FIRST REPORT

OF THE PUBLIC ACCOUNTS COMMITTEE ON THE EXAMINIATION OF THE APPROPRIATION AND FUND ACCOUNTS FOR THE MINISTRY HIGHER AND TERTIARY EDUCATION SCIENCE AND TECHNOLOGY DEVELOPMENT FOR THE YEAR ENDED 31ST DECEMBER, 2016

FIFTH SESSION – EIGHTH PARLIAMENT

Presented To Parliament in April, 2018

[S.C 3 - 2018]

1.0 INTRODUCTION

The Office of the Auditor General audited the 2016 Appropriation Accounts for the Ministry of Higher and Tertiary Education, Science and Technology Development. It issued an unmodified opinion but raised some issues that needed the Ministry's attention. The audit also covered financial statements for three Funds administered by the Ministry. These were namely; the Amenities Fund accounts for financial years 2011 and 2012 and the National Education and Training Fund accounts for financial year 2014 which all received a disclaimer of opinion and the Innovation and Commercialisation Fund Accounts for financial years 2014 and 2015 which received a qualified opinion.

As observed in previous reports by the Committee, it has become common practice that Ministries, tend to comply with statutory deadlines for submission of Appropriation accounts for audit whilst lagging behind on Fund accounts. Issues raised on Funds administered by this Ministry are a clear demonstration of badly managed Funds, characterized by absence of accounting records, management override of controls, absence of supporting documentation for expenditure incurred, and absence of operating procedures and guidelines. The Committee continued to recommend for Treasury to institute punitive measures against Ministries which failed to submit financial statements for Funds within statutory deadlines. The conduct constitutes an abrogation of the constitutional provisions which require state institutions at every level to be accountable to Parliament.

The Auditor General in her 2016 Annual Report had echoed sentiments by the Committee over the years for Treasury to review retention Funds and allow revenue collected under Funds to be accounted for through the Consolidated Revenue Fund. Provision for resources under Fund accounts in most Ministries is now made in the Budget; hence in 2016 the audit noted a reduction in the number cases where there was intermingling of Funds and Appropriation accounts. It is the Committee's hope that Treasury continues to monitor and scrutinize the manner in which Funds are being managed to ensure adequate internal controls are in place, there is proper management and intended objectives are achieved. Below are the Committee findings, observations and recommendations.

2.0 OBJECTIVES OF THE ENQUIRY

The Committee examined issues raised on Ministry's Appropriation and Fund Accounts by the Auditor General in line with its mandate as spelt out in Section 299 of the Constitution of Zimbabwe of 2013 and as articulated in Standing Order No. 16. Precisely, Section 299 states as follows:

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

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

In addition, the National Assembly Standing Order No. 16 mandates PAC to examine the sums granted by Parliament to meet public expenditure and such other accounts laid before the National Assembly. It is, therefore, the duty of the Public Accounts Committee to give assurance to the House that public funds have been managed and utilised as approved by Parliament and in line with regulatory frameworks.

3.0 METHODOLOGY

The Committee had two oral evidence sessions with the then Permanent Secretary and Accounting Officer for Ministry of Higher and Tertiary Education Prof. Gudyanga and other senior officials within the Ministry. It also requested supporting documentary evidence which was analysed and these formed the basis of the Report.

4.0 FINDINGS, OBSERVATIONS AND RECOMMENDATIONS BY THE COMMITTEE

4.1 APPROPRIATION ACCOUNTS FOR THE MINISTRY OF HIGHER AND TERTIARY EDUCATION, SCIENCE AND TECHNOLOGY DEVELOPMENT FOR THE YEAR ENDING DECEMBER 31, 2016

4.1.1 Unsupported Payments for Foreign Services amounting to $121 000

The Audit observed that, payments totaling $121 000 made to Foreign Missions were not fully supported by invoices, receipts from suppliers and acquittals in violation of Treasury Instructions 1216. The Audit, therefore could not ascertain whether expenditure incurred at Foreign Missions was a proper charge on voted funds.

The then Permanent Secretary Prof. Gudyanga informed the Committee that payments for transactions at Foreign Embassies were made through Ministry of Foreign Affairs and International Cooperation, which in turn acknowledge the transfers by issuing receipts. He indicated that the acquittals were retained by the Ministry of Foreign Affairs. He attributed delays in submitting acquittals by Ministry of Foreign Affairs to shortages of funds in the off shore Nostro Account which in turn delay transfer of funds to Missions. The then Permanent Secretary also informed the Committee that the Ministry was following up on the acquittals with the Ministry of Foreign Affairs.

The Committee noted with concern that there was a dereliction of duty on the part of the Ministry by not making serious efforts in following up on the acquittals with either the Ministry of Foreign Affairs or directly with its officials at Missions. The Ministry should directly obtain supporting documentation for expenditures incurred abroad by its officers rather than to wait for Ministry of Foreign Affairs to provide such documentation. Ministry of Foreign Affairs is only a conduit through which disbursements are made but the Ministry of Higher and Tertiary Education, Science and Technology Development remains with the responsibility to account for such funds.

4.1.1.1 ***The Committee recommends that the Ministry should avail to the Auditor General all the supporting documentation for the $121 000 by 30 June, 2018. At the same time, it should advise on measures taken to prevent recurrences in future.***

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4.1.2 Prior year variance of $23 902 between the Sub-Paymaster General Account and the Appropriation Account figure

The Committee observed that the Ministry failed to reconcile the outstanding variance of $23 902 between the Sub-Paymaster General Account and the Appropriation Account noted in 2015. The

Ministry suspected that some transactions could have been processed into the System but funds were then not made available. At the time of receiving evidence, end of last year, it indicated that investigations into the variance were underway and would be finalized by end of December 2017.

The Committee's assessment is that, the Ministry would have detected the variance on time, if monthly reconciliations were being carried out religiously. It failed to understand why it had taken the Ministry two years to clear the variance.

4.1.2.1 ***The Committee recommends that the Ministry should by 30 June, 2018 submit reconciliations clearing the variance.***

4.2 AMENITIES FUND ACCOUNT 2011 AND 2012

The Committee learnt that the Amenities Fund was established under the repealed Audit and Exchequer Act in 1967. It was set up for polytechnics, Industrial Trade Testing Regions and Teacher's Colleges. The objective of the Fund as provided in section 3 of the Fund Constitution was to:

- provide students with facilities for sporting, social and cultural activities in colleges,
- support education in subjects of vocational and technical cultural or intellectual nature;
- provide study aids for students;
- provide advances for students awaiting delayed approved scholarships, and
- provide advance salaries for staff whose salaries are in arrears and canteen facilities for students and staff in colleges.

The Ministry should amend the Constitution of the Fund by 31 July, 2018 in order to reflect the Public Finance Management Act as the relevant statute for the establishment of the Fund. Treasury should ensure that all the Constitutions of various Funds are amended accordingly by 31 December 2018.

4.2.1 **Late Submission of Financial Statements- 2011 and 2012 and failure to maintain accounting records**

Section 35 (4) of the Pubic Finance Management Act requires Ministries to submit financial statements for Funds within three months after the end of a financial year. It was highlighted that financial statements for 2011 and 2012 were only submitted for audit on 30 April, 2014 and 30 May, 2014 respectively, about two to three years after the deadline. The 2015 and 2016 financial statements were again submitted late, that is, on 13 June 2017 instead of 31 March in 2016 and 2017 respectively. Furthermore, the institutions were not maintaining proper books of accounts resulting in numerous variances between the aggregate financial statements balances and physical records inspected during audit.

The Ministry attributed the late submission to a whole range of challenges affecting the 27 learning institutions. These institutions were individually collecting and administering funds and then prepare and submit financial statements for consolidation at Head Office. Some institutions were preparing accounts manually while others had computerized accounting system. Some presented accounts with errors while others because of the manual accounting systems were lagging behind in terms of preparing and submission of returns. There were also cases of poor performance in some colleges. Some institutions were failing to maintain proper accounting records. A combination of these factors had made consolidation of financial statements at Head Office a nightmare, resulting in delays in submission of financial statements by the Ministry and the variances observed during audits.

In addressing these challenges, the Ministry indicated that all institutions were instructed to introduce a computerised pastel accounting package with the same charts of accounts to improve accounting processes. It instituted on the job training for accountants with challenges in preparing financial statements. It also requested the Civil Service Commission (CSC) to upgrade heads of departments for finance, human resources and administration and the request had been granted. However, progress was only noted at Mutare and Mkoba Teacher's Colleges which acquired and installed Pastel Accounting system. The rest were still lagging behind in maintenance of accounting records and use of computerized accounting systems. The Committee observed that the Ministry was not effectively playing its supervisory role on the learning institutions. The Committee learnt that all Funds are being moved to the Public Finance Management System (PFMS) and operate using the SAP system. It has also learnt that the Accountant General has already introduced 40 Funds onto the SAP system and is discouraging Ministries from buying any other accounting packages without approaching the Accountant General's Department.

4.2.1.1 ***The Committee recommends that the Ministry should ensure that all institutions are computrised by 31 August, 2018. The Ministry should approach the Accountant General's office with its list of Funds so that they are introduced to the Government SAP system for accounting of the Funds resources. It should also ensure that all institutions are maintaining proper books of accounts.***

4.2.2 Unexplained difference between the opening and closing Accumulated Fund figures in 2011 and 2012

In 2011, an unexplained difference of $287 748 was observed between the opening and closing Accumulated Fund figures and in 2012, the difference was $158 382. The Ministry attributed the differences to imbalances in financial statements submitted to Head Office by the learning institutions. As highlighted earlier on, the Ministry indicated that some of these institutions were operating manual accounting systems while others did not have accountants with requisite skills hence the imbalances in the financial statements. It informed the Committee that individual institutions had been requested to investigate the variances.

In addition there were also variances noted between aggregated financial statements balances and cash book balances which the Auditor General attributed to non-maintenance of accounting records and general ledgers. The Ministries indicated that variances were due to different accounting systems that were being used by learning institutions. For instance, some were on cash based accounting while others were on the accrual accounting system. Going forward, the Ministry had instructed all learning institutions to adopt the accrual accounting system on the chart of accounts.

The Committee was disappointed by the apparent lack of supervision of institutions of higher learning by the Ministry. This was demonstrated by use of different accounting systems, late submission of financial statements and failure by institutions to carry out reconciliations to prevent imbalances resulting in Auditor Generals expressing a disclaimer of opinion on the set of financial statements. Institutions were left to themselves yet the Ministry should play an oversight role over these institutions.

4.2.2.1 ***The Committee recommends that the Ministry should fully investigate the variances and submit the evidence to the Committee and the Office of the Auditor General by 30 June, 2018. The Committee recommends that by the time of the next audit the Ministry must ensure that the learning institution's accounts are properly administered.***

4.2.3 Payment of $1 497 136 in salaries, wages and allowances to casual workers without CSC approval

The Audit observed that Management had used the income from the Fund totaling $1 497 136 to employ and pay casual workers without CSC approval as required by the Public Service Act. [*Chapter 16:04*]. The Ministry said the amount in question was paid to casual workers employed by nine polytechnics and 9 teachers' colleges in their fundraising activities. The payment of wages was approved by the Accounting Officer as provided for in section 5 (b) of the Fund Constitution. It states that the expenditure of the Fund shall, among others, be payments relating to wages and other benefits paid to staff employed in the canteen by colleges. The Ministry also argued that the requirement for CSC approval only came into effect with the new Constitution of Zimbabwe enacted in 2013.

The Committee noted that the Accounting Officer was permitted then in 2012 to approve such expenditure by the Fund Constitution since the Constitution came into being in 2013. There is, however, need to align the Fund Constitution with the Constitution of Zimbabwe. The Ministry had approached Treasury in a bid to have the Fund merged with the Tertiary Fund for ease of administration of the two.

4.2.3.1 ***The Committee recommends that the Ministry of Finance and Economic Development should consider the proposal to merge the two Funds and finalise the process by 31 August, 2018. The new merged Fund Constitution should be aligned with the new Constitution of Zimbabwe.***

4.2.4 **Absence of debtor control system resulting in unexplained difference of $441 908 (2011: $1 166 107) between financial statements and the Consolidated Account**

The Audit observed that income from students' fees was at times recognized on cash basis contrary to the accrual basis of accounting, which requires that such revenue be recognized when invoices for fees due are raised. Debtors were therefore, misstated in the financial statements. The same discordance was observed on assets management whereby some institutions had expensed their assets in the Comprehensive Income resulting in assets worth $924 012 being expensed in the Consolidated Statement of Comprehensive Income.

The Ministry acknowledged the observation and indicated that measures were being taken to standardize the accounting reporting framework. As observed before, the Ministry was not playing its supervisory role over learning institutions hence the use of different accounting standards. In September 2017, there were no significant changes observed as the majority of institutions could not avail comprehensive debtors' lists of schedules that are used to come up with debtors' figures.

4.2.4.1 ***The Committee recommends that the Ministry should ensure that institutions put in place debtor control systems and that debtor variances are investigated and reconciled by 31 August, 2018.***

4.3 INNOVATION AND COMMERCIALISATION FUND 2014 AND 2015

The Fund was established in 2002 to fund scientific research inventions and innovations of national importance and to commercialize research and development results.

4.3.1 $47 155 debt written off without Treasury Approval

The audit observed that an amount of $47 155 in respect of Accounts Receivables was written off during the financial year 2015 without Treasury authority. The Ministry acknowledged the observation. It utilized Fund resources to meet expenditure ordinarily met by Appropriation funds with the intention to reimburse after Treasury had released the funds. It then decided to expense the debt after Treasury failed to disburse the funds.

The Committee expressed concern on the tendency by the Ministry to disregard laid down procedures. In the first place, the Ministry did not seek Treasury authority to utilize Fund resources when Treasury releases were not forthcoming. It then decided to cover up for the misapplication of Fund resources by reclassifying the receivable as an expense. The Committee noted that since the 2017 Budget, the expenditure under Funds would be monitored through the PFMS and as a result misapplication of Fund resources would be curtailed.

4.3.2 Failure to recover loans amounting to $201 344 (2014: $185 909)

As observed in 2014, the Fund failed to meet its intended objectives due to failure to recover loans amounting to $201 344. In terms of the Standard Operating Procedures Manual, beneficiaries should start serving the loans six months after receiving the loan. Only one beneficiary had paid $1000.

The Committee noted with concern that the Ministry did not do due diligence before disbursing loans to beneficiaries. It was not prudent for the Ministry to disburse loans without any form of security in order to safeguard public funds. Even though beneficiaries were failing to pay, the Ministry continued to disburse loans without taking into account the sustainability of the projects. It indicated that it had written letters of demand on three occasions but to no avail. A meeting held between the then Deputy Minister, Hon. Dr Gandawa and the beneficiaries showed that the Ministry was sympathetic to the beneficiaries and as a result they were reluctant to pay back the loans. The Ministry indicated that it currently fund innovations being implemented in partnership with learning institutions.

4.3.2.1 ***The Committee recommends that the Ministry should seek Treasury authority by 30 June, 2018 with a view to have the outstanding loans written off.***

4.3.3 Failure to invest an amount of $85 531 sitting in the Bank Account

The Audit observed that the Ministry could not invest $85 531 that was lying idle in the bank account for two years. In 2015, the Fund had an opening bank balance of $85 531 and by year end had a closing balance of $80 331 as it was incurring charges. The Fund Constitution provides for investment of funds that are not required for immediate use.

The Ministry indicated that the funds were later used to procure a vehicle which was never delivered. The delay in delivery of the vehicle was blamed on the shortage of foreign currency. The Committee was not convinced that the shortage of foreign currency was already an issue in 2015. There was a likelihood that the Ministry just paid for the vehicle and no follow up was made with the supplier until the supplier was caught up in issues of foreign currency shortages. The Committee was not convinced why the Ministry in the first place had to pay for a vehicle which was not in stock. Given that the vehicle was for monitoring projects being funded under the Fund, the Committee questioned whether the funds were not enough to purchase two vehicles. Due care was, therefore, not given to issues of economy, efficiency and effectiveness in the use of public resources. The Committee noted with concern that this was another case of a badly managed Fund by the Ministry. It reinforces the call by the Committee for Funds to be channeled through the Consolidated Revenue Fund for spending to be under Treasury control.

The Committee notes that the vehicle was finally delivered after about a year following an order being made. The Committee had recommended that the Ministry gets a refund and source the vehicle from the local market when delivery was taken.

4.4 NATIONAL EDUCATION FUND, 2014

The Fund was set with the objective to provide grants and interest bearing loans to enable deserving students who are citizens of Zimbabwe and who are of well attested ability and proven diligence, to pursue course of studies leading to the acquisition of professional qualifications at local and foreign universities, teachers and agricultural colleges and other institutions of higher learning approved by the Permanent Secretary. The Auditor General issued a disclaimer of opinion which is a clear indication that there were serious deficiencies in financial records to the extent that the Auditor could not obtain sufficient audit evidence upon which to base an opinion.

4.4.1 **Non-disclosure of Debtors and Maintenance of Records**

The Audit observed that the Ministry did not disclose outstanding stipends for student on bilateral scholarships amounting to $1 221 500. The Ministry indicated that it was facilitating placement of students in foreign universities on a cost sharing arrangement with such universities. Treasury was expected to meet the difference but disbursements were erratic. The Ministry then requested parents and guardians to meet the difference. It therefore, stopped disclosing the debt in its books since it was no longer accruing but would recognize funding on cash basis and expense it whenever Treasury made some disbursements.

Failure to disclose the debt could result in misstating the outstanding stipends and consequently misled Treasury when making releases. The Committee expressed concern on the failure by government to meet its obligation as this has caused untold suffering to students on bilateral scholarship arrangement. Government normally targets children from less privileged backgrounds and the chances of parents meeting the cost on behalf of government was very unlikely. Government, therefore, had an obligation to pay for those students. The Committee noted with concern that some students ended up engaging in undesirable acts such as prostitution and drug abuse, much to the discredit of the country’s image.

It is the Committee's view that when Government sends students out of the country, its commitment is absolute. It has a moral and a financial obligation to meet that commitment.

4.4.1.1 ***The Committee recommends that the Ministry should fully disclose the full debt in the 2017 financial statements which should be availed to the Auditor General within the prescribed time limit for submission of statements.***

4.4.2 Expenditure not disclosed in the correct period

Financial Statements submitted for Audit indicated a total expenditure of $528 931 for the year under review while payment vouchers audited revealed that $314 000 of that amount was related to prior periods. No liability was disclosed in the financial statements. The Ministry indicated that it owed $62 million in cadetship fees to institutions and the amount was not disclosed as a liability in the financial statements. This was attributed to use of cash as opposed to accrual accounting system It indicated that institutions were instructed to use the accrual system and the amount was eventually disclosed in the 2016 financial statements.

The Ministry informed the Committee that institutions were employing various strategies to recover the debt from students. For instance, some institutions were withholding certificates for students under cadetship upon completion of programmes. Through these strategies, the debt had been reduced to around $30 million.

As observed earlier on in relation to students on bilateral scholarships, the Committee expressed concern that Government had made a commitment to pay for student on cadetship but was now burdening institutions by not fulfilling its financial obligation. The Ministry indicated that cadetship had since been abandoned due to lack of funding. The Committee is of the view that it was immoral for institutions to withhold certificates for students on cadetship since they were owed by government and not individual students who were funded through cadetship programme.

4.4.2.1 ***The Committee recommends that Government should clear the debt which accrued under the cadetship programme by 31 August, 2018. The Committee also recommends that learning institutions desist from withhold student's certificates for money owed to them by Government.***

4.4.3 **Issuing of Student Loans without following proper procedures**

The Fund's Constitution stipulates that expenditure of the Fund shall include payment of approved loans, grants for tuition, stipends and fares. A total amount of $19 078 from a sample of 16 students was spent on tuition, food and accommodation at local universities and abroad and reflected as other expenditure. Reflecting the payments as "Other Expenditure" gave an impression that the students might not have been among those who qualified for funding under the Fund's Constitution. The Ministry indicated that the payments were for fees for desperate cases that approached the Accounting Officer directly or were recommended by other institutions and were treated on a case by case basis.

The Committee observed that the Fund might run the risk of benefiting undeserving students if laid down procedures were not followed. The Committee could not understand why those so called desperate cases could not follow the laid down procedure for accessing funding. Moreso, the Fund did not give the Accounting Officer the latitude to vary the procedures.

4.4.3.1 ***The Ministry should avail to the Auditor General the necessary documentation showing recommendations by other institutions or government departments and the Accounting Officer by 30 June, 2018***.

4.5 **CONCLUSION**

Issues raised under the Funds administered by the Ministry of Higher and Tertiary Education, Science and Technology are quite serious. There is lack of supervision in the management of these Funds as demonstrated by poor maintenance of records, delays in reporting, misapplication of Fund resources, non-adherence to Fund Constitutions to mention but a few. The Ministry should put in place effective controls to ensure proper management of these Funds. Now that Funds are also included in the National Budget, it is the Committee's hope that Treasury will ensure that there are effective controls in place to curb maladministration practices currently associated with Funds. The Committee urges Treasury, in the long run, to redirect all Funds towards the Consolidated Revenue Fund to ensure effective management of public funds.

The Committee notes with great concern that on two occasions the Auditor General has not been able to express an opinion because of inadequacies in the report. In the event that this is repeated in the next audit report, the Committee is of the view that disciplinary action should be taken against the concerned officials.