications were done and we are waiting for a response from EMA.**

## **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1 Collection of shop license fees**

### **Finding**

The Council was not collecting shop licences fees in areas such as Robert Communal Area, Chilonga Business Centre and Tshovani.

### **Risk/ Implication**

Failure by Council to collect revenues has a direct impact on service delivery.

## **Recommendation**

The Council should adhere to the provisions of the Licensing Act and issue licenses on cash basis. In addition, there should be a concerted effort by the Council to recover the outstanding amounts.

## **Management response**

**No management response was provided.**

## **3 EMPLOYMENT COSTS**

### **3.1 Employment costs to total expenditure ratio**

#### **Finding**

Council's employment costs to total expenditure ratio was 58% exceeding the prescribed ratio as set out in the Ministerial circular No.4 of 2013, REF: CX153, which states that employee costs should not exceed 30% of total expenditure, as 70% should be channelled towards service delivery.

#### **Risk/ Implication**

Service delivery may be compromised.

#### **Recommendation**

Council should always try to observe the stipulated 30% benchmark as per Ministerial directive.

#### **Management response**

**Implementation of salary rationalisation will address the imbalance between employment cost and service delivery.**

## **CHIRUMANZU RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Chirumanzu Rural District Council for the year ended December 31, 2014. The following is a material issue that was noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 ZINARA Grant**

##### **Finding**

I noted that during the years 2010 to 2013 the Council received \$261 812 from ZINARA for road maintenance. The amount was deposited into the Council bank account as \$56 880, \$118 142 and \$86 790 in the years 2010, 2011 to 2012 respectively. However, ZINARA disbursements showed \$56 880, \$117 152, \$108 488 and \$206 420 amounting to \$488 939 for the four years. There was a variance of \$227 127 which the Council could not explain.

##### **Risk/Implication**

Service delivery may be compromised as funds may not have been used for intended purposes.

##### **Recommendation**

Council should reconcile the amounts disbursed from ZINARA to account for the difference.

##### **Management response**

**The Council will visit ZINARA offices and make necessary verifications and enquiries to ascertain how the variance could have come about.**

## **GOKWE NORTH RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Gokwe North Rural District Council for the year ended December 31, 2014. The following is a material issue that was noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Remittance of statutory deductions**

##### **Finding**

The Council was not remitting statutory deductions on due dates. Council owed \$21 593 to ZIMRA and \$24 270 to National Social Security Authority (NSSA) as at December 31, 2014.

##### **Risk/Implication**

Interests and penalties may be incurred.

Council operations may be adversely affected if the authorities effect garnish orders on the Council's bank accounts.

##### **Recommendation**

Council should remit statutory deductions on time.

Council should consider making payment plans with the concerned authorities.

##### **Management response**

**Council is failing to realize adequate revenue to pay statutory obligations in full. However, payment plans have been made with the various statutory bodies but at times we fail to meet the obligations as per plan due to cash flow constraints.**

## **GOKWE SOUTH RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Gokwe South Rural District Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Wildlife dividends to Wards**

##### **Finding**

It is Council policy to pay wards at a rate of 10% of the revenue from the conservancy; this money is used to develop the wards under the management of the Ward Development Committee (WDCs). However, there was no supervision by the Council on how the money was used by the WDCs.

##### **Risk/ Implication**

Funds may not be used for the intended purpose.  
Misappropriation of funds.

##### **Recommendation**

The Council must supervise the use of wildlife dividends to ensure that the funds are used for their intended purpose.

##### **Management response**

**The observation was noted.**

### **2. PROGRESS IN IMPLEMENTATION OF PRIOR YEAR ISSUES**

#### **2.1 Donations**

##### **Recommendation**

Council should engage an independent valuer.

##### **Progress made**

**Donations have not yet been valued.**

## **GUTU RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Gutu Rural District Council for the year ended December 31, 2014. The following is a material issue that was noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Dumpsite**

##### **Finding**

The Council was using Mupandawana dumpsite which was not registered with Environmental Management Agency (EMA).

##### **Risk/ Implication**

Financial loss arising from penalties and fines which may be charged by EMA.

Possible health hazards to the community emanating from the dumping of waste at undesignated areas.

##### **Recommendation**

The Council should regularise the issue in accordance with the Environmental Management Act [*Chapter 20:27*].

##### **Management response**

**Project proposals for a new dumpsite were submitted to development partners for funding.**

## **GWANDA RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Gwanda Rural District Council for the year ended December 31, 2014. The following is a material issue that was noted during the audit.

### **1. PROCUREMENT OF GOODS AND SERVICES**

#### **1.1. Supporting documents for expenditure**

##### **Finding**

The Council made payments which had no supporting documentation such as suppliers' invoices. The following payments are examples of transactions which had no supporting documents:

<b>Reference</b>	<b>Date</b>	<b>Amount \$</b>
09A/2014	08/01/14	541
019/2014	28/01/14	3 871
035/2014	11/02/14	1 000
245/2014	29/09/14	1 420
267/2014	13/10/14	1 372
288/2014	03/11/14	3 871
<b>Total</b>		<b>12 075</b>

##### **Risk/Implication**

Council may pay for goods and or services which are not for the benefit of the Council.

##### **Recommendation**

The Council should ensure that all payment vouchers are supported by valid documentation.

##### **Management response**

**Management will ensure that all payments are supported by valid third party invoices or vouchers. All the invoices or documentation are now in place except the documents for ZINWA (\$1 000). Management is still making follow ups with ZINWA to provide the documentation and will ensure that the document is received by August 30, 2015.**

## **HURUNGWE RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Hurungwe Rural District Council for the year ended December 31, 2014. The following is a material issue that was noted during the audit.

### **1. PROCUREMENT OF GOODS AND SERVICES**

#### **1.1 Cash purchases**

##### **Finding**

Procurement staff were not surrendering change immediately after purchase. The Council allowed procurement staff up to thirty days to acquit the cash given to them to procure Council's consumables.

##### **Risk/ Implication**

The procurement staff may use Council funds for personal benefit.

This may constitute unauthorized soft loans to employees.

Loss or theft of cash in the employee's possession.

##### **Recommendation**

Procurement staff should submit receipts and invoices together with change immediately after purchase.

##### **Management response**

**Noted. We have already started to implement your recommendation.**



## **MAKONI RURAL DISTRICT COUNCIL 2014 AND 2015**

I have audited the financial statements of Makoni Rural District Council for the years ended December 31, 2014 and 2015. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Billing system**

##### **Finding**

The Council was using a manual billing system to charge rates and other services to residents. Bills were calculated manually on ledger cards.

##### **Risk/ Implication**

Manual billing is prone to human error and also exposes the Council to fraud.

There may be delays in issuing bills to ratepayers.

##### **Recommendation**

The Council should acquire a computerized system to ensure billing is done on time and also to mitigate against human errors and fraud.

##### **Management response**

**Council has made a resolution to install the billing and receipting modules by the 1<sup>st</sup> quarter of 2016.**

#### **1.2 Service Level Agreement**

##### **Finding**

There was no contract between the Council and a local company for blasting and servicing of Sunview stands.

##### **Risk/ Implication**

The Council may have no legal recourse.

##### **Recommendation**

The Council should have a written contract with the service provider for the blasting and servicing of stands.

##### **Management response**

**In future, contracts shall be drawn up with all service providers before works commence.**

### **1.3 Payables**

#### **Finding**

The payables module in Pastel was not being fully utilized. In addition no records were being maintained for the Council's payables.

#### **Risk/ Implication**

Misstatement of payables balance in the financial statements.

#### **Recommendation**

The Council should activate the payables module in Pastel system.

The Council should maintain records for payables.

#### **Management response**

**As soon as we install the billing and receipting modules all accounting modules shall be utilized in full.**

### **1.4 Cash management**

#### **Finding**

During the first half of the 2015 financial year, the Council was overriding cash controls and accounting procedures by spending cash receipted before banking.

#### **Risk/ Implication**

Financial loss as cash is susceptible to theft and misappropriation.

#### **Recommendation**

All funds receipted should be banked before spending.

#### **Management response**

**This issue has since been rectified.**

## **2 EMPLOYMENT COSTS**

### **2.1 Employment costs to total expenditure ratio**

#### **Finding**

An analysis of the Council's annual expenditure revealed that 59.6% of total expenditure incurred for the year was towards meeting salaries and wages expenses. According to the Government Circular dated May 31, 2010 reference: CX1/54 from the Ministry of Local Government, Public Works and National Housing the ratio of employment costs to total expenditure should be 30:70.

**Risk/ Implication**

Service delivery may be compromised as a greater portion of resources are channeled towards salaries and wages.

**Recommendation**

The Council should adhere to the 30:70 ratio as prescribed by the parent Ministry.

**Management response**

**Allowances will be decreased in the 2015 budget to comply with the service delivery ratio. Vacant posts have also been frozen.**

## **MARONDERA RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Marondera Rural District Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 EMPLOYMENT COSTS**

#### **1.1 Tax on management benefits**

##### **Finding**

Benefits and allowances awarded to the Council's management for the period May 2014 to September 2014 were not subjected to PAYE in contravention of the Income Tax Act [*Chapter 23:06*] section 8(1). Council was not deducting tax on the following taxable benefits; motoring, school fees, electricity and telephone. The benefits were not disclosed in the payroll for tax purposes.

##### **Risk/ Implication**

Financial loss due to penalties and interest that may be charged on the Council for failure to deduct and remit tax on taxable benefits and allowances.

##### **Recommendation**

The Council should deduct and remit the tax on taxable benefits and allowances in line with the provisions of the Income Tax Act [*Chapter 23:06*].

##### **Management response**

**Council will comply as recommended and management may consider grossing up to mitigate the effect of the inclusion of the motoring benefit in CEO's gross income for tax purposes.**

#### **1.2 Employment costs to total expenditure ratio**

##### **Finding**

The Council's total employment costs were 58% of its total expenditure which was in excess of the 30% stipulated in a Government Circular dated May 31, 2010 reference: CX1/54 from the Ministry of Local Government, Public Works and National Housing which states that the ratio of employment costs to total expenditure should be 30:70.

**Risk/ Implication**

Service delivery may be compromised as a greater portion of resources are channeled towards salaries and wages.

**Recommendation**

The Council should adhere to the 30:70 ratio as prescribed by the parent Ministry.

**Management response**

**The observation had been noted, and the current budget proposes measures to reduce employment costs an unlock value in certain areas for example to retrench all the guards and engage independent security companies.**

## **MATOBO RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Matobo Rural District Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Bank reconciliations**

##### **Finding**

During the year under review, the Council was not preparing bank reconciliation statements on a monthly basis. All bank reconciliations were done during 2015. For the reconciliations availed, there was no evidence to support that someone independent had reviewed them.

##### **Risk/ Implication**

Fraud and errors may go undetected.

##### **Recommendation**

Bank reconciliation statements should be prepared monthly and reviewed by an independent officer other than the preparer who should sign as evidence of review.

##### **Management response**

**Audit recommendation is noted. Management commits itself to ensure that bank reconciliations are prepared monthly and reviewed.**

#### **1.2 Remittance of statutory deductions**

##### **Finding**

Statutory deductions were not being remitted on due dates. The amounts had accumulated to \$119 058 (ZIMRA \$90 731 and NSSA \$28 327) as at December 31, 2014.

In addition, the Council owed \$126 950 to the Local Authorities Pension Fund (LAPF) and \$18 521 to National Employment Council (NEC).

##### **Risk/ Implication**

The Council may be penalized as well as charged interest.

The Council employees may fail to access services.

### **Recommendation**

Statutory deductions should be remitted on due dates. The Council may consider arranging payment plans with the relevant authorities.

### **Management response**

**Audit recommendation is correct. Council will ensure that statutory obligations are paid on time.**

## **1.3 Dumpsite area**

### **Finding**

The Council's refuse dump site did not meet specific standards required by the Environmental Management Agency (EMA) and as a result it was not registered.

### **Risk/ Implication**

Financial loss due to avoidable penalties and fines for failure to comply.

Health hazards to the community due to improper dumping of waste at undesignated areas.

### **Recommendation**

The Council should regularise the dumpsite as required by Environmental Management Agency guidelines.

### **Management response**

**Audit recommendation is noted and will be actioned accordingly.**

## **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.1 Business licence data base**

### **Finding**

The Council did not have a complete business licences data base as information was being gathered from walk in clients who had renewed their licences during the year.

### **Risk/ Implication**

Financial loss arising from the absence of audit trail related to business licence debtors.

Misstatement of financial statements arising from failure to recognize business licence debtors.

### **Recommendation**

The Council should establish a data base for all its business licence customers.

### **Management response**

**Audit observation is correct. Data collection is in progress and 70% has been collected.**

## **3 EMPLOYMENT COSTS**

### **3.1 Employment costs to total expenditure ratio**

#### **Finding**

The Council's total employment costs were 47% of its total expenditure which was in excess of the 30% stipulated in a Government Circular dated May 31, 2010 reference: CX1/54 from the Ministry of Local Government, Public Works and National Housing which states that the ratio of employment costs to total expenditure should be 30:70.

#### **Risk/ Implication**

Service delivery may be compromised.

#### **Recommendation**

The Council should consider rationalising its expenditure towards the stipulated 30:70 ratio.

#### **Management response**

**Audit recommendation is noted. The excess was however a result of mismatch of salary expenditure to the relevant period. Council will intensify its revenue collection strategies to clear the backlog in salaries and boost its revenues so that it can adhere to budgetary limits.**



## **MAZOWE RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Mazowe Rural District Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Remittance of statutory deductions**

##### **Finding**

The Council did not remit statutory and other payroll deductions to the respective authorities. The total amount outstanding to these authorities was \$848 538 (NSSA \$90 783, NEC \$35 580, Pension \$661 700, Workers union \$6 728, ZIMRA \$39 070 and ZIMDEF \$14 677) as at December 31, 2014.

##### **Risk/ Implication**

Financial loss as penalties and interest may be charged.

Council employees may not access services.

##### **Recommendation**

The Council should negotiate payment plans to avoid surcharges and penalties.

##### **Management response**

**Noted.**Due to financial constraints, Council failed to remit the obligations on time. With improvement in cash inflows, Council will remit the money.

#### **1.2 Staff loan deductions**

##### **Finding**

Council did not remitt employee loan repayment deductions to FBC Bank in 2014. The accumulated unpaid deductions were converted into a \$330 000 two year tenure loan with an interest rate of 20% per annum.

##### **Risk/Implication**

Financial loss as a result of the 20% interest to the bank.

**Recommendation**

Staff bank loan deductions should be remitted intact and timely.

The Council should service the loan.

**Management response**

**The observation was noted.**

## **MBERENGWA RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Mberengwa Rural District Council for the year ended December 31, 2014. The following is a material issue that was noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Ratio of employment costs to total expenditure**

##### **Finding**

Council's employment cost to total expenditure ratio was 58% exceeding the prescribed ratio as set out in the Ministerial circular No.4 of 2013, REF: CX153, which states that employment costs should not consume more than 30% of revenue so that 70% should be channelled towards service delivery.

##### **Risk/ Implication**

Service delivery may be compromised as a greater portion of resources are channeled towards salaries and wages.

##### **Recommendation**

The Council should adhere to the 30:70 ratio as prescribed by the parent Ministry.

##### **Management response**

**Management agrees with the observation. Besides efforts being taken by council to increase revenue inflows which will enable council to spend more on service delivery costs and therefore reduce the employment costs percentage, the Government has come up with a policy framework of reducing salary levels in local authorities. Apparently, the Ministry of Local Government has given a green light to the council's proposed road map on salary rationalization. Grades 10 and 11 salaries will be aligned to government recommended scales with effect from July 2015.**

## **MUREWA RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Murewa Rural District Council the year ended December 31, 2014. The following is a material issue that was noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Taxation of benefits**

##### **Finding**

Tax was not being levied on motoring benefit awarded to the Chief executive Officer (CEO) and housing benefit awarded to Council employees who were residing in Council houses in contravention of the Income Tax Act [*Chapter 23:06*]section 8(1).

##### **Risk/ Implication**

Penalties and fines may be levied by the relevant authority.

##### **Recommendation**

All taxable employee benefits should be taxed.

##### **Management response**

**Noted. The CEO's motoring benefit and housing benefits to those residing in Council houses will be included in the PAYE computation.**

## **MUTARE RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Mutare Rural District Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Risk management policy**

##### **Finding**

The Council did not have a risk management policy in place which was supposed to provide management with an opportunity to identify, assess and mitigate risks.

##### **Risk/ Implication**

Council may fail to identify, assess and mitigate potential risks that may negatively impact on the Council's operations.

##### **Recommendation**

The Council should come up with its risk management policy and ensure that risks are identified, assessed and preventative measures are put in place.

##### **Management response**

**Audit recommendation was noted, we shall take the necessary steps to address the matter.**

### **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

#### **2.1 Income and debtors balances**

##### **Finding**

The balance of receivables and income disclosed in the financial statements was understated due to non-accrual of communal debtors. No adjustments could be made to the financial statements due to the absence of communal lands database.

##### **Risk/ Implication**

Loss of potential revenue as a result of Council's inability to collect levies from all communal households.

**Recommendation**

The Council should maintain an updated database of all communal households.

**Management response**

**The observation was noted and we will make efforts to comply.**

**2.2 Stand debtors****Finding**

The Council wrote off debtors amounting to \$57 583 following the Ministerial directive to write-off debts as at June 30, 2013. Included in this figure was an amount of \$31 706 in respect of stand debtors in Odzi Township which were not supposed to have been written off. As at December 31, 2014 this amount was not yet re-instated to correct the anomaly.

**Risk/ Implication**

Financial loss due to debts being written off.

**Recommendation**

The Council should correct the anomaly by re-instating the written off debts.

**Management response**

**Odzi Township stand debtors will be reversed in 2015 after negotiations with the community leaders.**

## **MUTASA RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Mutasa Rural District Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Asset register**

##### **Finding**

The Council did not maintain a departmental and master asset register as stipulated in its asset management policy.

##### **Risk/ Implication**

Misappropriation of assets.

##### **Recommendation**

The Council should put in place a comprehensive master asset register.

Departmental asset registers should be maintained as outlined in the asset management policy.

##### **Management response**

**Observation noted. We are working on developing an Asset Register using the availed formats.**

### **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

#### **2.1 Lease agreements**

##### **Finding**

The majority of the stands in the district did not have lease agreements with Council. As a result annual lease fees were not being paid for the said stands. Below is a table of stands that had no lease agreements.

<b>AREA</b>	<b>TOTAL NUMBER OF STANDS</b>	<b>NO OF STANDS WITH LEASE</b>	<b>NO OF STANDS WITHOUT LEASES</b>
Penhalonga Township	1 656	363	1 293

<b>AREA</b>	<b>TOTAL NUMBER OF STANDS</b>	<b>NO OF STANDS WITH LEASE</b>	<b>NO OF STANDS WITHOUT LEASES</b>
Tsvingwe Township	2 560	636	1 924
Hauna Growth Point	2 500	210	2 290
Mutasa District Service Centre	852	17	835
Sherukuru Rural Service Centre	376	1	375
Honde Green Rural Service Centre	77	1	76
Zindi Rural Service Centre	160	3	157
Sagambe Rural Service Centre	80	0	80
<b>TOTAL</b>	<b>8 261</b>	<b>1 231</b>	<b>7 030</b>

### **Risk/ Implication**

Loss of revenue as a result of not charging annual lease fees.

### **Recommendation**

Council should ensure that all stands have lease agreements.

### **Management response**

**Observation noted, Council adopted the National Policy and will draft a lease management manual. Furthermore a Contract Planning Technician was recruited to deal with housing issues to enable to processing of leases.**



## **MUTOKO RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Mutoko Rural District Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUE**

#### **1.1 Remittance of statutory deductions**

##### **Finding**

Council was not remitting statutory deductions on due dates. The Council had not remitted \$161 289 to ZIMRA and \$35 510 to NSSA as at December 31, 2014.

##### **Risk/ Implication**

The Council may be charged interest and penalties by the respective authorities.

Garnishee orders may be effected which could impact negatively on cash flows.

##### **Recommendation**

Statutory deductions should be remitted on due dates.

Council should consider making payment plans with the authorities.

##### **Management response**

**The Council has made payment plans with NSSA and ZIMRA to clear the outstanding debts.**

### **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

#### **2.1 Mining tax receivables**

##### **Finding**

The Council was owed a total of \$396 592 in mining taxes which were long overdue as at December 31, 2014.

##### **Risk/ Implication**

Negative impact on cash flows hence the Council may fail to honor its obligations timely.

**Recommendation**

Management should continuously engage the debtors to enforce payment.

**Management response**

**Some of the receivables have paid up. The Council has taken some of the quarry operators to court.**

## **MWENEZI RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Mwenezi Rural District Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1. GOVERNANCE ISSUES**

#### **1.1 Road maintenance grant received**

##### **Finding**

In 2012 ZINARA disbursed \$107 898 to Mwenezi Rural District Council for road maintenance purposes. However, the Council's records indicate that \$64 690 was received through the bank in two batches; \$40 432 on September 04, 2012 and \$24 259 on September 11, 2012. A variance of \$43 208 could not be accounted for.

Furthermore, Council could not avail acquittals for the \$64 690, as a result I could not verify whether the funds received were utilized for the intended purpose.

##### **Risk/ Implication**

The amounts received by Council as road maintenance grant may not have been utilized for intended purposes.

##### **Recommendation**

Council should engage ZINARA and clear the variance.

Council should prepare acquittals for all road maintenance grants received as per the requirements of ZINARA.

##### **Management response**

**No response was provided by management.**

#### **1.2 Signatories to bank accounts**

##### **Finding**

The Council Chairperson and the Finance Committee Chairperson were signatories to the Council's bank accounts.

##### **Risk/ Implication**

The Councillors are compromising their oversight roles by performing executive functions.

### **Recommendation**

The Councillors should be withdrawn as signatories of the Council's bank accounts and appropriate levels of executives should be signatories of Council.

### **Management response**

**Management will ensure that policy makers are not signatories to bank accounts and the executives will be appointed as signatories.**

## **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

### **2.2 Insurance claim**

#### **Finding**

The Council's insurers were taking long to pay compensation to Council for a factory shell which was damaged by fire in 2013. At the time of audit (May 15, 2015) the insurers had assessed the damage but had not compensated Council as per the claim submitted.

#### **Risk/ Implication**

Loss of potential revenue that could have been generated had the factory shell been in use.

#### **Recommendation**

Council should continue to engage its insurers for compensation.

#### **Management response**

**Regular follow-ups will be made to ensure that the payment is done without further delay. Council will identify direct insurers and deal with them.**

### **2.3 Receivables**

#### **Finding**

Two local telecommunication companies had not paid the gazzetted \$3 000 per annum for booster license fees since 2009. The two companies owed Council \$36 000 for two booster stations that they have in the district.

#### **Risk/ Implication**

Council may fail to recover the outstanding amounts.

### **Recommendation**

Council should engage the two companies to collect what it is owed.

### **Management response**

**Management will make sure that all Council dues have been collected by engaging debtors.**

## **3 EMPLOYMENT COSTS**

### **3.1 Employment costs**

#### **Finding**

The total employment costs for the year under review were \$611 754 compared to total expenditure of \$1 013 520 giving an actual employment cost to total expenditure ratio of 60:40. The ratio is above the Ministerial directive of 30:70.

#### **Risk/ Implication**

Service delivery will be negatively affected if 60% of Council funds are used to meet employment costs.

#### **Recommendation**

The Council should adhere to the 30:70 ratio as prescribed by the parent Ministry.

#### **Management response**

**Management will employ strategies to ensure that maximum revenue is collected and that income generating projects will be proposed.**

## **NKAYI RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Nkayi Rural District Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1. GOVERNANCE ISSUES**

#### **1.1 Public Services Investment Programme (PSIP)**

##### **Finding**

The Council received funds from PSIP in October 2013 amounting to \$400 000 for sewer reticulation project. Although Council had purchased sewer pipes in 2014 amounting to \$102 261, I however, noted that construction of the sewer reticulation project had not started. The suburbs were still using septic tank soak away systems to dispose waste.

##### **Risk/ Implication**

The underground water may be polluted due to prolonged use of septic tank soak away designs.

##### **Recommendation**

The Council should implement the sewer reticulation project.

##### **Management response**

**Auditors' observation correct, the Council is currently addressing the issue. A qualified technician has already been employed and activities will commence soon.**

### **2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY**

#### **2.1 Receivables**

##### **Finding**

I noted that the Council did not have a debtors' management system in place, where follow-ups and monitoring are done regularly. There was no data base on revenue sources that include shop licenses, leases and development levies.

##### **Risk/ Implication**

The financial statements may be misstated.

Financial loss as recoverability of some of the debtors may be doubtful.

##### **Recommendation**

The Council should put in place a debtors' management system.

### **Management response**

**Noted, this will be addressed in the next financial period.**

## **3 EMPLOYMENT COSTS**

### **3.1 Employment costs to total expenditure ratio**

Council had total employment costs of \$528 106 out of a total expenditure of \$1 056 211. This constituted 50% of the total expenditure in violation of the Ministerial directive that required an expenditure ratio of 30:70.

### **Risk/ Implication**

Service delivery maybe compromised.

### **Recommendation**

The Council should consider rationalising its expenditure towards the stipulated 30:70 ratio.

### **Management response**

**The observation was noted.**

## **4 PROCUREMENT OF GOODS AND SERVICES**

### **4.1 Expenditure documents**

### **Finding**

The Council made payments from the schools account which had no supporting documentation such as suppliers' invoices.

The following payments are examples of transactions which had no supporting documentation:

<b>Description</b>	<b>Amount \$</b>	<b>Month</b>	<b>Voucher number</b>
Schools running expenses	1 940	January	1-36
Schools running expenses	2 652	February	37-108
Schools running expenses	6 892	March	109-205
Schools running expenses	3 961	April	206-266
Schools running expenses	2 608	May	267-312
Schools running expenses	5 120	June	313-406

Schools running expenses	5 959	July	407-520
<b>Total</b>	<b>29 132</b>		

### **Risk/ Implication**

The Council may pay for goods and or services which may not be for its benefit.

### **Recommendation**

The Council should ensure that all payment vouchers are supported by adequate documentation.

### **Management response**

**Observation correct, in future we are going to put in place a re-imburement system where all schools will acquit all the amounts advanced to them before any reimbursement.**



## **NYANGA RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Nyanga Rural District Council for the year ended December 31, 2014. The following is a material that was noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Remittance of statutory deductions**

##### **Finding**

The Council did not remit statutory deductions to the respective authorities. The total amount outstanding was \$39 967 (NSSA \$6 360 and ZIMRA \$33 607) as at December 31, 2014.

##### **Risk/ Implication**

Financial loss as penalties and fines may be charged.

##### **Recommendation**

Council should pay statutory deductions on due dates.

##### **Management response**

**The observation has been noted. Cash flow problems affected the timely payment of the payroll deductions to NSSA and ZIMRA.**

## **RUSHINGA RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Rushinga Rural District Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1. GOVERNANCE ISSUES**

#### **1.1 Accounting on a cash basis**

##### **Finding**

The Rural District Councils Act [*Chapter 29:13*] section 120 provides that the Council should account for all its transactions on an accrual basis. However, it was observed that during the year 2014 the Council was still accounting for expenses and revenue on a cash basis.

##### **Risk/ Implication**

Violation of the Rural District Councils Act.

Failure to apply accruals accounting distorts the fair presentation of the financial statements.

##### **Recommendation**

The accruals basis of accounting should always be used as required by the Act.

##### **Management response**

**According to section 120 Rural District Council Act, accounting is supposed to be on an accrual basis, however, we account on a cash basis for the appreciation and understanding of our policy makers.**

#### **1.2 Asset replacement policy**

##### **Finding**

The Council had no asset replacement policy as provided for in the Rural District Councils Act [*Chapter 29:13*] section 128 which states that a Council shall establish one or more capital development funds for the purposes of creating and replacing assets.

##### **Risk/ Implication**

Non-compliance with the Rural District Councils Act.

Service delivery may be compromised as Council's asset base may deplete over time.

### **Recommendation**

The Council should create an asset replacement policy and most importantly, adhere to the policy. The Act allows the Council to determine the sums of money to be set aside for the creation and replacement of assets.

### **Management response**

**We are working on having an asset replacement policy this year, 2015. However, we do have the CDF accounts but Council has serious cash problems to fund the CDF accounts and build up funds for replacement.**

## **1.3 Ownership of Council assets**

### **Finding**

The Council did not have documents that support ownership for all Council buildings including the offices from which the Council operates from and equipment such as tractors, towed graders and motor bikes.

### **Risk/ Implication**

In the event of dispute, Council may not have a legal recourse.

### **Recommendation**

Efforts should be made by the Council to obtain title deeds for all properties and registration books for motor vehicles and equipment.

### **Management response**

**On immovable assets Council shall apply to the Ministry for title deeds.  
On movable assets above documents could not be identified due to high labour turn-over.**

## **1.4 Remittance of statutory deductions**

### **Finding**

Statutory deductions were not being remitted and the amounts have accumulated to \$36 892 (ZIMRA \$13 568, ZIMDEF \$6 790 and NSSA \$16 534) as at December 31, 2014. In addition, the Council owed an amount of \$194 234 to Unified Councils Pension Fund (UCPF), \$39 700 to Association of Rural District Councils (ARDC), \$24 641 to National Employment Council (NEC) and \$1 610 to Zimbabwe Rural District Councils Workers Union (ZRDCWU).

**Risk/ Implication**

The Council will be exposed to penalties, interest charges and garnishee orders.

Council employees may fail to access services.

**Recommendation**

Statutory deductions should be remitted on due dates.

**Management response**

**The observation was noted, Council is making payment plans with these creditors.**

## **UMGUZA RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Umguza Rural District Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Segment reporting and depreciation of assets**

##### **Finding**

Council did not comply with the requirements of IPSAS 18 as segmental reporting should have been presented in a manner which ensures comparability both with the entity's own financial statements.

Furthermore, Council did not comply with the requirements of IPSAS 17 Property, plant and equipment. IPSAS 17 requires that an entity applying the standard should depreciate its non-current assets. Assets were recorded and carried at historical cost and no tests for impairment or depreciation were provided for.

##### **Risk/ Implication**

Misstatement of financial statements.

##### **Recommendation**

Council should ensure that International Public Sector Accounting Standards are complied with and applied consistently.

##### **Management response**

**Noted, Council assets however have always been presented in the financial statements. They shall be separated into segments in future.**

#### **1.2 Policy documents and procedures manuals**

##### **Finding**

Council was operating without some policies which are fundamental such as IT Policy, Risk Management Policy and Vehicle Policy. To this effect the operational functions of the Council were executed without proper guidelines or set standards to mitigate threats.

##### **Risk /Implication**

Inconsistencies in the treatment of similar issues that may compromise accountability.

### **Recommendation**

The Council should formulate and adopt these policies and ensure they become operational.

### **Management response**

**Council has very few computers and had considered the number insignificant to have a documented policy but will try to adopt the other recommended policies.**

## **1.3 Stands sales**

### **Finding**

There was no documentary evidence in the stands sales files to show that Council was issuing offer letters to individuals who would have been allocated land. An offer letter informs the potential buyers of their eligibility to obtain land from the Council after meeting specified requirements.

### **Risk/ Implication**

Possible double allocation of stands.

Disputes with customers may be difficult to resolve in the absence of reference documents.

### **Recommendation**

Copies of offer letters should be filed in the stands sales files.

### **Management response**

**Noted, the issue will be looked into.**

## **1.4 Asset register**

### **Finding**

Council did not maintain a fixed asset register, instead Council was relying on asset schedules which were adjusted annually for additions, disposals and depreciation. Consequently, I was unable to satisfy myself as to the completeness and accuracy of the property, plant and equipment disclosed in the financial statements.

### **Risk/ Implication**

Failure to create, update and maintain a fixed asset register may compromise accountability.

Misappropriation of assets may go undetected.

### **Recommendation**

Council should maintain an asset register.

### **Management response**

**Noted, the issue will be looked into.**

## **1.5 Database for trade and shop operators licences**

### **Finding**

Council did not have a database for shops in and outside the central business district.

### **Risk/ Implication**

Revenue loss as a result of the absence of a database.

### **Recommendation**

Council create a database for all shops and business operators.

### **Management response**

**A data-base has been compiled by opening accounts for shops as they renewed their licenses. This started in November 2014 and has been on- going since then.**

## **1.6 Title deeds for Council buildings**

### **Finding**

Council buildings did not have title deeds and as such audit failed to ascertain whether all listed buildings were Council assets. The table below shows some of the properties without title deeds;

<b>Property</b>	<b>Status</b>
Hlangabeza bottle store	No title deeds
Main council building- town	No title deeds
Matilika beer hall	No title deeds
Fingo beer garden	No title deeds
Fingo cocktail bar	No title deeds
Ngoma township bar	No title deeds

**Risk/ Implication**

Council may fail to prove ownership in case of a dispute.

**Recommendation**

The Council should make efforts to obtain title deeds for all its immovable properties.

**Management response**

**Noted, Council will make the relevant follow ups with the Deeds' office to obtain the title deeds.**

**2 REVENUE COLLECTION, MANAGEMENT AND DEBT RECOVERY****2.1 Stands debtors****Finding**

The Council was not creating debtors at the time the stands were sold. Debtors' accounts were only created when the beneficiaries made payments towards these stands. It was impractical to extend my examination beyond the receipts actually recorded.

**Risk/ Implication**

Misstatement of receivables.

**Recommendation**

Debtors' accounts should be created once the beneficiary has accepted the offer.

**Management response**

**Noted, the matter will be looked into.**

**2.2 Billing of properties****Finding**

An analysis of revenue votes revealed that the Council was not billing all its customers. Upon enquiry management highlighted that they had challenges with the pastel system which was installed during the early months of 2014.

**Risk/ Implication**

Loss of revenue due to incomplete billing of customers.



### **Recommendation**

Council should ensure that all properties are billed.

### **Management response**

**The application of the Pastel accounting package is being upgraded to cover billing soon.**

## **3 EMPLOYMENT COSTS**

### **3.1 Employment costs to total expenditure ratio**

#### **Finding**

The Council did not comply with the Ministerial directive as their employment costs to total expenditure ratio for the year under review was 47:53 as compared to the prescribed ratio of 30:70.

#### **Risk/ Implication**

Service delivery may be compromised.

#### **Recommendation**

Council should rationalize its operations and channel more funds towards service delivery.

#### **Management response**

**The observation is noted, but we would want to bring the following to your attention: Salaries and wages are fixed costs whilst the other expenditure is variable, as it varies with income collected. In this case that our collection is low so is our other expenditure. Hence the ratio between salaries and wages to other expenditure is affected. Our revenue base was also depleted by the Ministry of Lands taking over the collection of unit tax of resettled farmers. This has adversely affected our collections and our expenditure which also went down as a result. It is thus not feasible for us to maintain the 30:70 ratio as this will require us to fluctuate salaries and wages monthly.**

## **UZUMBA MARAMBA PFUNGWE ZVATAIDA RURAL DISTRICT COUNCIL 2014**

I have audited the financial statements of Uzumba Maramba Pfungwe (UMP) Zvataida Rural District Council for the year ended December 31, 2014. The following are material issues that were noted during the audit.

### **1 GOVERNANCE ISSUES**

#### **1.1 Remittance of statutory deductions**

##### **Finding**

The Council was not remitting statutory and other payroll deductions to the respective authorities. The total amount outstanding was \$214 601 (NSSA \$30 117, Pension \$94 434, and ZIMRA \$90 050) as at December 31, 2014.

##### **Risk/ Implication**

Financial loss as penalties and fines may be charged.

Employees may not access their pension benefits.

##### **Recommendation**

Council should pay statutory deductions on due dates. However,

##### **Management response**

**The issue has been noted. The Council is facing severe cash flow challenges, but however payment plans have been put in place and agreed with the organisations in question.**

#### **1.2 Refuse collection**

##### **Finding**

The Council was failing to timely collect refuse from both the low and high density areas. As a result residents were using pits and illegal sites to dispose off refuse.

##### **Risk/ Implication**

Health hazards to the community and contamination of the environment.

Financial loss due to penalties and fines imposed by regulatory authorities.

**Recommendation**

Council should collect refuse from residential areas on time.

**Management response**

**Concern is noted, but the Council is already on a new and bigger approved waste fill. Once completed waste collection will start immediately.**

## APPENDIX A

### AUDITS IN PROGRESS OR BEING FINALISED AS AT MAY 31, 2016

Name of Local Authority	Year
<b>CITY COUNCILS</b>	
Bulawayo City Council	2012
Harare City Council	2013
Kadoma City Council	2014
Kwekwe City Council	2014
Masvingo City Council	2014
<b>MUNICIPAL COUNCILS</b>	
Bindura Municipality	2015
Chinhoyi Municipality	2014
Chitungwiza Municipality	2013
Gwanda Municipality	2012- 2013
Marondera Municipality	2014
<b>TOWN COUNCILS</b>	
Beitbridge Town Council	2015
Chipinge Town Council	2014
Gokwe Town Council	2014
Plumtree Town Council	2014
Shurugwi Town Council	2012
<b>LOCAL BOARDS</b>	
Epworth Local Board	2014
Ruwa Local Board	2013
<b>RURAL DISTRICT COUNCILS</b>	
Beitbridge Rural District Council	2015
Binga Rural District Council	2015
Bubi Rural District Council	2014
Bulilima Rural District Council	2015
Chegutu Rural District Council	2014
Chikomba Rural District Council	2014
Chimanimani Rural District Council	2014
Chipinge Rural District Council	2015
Gokwe South Rural District Council	2015
Goromonzi Rural District Council	2014
Guruve Rural District Council	2013
Hurugwe Rural District Council	2015
Hwange Rural District Council	2014
Hwedza Rural District Council	2015
Manyame Rural District Council	2015
Mazowe Rural District Council	2015
Mberengwa Rural District Council	2015
Mbire Rural District Council	2013

<b>Name of Local Authority</b>	<b>Year</b>
<b>RURAL DISTRICT COUNCILS</b>	
Mhondoro Ngezi Rural District Council	2014
Mudzi Rural District Council	2014
Mutasa Rural District Council	2015
Muzarabani Rural District Council	2013
Nkayi Rural District Council	2015
Pfura Rural District Council	2014
Sanyati Rural District Council	2014
Tongogara Rural District Council	2013
Zibagwe Rural District Council	2014
Zvimba Rural District Council	2014

## APPENDIX B

### ACCOUNTS NOT YET SUBMITTED FOR AUDIT AS AT MAY 31, 2016

Name of Local Authority	Year
<b>CITY COUNCILS</b>	
Bulawayo City Council	2013-2015
Gweru City Council	2014-2015
Harare City Council	2014-2015
Kadoma City Council	2015
Kwekwe City Council	2015
Masvingo City Council	2015
Mutare City Council	2014-2015
<b>MUNICIPAL COUNCILS</b>	
Chegutu Municipality	2014-2015
Chinhoyi Municipality	2015
Chitungwiza Municipality	2014-2015
Gwanda Municipality	2014-2015
Kariba Municipality	2015
Marondera Municipality	2015
Redcliff Municipality	2014-2015
Victoria Falls Municipality	2015
<b>TOWN COUNCILS</b>	
Chipinga Town Council	2015
Chiredzi Town Council	2015
Gokwe Town Council	2015
Karoi Town Council	2014-2015
Mvurwi Town Council	2015
Norton Town Council	2015
Plumtree Town Council	2015
Rusape Town Council	2015
Shurugwi Town Council	2013-2015
Zvishavane Town Council	2015
<b>LOCAL BOARDS</b>	
Chirundu Local Board	2009-2015
Epworth Local Board	2015
Hwange Local Board	2014-2015
Lupane Local Board	2015
Ruwa Local Board	2014-2015
<b>RURAL DISTRICT COUNCILS</b>	
Bikita Rural District Council	2015
Bindura Rural District Council	2015
Bubi Rural District Council	2015
Buhera Rural District Council	2015

<b>Name of Local Authority</b>	<b>Year</b>
Chaminuka Rural District Council	2015
Chegututu Rural District Council	2015
Chikomba Rural District Council	2014-2015
Chimanimani Rural District Council	2015
Chiredzi Rural District Council	2015
Chirumanzu Rural District Council	2015
Chivi Rural District Council	2014-2015
Gokwe North Rural District Council	2015
Goromonzi Rural District Council	2015
Guruve Rural District Council	2014-2015
Gutu Rural District Council	2015
Gwanda Rural District Council	2015
Hwange Rural District Council	2015
Insiza Rural District Council	2013-2015
Kusile Rural District Council	2014-2015
Makonde Rural District Council	2015
Mangwe Rural District Council	2015
Marondera Rural District Council	2015
Masvingo Rural District Council	2015
Matobo Rural District Council	2015
Mazowe Rural District Council	2015
Mbire Rural District Council	2014-2015
Mhondoro-Ngezi Rural District Council	2015
Mudzi Rural District Council	2015
Murewa Rural District Council	2015
Mutare Rural District Council	2015
Mutoko Rural District Council	2015
Muzarabani Rural District Council	2014-2015
Mwenezi Rural District Council	2015
Nyaminnyami Rural District Council	2014-2015
Nyanga Rural District Council	2015
Pfura Rural District Council	2015
Runde Rural District Council	2014-2015
Rusvinga Rural District Council	2015
Sanyati Rural District Council	2015
Tongogara Rural District Council	2014-2015
Tsholotsho Rural District Council	2014-2015
Umguza Rural District Council	2015
UMP Zvataida Rural District Council	2015
Umzingwane Rural District Council	2014-2015
Vungu Rural District Council	2015
Zaka Rural District Council	2014-2015
Zibagwe Rural District Council	2015
Zvimba Rural District Council	2015

