



PARLIAMENTARY BUDGET OFFICE

Analysis of the Zimbabwe Revenue Authority (ZIMRA) Audit Report Financial Year Ended December 31, 2019

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1. INTRODUCTION

The Minister of Finance presented to Parliament of Zimbabwe the reports of the Auditor-General for the Financial Year Ended December 31, 2019 on Appropriation Accounts and Fund Accounts, State Enterprises and parastatals as well as 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]. The examination of the public accounts of Zimbabwe was after the accounts were submitted by accounting officers in terms of Section 35 (6) and (7) of the Public Finance Management Act [Chapter 22:19].

The Parliament Budget Office (PBO) takes this opportunity to analyse and highlight the key aspects of the report on the Zimbabwe Revenue Authority (Zimra). The analysis aims to draw attention to major weaknesses in the internal control system (ICS) of the institution so that remedies can be expeditiously implemented.

2. AUDIT OPINIONS

An auditor's opinion is the outcome of a review of a organization's financial statements. The audit opinion is formed as to the truth and fairness of the financial statements as a whole. There are four types of audit opinions, namely:





- i. unmodified/unqualified opinion
- ii. Qualified opinion
- iii. Adverse opinion
- iv. Disclaimer

The status of the audit opinion denotes an improvement on the application of generally accepted accounting principles and reliability of statements. An unqualified audit opinion is the best possible outcome and is a clear "*thumps up*" or a clean bill. It is issued when an auditor is able to reasonably conclude that the information is free from material misstatements and is presented in accordance with generally accepted accounting principles. It is however, not a guarantee that there are no misstatements present within the information, regardless of their size or significance. The opinion provides only reasonable assurance about the information that is within the scope of the engagement.

International Standard on Auditing (ISA) 705 establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

- (a) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- (b) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

Table 1: Determining the Type of Modification to the Auditor’s Opinion

Nature of Matter Giving Rise to the Modification	Auditor’s Judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but not Pervasive	Material and Pervasive
Financial statements are materially misstated	Qualified opinion 	Adverse opinion 
Inability to obtain sufficient appropriate audit evidence	Qualified opinion 	Disclaimer of opinion 

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

2.1 Audit Opinion for ZIMRA







The Auditor-General audited the ZIMRA financial statements and revenue returns for the year ended December 31, 2019 and issued an **adverse opinion** on the Authority’s financial statements, **a modified opinion with emphasis of matter paragraph** on the Outstanding Revenue Return, **unmodified opinion with an emphasis of matter paragraphs** on the Revenue return, Revenue Written Off, Tax Reserve Certificates Return and Receipts and Disbursements return. As such, the AG noted that because of the significance of the matter, the financial statements do not present fairly the financial position of ZIMRA as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Table 2: Basis for the AG opinions

OPINION	BASIS FOR THE OPINION
Adverse opinion for financial statements	For the second year in succession, Zimra translated its comparative financial statements and transactions for the period up to February 22, 2019 using an exchange rate of USD 1:ZWS\$1 as prescribed to entities through SI 33/2019. Although legal, multiple pricing practices and other transactions observed and reported publicly indicated exchange rates other than 1:1. This implies that the

	<p>exchange rate used did not meet the criteria for appropriate exchange rates in terms of IFRS as defined in IAS 21. The Authorities balances and transactions denominated in USD were therefore not converted to ZWL at an exchange rate that reflects the economic substance of its values. This was considered to be both material and pervasive to the financial statements as a whole</p>
<p>Qualified Opinion on the Outstanding Revenue Return</p>	<ul style="list-style-type: none"> ▪ The SAP system allowed creation of duplicate contract accounts for the same revenue head under one business partner number thereby distorting outstanding revenue for the individual business partners. ▪ The SAP E-services platform was not charging civil penalties for some outstanding returns. and incorrectly charging interest to some clients despite being up to date. The extent of the misstatement could not be established ▪ Tobacco levy returns were not submitted by some clients as required by the Income Tax Act [Chapter 23:06]. ▪ As at December 31, 2019 all interest and penalties were yet to be reversed on the accounts of all approved clients for a Tax Amnesty waiving interest and penalties for late payments of tax arising prior to June 30, 2018 ▪ Regional consignments entries amounting to ZWL\$30 699 543 (2018: ZWL\$ 13 991 861) had not been acquitted as at December 31, 2019 with some dating back to 2015. As a result, the extent of outstanding duty payable to be included in the outstanding revenue return could not be ascertained as some of the goods might have been consumed locally. ▪ 49 620 Electronic Temporary Import Permits (2018: 35 210) had not been acquitted despite the fact that they had expired as at December 31, 2019 (excluding those permits that are manually issued) with some dating back to 2013. Some of the vehicles may have been localised compromising potential duty payable
<p>Unqualified with emphasis of matter on the Revenue return, Revenue Written Off, Tax Reserve Certificates Return and Receipts and Disbursements return</p>	<p>The Authority converted outstanding USD revenue prior to the 20 February 2019 announcement of 1:1 exchange rate parity at a rate of 1:1. In June 2019 the Zimbabwe dollar was reintroduced hence outstanding revenue denominated in foreign currency was converted using applicable interbank exchange rate as at December 31, 2019. Included in the Outstanding Revenue Return is ZWL 9 315 125 which relates to amounts from companies under liquidation and judicial management.</p>

Table 3: Audit Opinions issued on ZIMRA (2014-2019)

2014	2015	2016	2017	2018	2019
Unqualified with an Emphasis of matter	Unqualified with an Emphasis of matter paragraph. Outstanding revenue Qualified with an Emphasis of matter paragraph	unqualified	unqualified	Adverse due to noncompliance to IAS 21	Adverse due to noncompliance to IAS 21
					




Key :  Unqualified opinion  Qualified opinion  Adverse opinion

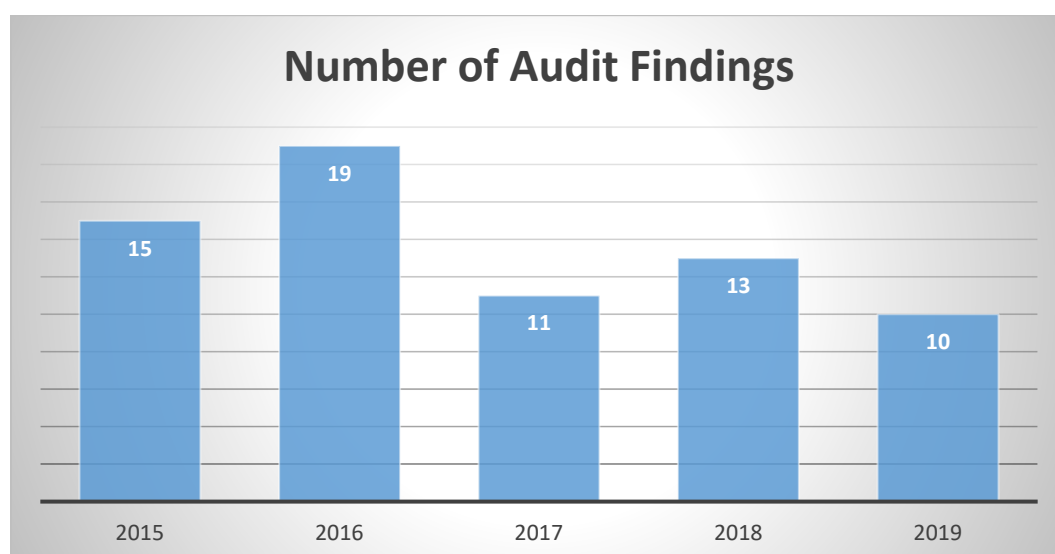
Table 2 indicates that the qualified opinion has been issued three times while for 2018 and 2019 the Authority has been receiving adverse opinion. It should however be noted that the adverse opinions are as a result of policy inconsistencies on the exchange rate. The ‘multi-tiered pricing environment resulted in transactions bearing similarities to what one would expect with transactions that are undertaken in different currencies to which IAS 21 would apply Authority’s inability to comply with IAS 21

3. AUDIT FINDINGS/OBSERVATIONS

3.1 Number of audit findings

Although the number of audit findings/observations for Zimra decreased from 13 in 2018 to 10 in 2019, all the 10 observations in 2019 are repeat offences with 5 of the issues dating back to 2015.

Figure 1: Number of Audit Findings



Source: AG reports

The issue of creation of duplicate contract accounts in the SAP system, failure to charge civil penalties for some outstanding returns, non-submission of tobacco levy return as well as non-acquittal of some regional consignments entries and Electronic Temporary Import Permits has been flagged for several years.

3.2 Table 4: 2019 Audit observations

OBSERVATION	RISK AND RATING	MANAGEMENT RESPONSE
Tobacco Returns: Tobacco auctioneers were not submitting returns within the required 48 hours from date of sale for assessments in order for the account balances to be established. This was due to huge compliance costs to such requirement and Auctioneers had proposed review of legislation.	Misstatement of outstanding revenue M	The proposed legislative changes to move returns within 48 hours to monthly was submitted to Ministry of Finance for consideration. The outstanding 35 returns are being followed for submission by 15 May 2020.
Tax clearance certificates: The online tax clearance system was processing tax clearance certificates for all clients, including those who were not submitting returns (non-filers) as it was not configured to reject requests from non-filers.	Loss of revenue H	The Authority is following up all outstanding tax obligations and has introduced a number of publicity campaigns to enable wide coverage through electronic and press media.
Procedure for Royalties agent: There were no procedures covering the agent-principal relationship for the appointed agent who was collecting mining royalties on behalf of Zimra. The generic procedure that was being used did provide for timely reconciliations as a control measure.	Loss of revenue due to errors and irregularities that may not be detected on time H	Management will review the work process to ensure timely follow ups on royalties. Reconciliations for 2019 are now up to date.

<p>Removal in Transit (RITs): The Asycuda system was not configured to timely detect declarants with outstanding obligations for Removal in Transit (regional consignments) entries. As a result, RIT entries amounting to US\$30 699 543 (2018: US\$12 005 819) had not been acquitted as at December 31, 2019. Some of the entries dated back to the year 2015 Ordinarily, these entries should have been acquitted within the prescribed period of 3 days with possible extension when the importer experiences a breakdown.</p>	<p>Loss of revenue. Outstanding revenue return may be materially misstated</p> <p>H</p>	<p>Observation was noted and Although the system cannot Zimra indicated that reports of outstanding entries can be generated. The system currently provides for diversion of a transit consignment into consumption whereby the clearing agent notifies ZIMRA and the necessary clearance procedures for payment of duty commence.</p>
<p>Temporary Imports Permits of Tourists' Vehicles (TIPs): The Authority's TIP system was not configured to detect vehicles that had expired TIPs when issuing new TIPs. As a result, some applicants had multiple outstanding TIPs. In addition, the system did not capture the applicant's details such as addresses and full names to allow the Authority to detect applicants with outstanding TIPs. I also noted that the system did not have capacity to process TIPs during peak periods, hence, the Authority ended up resorting to manual processing of TIPs resulting in some applicants having multiple TIPs. (49 620 outstanding as at 31 Dec 2019 (2018: 35 210, 2017: 20 394)) The manual outstanding TIPs could not be ascertained as the process of matching the originals to the acquittals was ongoing.</p>	<p>Loss of revenue due to irregular use of TIPs.</p> <p>H</p>	<p>The Authority undertook to continue making follow ups on the outstanding TIPs with other border posts, checking on whether vehicles exited through any of the Ports of Entry for the acquittal process. Currently there is no MOU between ZIMRA and ZINARA on possible blocking of vehicles with outstanding TIPs by Registration number plates at tollgates</p>
<p>Report Orders: Some goods were not cleared within the stipulated 7 days period. As such, over \$54 million (2018: \$102 million) had not yet been acquitted as at December 31, 2019 for some of the report orders. Some of these report orders dated back to the year 2012. There was no evidence to support that the importer sought and was granted an extension.</p>	<p>Revenue leakages through potential misuse of the report order system.</p>	<p>Management undertook to continue to engage Government Departments to expedite the acquittal of outstanding report orders.</p>

3.3 Implementation of prior year Audit Recommendations

As noted above, 5 issues are still outstanding since 2016 while the issue of the exchange rate used not meeting the criteria for appropriate exchange rates in terms of IFRS as defined in IAS 21 was first flagged in the 2018 report. The following progress is noted in the report

- i. The issue of the Board of Directors which comprised of seven members (five non-executive directors and two executive members) whose numbers could not enable the Board to form sub-committees as there was a limited number to choose from. Was partially addressed. The Minister had appointed one more member to the Board in September 2019. AG recommended Board size, diversity and demographics to be considered on the appointment of Board of Directors.
- ii. Mining Royalties Collection: DTI 20 procedures were followed which compels the authority to verify the quality and quantities of minerals against declarations. Customs exports information is utilized as part of the verification process. In order to enhance understanding of the mining sector and collection of royalties, ZIMRA was having direct meetings and reconciliations with large miners and MMCZ. AG recommended designing of policies and procedures to allow Zimra to regularly visit mining entities and verify quality and quantities of minerals declared by these entities in their returns.

4. RECOMMENDATIONS

The Auditor General recommended the following:

- Continuous follow ups should be done on the outstanding report orders to be cleared
- The system should be configured to detect expired TIPs.
- The system should be improved to allow for adequate customer details to be captured.
- The Authority should consider improving the process of clearing RITs and ensure guarantees are called on time once the acquittal time lapses
- Management should consider designing procedures to manage the agent-principal relationship.
- Reconciliations for mining royalties should be done on time.
- Management should ensure that the system is configured to reject tax clearance certificate requests from non-tax compliant customers
- Management should continue engaging respective Legislative Authorities for the possible review.
- Management should ensure that all auctioneers comply with the law

Realising that most of the issues are repeat offences which border on exchange rate inconsistencies and system deficiencies, the following is recommended:

- ✓ Provision of clear guidelines on Authorities balances and transactions denominated in USD were therefore not converted to ZWL at an exchange rate that reflects the economic substance of its values
- ✓ Adequate funding of Zimra is essential to allow for system upgrades. In that regard, ZIMRA must be allowed to retain a certain percentage of the revenue for its operations. This will allow for Zimra to be adequately equipped with the proper tools of trade such as computers, scanners, drones, surveillance cameras and vehicles.