

The effectiveness of internal controls in revenue management: A case study of Zimbabwe Revenue Authority (ZIMRA) (2011- 2012)

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ABSTRACT

This paper sought to closely look at the effectiveness of internal controls in revenue management and expenditure management by the Zimbabwe Revenue Authority (ZIMRA). ZIMRA has continuously upgraded its internal controls systems since the time it was incorporated in 2001. From that time the organisation strove to provide services efficiently and effectively to the general public and its main stakeholder, the Government of Zimbabwe in Revenue Management. This paper was to establish whether these measures of establishing internal controls produced meaningful results in increased efficiency, increased revenue inflows as well as minimised revenue leakages. Basic accounting tools were used to gauge the extent to which these were met. The paper went on to give advice to the Revenue Authorities as how they could possibly achieve the best results in utilising the established internal control revenue management systems. The paper also explores how to improve on existing internal control systems and even the establishment of potential control systems.

The data used was extracted from the following sources:

- a) The Rev news (ZIMRA bulletin)
- b) Zimbabwe Revenue Authority website
- c) ZIMRA annual Plans and year end evaluation Reports for years 2001-2012
- d) Ministry of Finance Budget Statement
- e) Primary data collected by the researcher
- f) Fiscal Policy Statements

Keywords: revenue management, tax base, internal controls, accounting records, segregation of duties

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INTRODUCTION

Zimbabwe revenue authority (ZIMRA) was established in January 2001. Initially it was set up as the department of taxes and customs and excise and it was under the auspices of the Ministry of finance and home affairs respectively. The organisation was set up after the enactment of the Revenue Authority act on 11th of February 2000 (www.zimra.co.zw).

The formation of ZIMRA was mainly to facilitate the widening of the tax base by streamlining the tax expenditures, minimising revenue leakages and enhancing trade by expediting smooth and quick clearance of goods and travellers. Cognisance of the fact that viability will be enhanced with efficient internal controls and proper accounting systems ZIMRA embarked on huge capital outlay in procuring and establishing accounting software like SAP, Microsoft Office excel and Asycuda (Automated Systems Customs Data) and implementing the relevant internal controls to ensure continued viability.(The Rev News-ZIMRA Bulletin, May 2012). Although the organisation has committed itself to the large capital expenditure on accounting packages and internal controls there are still widespread claims and perceptions that there are a lot of leakages through unscrupulous activities within the organisation. This raises the fundamental question of whether the whole effort on the investment was in vain. This study therefore seeks to explore the effectiveness of the internal controls in ZIMRA's revenue management given the claims and perceptions to the contrary. The paper therefore aims to verify whether the huge capital outlay on accounting software and other internal control systems done by ZIMRA has any impact in the revenue collection.

The purpose of the study is to establish whether the instituted internal controls have contributed to improved revenue management.

LITERATURE REVIEW

Accounting systems

According to Puttick (2001), an accounting system is an array of tasks and records kept by an organisation by which transactions are processed as a result of maintaining proper financial records. The process should be able to identify, analyse, calculate, classify, record, summarise and report transactions and events as they occur.

Internal controls

Internal control systems as Puttick (2001) puts it are a set of organisational policies and approved internal processes (internal controls) crafted by management of an organisation to ostensibly achieve management's primary objective of ensuring that the business operates flawlessly. He went further to explain that a business is said to be running smoothly if they are able to stick to the management policies, to protect the organisations assets, set up a system that would stop and eradicate manipulation of the accounting information.

Internal controls could be all encompassing, covering the accounting systems and the other operations of the organisation. Accounting systems controls are those that are designed to ensure that financial reports produce complete financial information and are free from error and can be relied on. These controls encompass segregation of duties particularly as it relates to preparation of accounting records and the custody, keeping of assets, safekeeping of assets and the continuous comparison of assets and internal auditing. (Puttick,2001)

Revenue management

Revenue Management, sometimes referred to as called yield management refers to a combination of methods employed to improve the viability of a business. It is a method that employs various management aspects such as rate management, revenue streams management, and distribution channel management. It involves a number of disciplines like marketing, operations, and financial management into a highly successful new approach. A revenue manager must work as a team with other departments to be able to come up with successful revenue management strategies.(Holzer and Kimes,2002)

Holzer and Kimes (2002) define revenue management as a method of selling a product to the right customer at the appropriate time and at an acceptable price. This he said would ensure that profits are maximised.

Slamet (1995) prefers to define revenue management as an approach which is systematic, continuous and integrated. The whole aim according to Slamet(1995) is to maximise revenue by mainly working on price changes in response to the expected demand. Accordingly it can safely be concluded that revenue management requires a full understanding of historical patterns in order to predict the future.

According to Slamet(1995) revenue management refers to managing all aspects that deals with money. This is called the 'money chain'. Accordingly anything that involves money is an aspect of revenue management. In accounting processes it would refer to the time a transaction takes place in a business to the time when cash is actually received. Inadvertently, revenue management encompasses all the aspects of the 'money chain' that also touches on the management of customers and partners. (Slamet,1995)

Internal controls in Revenue management (ZIMRA)

The primary reason why ZIMRA was formed was to develop improve on revenue collection measures as well as making sure that all revenue leakages are closed. The other important reason for the formation of the organisation was to ensure that it expedites trade by putting in place those measures that allow controlled movement of goods and services. ZIMRA has put in place measures to reduce the leakages. They invariably include segregation of duties, custody of assets, strict authorisation procedures, internal audit, the use of passwords, proper record controls and management supervision. (www.zimra.co.zw)

Segregation of Duties

This principle of internal control states that if certain aspects are performed by one individual there is a chance that that person can fraudulently convert the assets of the organisation to own self and also manipulate the accounting records. In accounting for revenue in ZIMRA the three aspects underlying any revenue transaction which are authorisation, execution and recording are performed by different individuals. There must be a clear separation between those initiate records and those who are responsible for the collection of the money. This does not completely remove the possibility of fraud. This is just a control measure. Other measures also have to be instituted within the organisation like strict follow up on people's backgrounds when hiring. Adequate screening of prospective employees before hiring them and management supervisory checks should minimise this risk, or detect collusion if it has indeed occurred. (www.zimra.co.zw- internal control manual)

Custody of assets

ZIMRA has put in place requisite measures for the protection of company assets. The measures are meant to ensure that only those authorised have access to the organisation's assets.

- In the case of some border posts where there are no banking facilities money is transported from these ports of entry in fully armoured cash in transit (CIT) vehicles. The cash is contained in cash boxes which are sealed and locked. The bank keeps the keys to the cash box.
- In the event that money is not banked within stipulated time (24hrs) due to unforeseen reasons, the money is kept under lock in a safe in a storeroom. These storerooms and safes have locking facilities with adequate control over keys. In addition to that they also have alarm facilities.
- In high cash volumes environment such as toll sites (tollgates) cash in hand is kept to a minimum by regularly clearing tills during the day and banking the takings promptly. Again if cash is not banked until the following day their receipts are locked in a safe overnight.

Apart from the physical controls to protect assets and or revenue, further control is indirectly introduced by regularly counting assets and comparing quantities with those recorded. The realisation that any perceived shortages are likely to be thoroughly checked to establish the cause of the shortage will definitely lessen or prevent misappropriation (Puttick et al 2008)

Authorization

The obligation to safeguard the revenue of ZIMRA requires that transactions are entered into the systems (SAP) once they have been authorised by the appropriate individual and that each transaction conforms to the terms of its authority. Through interviews the authors managed to establish that if an individual tries to enter unauthorised transactions in the system, the system would deny access due to lack of authority to execute the transaction in question.

The use of passwords ensures that no one has the right to enter unauthorised information which might distort revenue generation. The use of Passwords discourages individuals to undertake corrupt activities as transactions are continuously monitored online. **(Chartered institute of personnel and development)**

Internal Audit

One important aspect of internal control is the internal audit. ZIMRA carries out internal audits regularly with the final external audit being carried between January and February every year.

Internal audit is an effective tool in revenue management because internal auditors are employees by ZIMRA hence they are better placed to understand the accounting systems, the control procedures and the control environment. It is believed that internal controls induce discipline in the organisation's workforce. Risk resulting from failure to safeguard assets from theft and failure to maintain adequate controls to ensure adequate accounting records are mitigated or reduced. **(Chartered institute of personnel and development)**

Records controls

ZIMRA's Accounting records are such that all transactions that occur are timeously recorded and correct usd dollar values and properly accounted for in the accounting records in SAP. In some purely manual accounting systems such as Sango border post, accounting records consists of source documents on which details of transactions will be initially recorded. Transactions are recorded on receipts and PCW (Petty Cash Warranty).

To enhance control, ZIMRA also perform the following tasks:

- The accuracy of information and amounts recorded on source documents are checked by independent person other than those responsible for their preparation before recorded in the SAP. These independent persons perform checks and should sign source documents as evidence of having performed the task.

There are also frequent (daily) balancing and reconciliation of cash books and the bank statements to test the accuracy and reliability of the accounting records.

(www.zimra.co.zw- internal control manual)

Management supervision

These are controls over the controls. They involve the following:

- Monitoring that laid-down procedures are operating as they were designed to, and that delegated responsibility have been properly discharged
- Analysing error detected by internal controls and taking remedial action to prevent further similar errors and fraud from occurring in the future.
- Considering changes and improvements to internal controls systems where the weaknesses have been exposed.
- Conducting surprise counts of cash on roadblocks and tollgates comparing amounts with corresponding records. This helps minimising revenue leakages.
- **(www.zimra.co.zw-internal control manual)**

Revenue collections

The only factor which bears testimony to the effectiveness of internal controls in revenue management is the authority's ability to meet and exceed targets set out by the Ministry of Finance every year since its inception in 2001 to date. Though there are perceptions of rampant corruption in the Authority's activities, the authors feel the ability of the authority to exceed targets bears testimony to the authority's efforts to thwart corruption. In an environment crippled by liquidity crunch as in 2009-2012, had it not been the strict adherence to internal controls meeting targets would have been a dream.

The Table 1.1 (Appendix 1) and Fig 1.1 (Appendix 2) show revenue collections as a percentage, which the authority surpassed targets as set by the Ministry of Finance from 2001 to 2012. The only exception is in 2001 which was largely because of the shock associated with a new order and in 2009 when the authority narrowly missed targets as a result of liquidity challenges and the shift from the Zimbabwean dollar to the multiple currency system. In 2010, revenue collections translated into 33% of the country's Gross Domestic Product. This meeting of targets can be attributed to various Revenue enhancement measures

that have been put in place such as internal controls, internal and client audits, border patrols, authorisation and segregation of duties

However there is still room for improvement by ZIMRA in performing its mandate as a revenue collector. There are some areas where manual accounting is practised and there is an urgent need to computerise the areas if revenue leakages are to be minimised.

RECOMMENDATIONS

Although generally the paper acknowledges that ZIMRA has made significant steps in achieving adequate revenue management the following are recommendations that will help to continually improve on the situation and continue to reap the benefits of good revenue management measures.

To the Zimbabwe Revenue Authority

- The researchers recommends that the ICT department should strive to continually upgrade the systems so as to keep the systems well updated with the growing capacity of operations and the provision of early attention to any system challenges. Regularly updating the SAP and ASYCUDA systems will increase speed in data mining and generation of reports in both packages. There is also need for the department to ensure that Zimra Website be always available all the time so as to acquire some online programmes and services being offered by the Authority and also to get in touch with new developments and products in the world of taxes.
- The researcher further recommend that the organization should keep on with the in-house training schemes and staff development programmes since they are very crucial in developing and upgrading the skills and efficiency of the workforce.
- The authority's decision making should be decentralised; this will improve efficiency and effectiveness. Since ZIMRA is grouped into various regions, decentralised decision making will lead to decisions that are tailor made to a specific region
- The researcher further recommends that the ICT department should strive to make sure that there is interface between the Authority's major accounting packages that is the SAP and ASYCUDA+++. Lack of interface could potentially lead to possible revenue leakages; unfaithful officers could connive together and use the same SAP number to clear as many customs clearance certificates as possible. Continued lack of interfaces between these accounting packages make the accounting system vulnerable to abuse. Many transactions in ASYCUDA have to be first entered in the SAP, however the ASYCUDA systems cannot authenticate or validate whether the reference number generated in the SAP is genuine.

CONCLUSION

Revenue collection is a critical element in Financial Management. Budgeting to a large extent depends much on how much has been collected. The measures which have been taken by the Zimbabwe Revenue Authority are sufficient to guarantee a constant inflow of revenue and curb pilferage. The collections done against targets are a testimony of the good work done by the organisation.

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Appendices

Appendix 1

Table 1.1 Revenue collection from 2001-2011 (Revenue news 2011- The ten year journey)

time(in years)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Collections (%)	99	119	117	109	133	128	297	1120	94	115	120
Variance (%)	-1	19	17	9	33	28	197	1020	-4	15	20
target%	100	100	100	100	100	100	100	100	100	100	100

Appendix 2

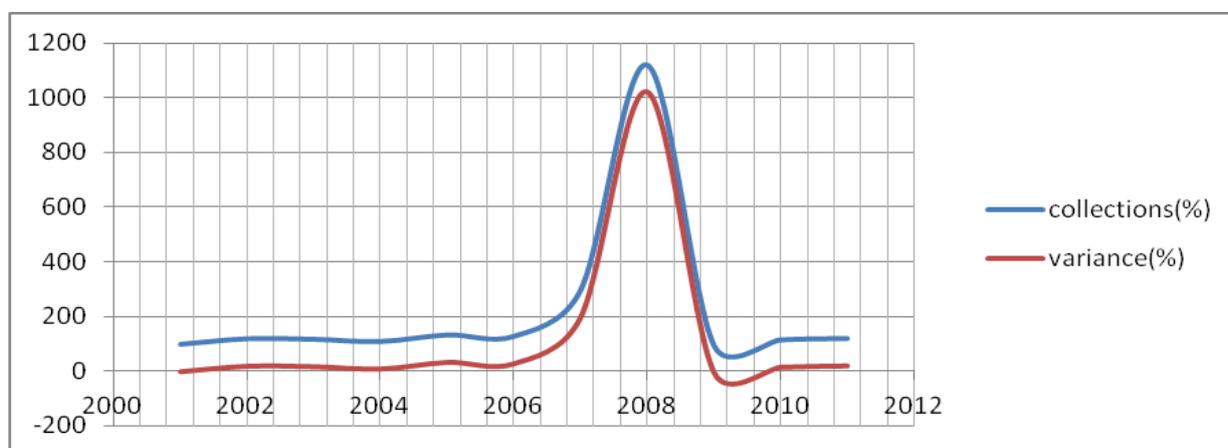


Fig 1.2 Line graph showing revenue collection against targets (Own design from Fig 1.1)

