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Ref: I 169/534

**REPORT OF THE AUDITOR-GENERAL  
TO  
THE MINISTER OF HEALTH AND CHILD CARE  
AND  
THE BOARD OF DIRECTORS  
IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF  
MEDICINES CONTROL AUTHORITY OF ZIMBABWE  
FOR THE YEAR ENDED DECEMBER 31, 2017.**

**Report on the Audit of the Consolidated Financial Statements**

I have audited the consolidated financial statements of the Medicines Control Authority of Zimbabwe and its subsidiary as set out on page 6 to 25, which comprise the consolidated statement of financial position as at December 31, 2017, and the statement of profit or loss and other comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

**Opinion on the Consolidated Financial Statements**

In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Medicines Control Authority of Zimbabwe and its subsidiary as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial reporting Standards (IFRSs).

**Opinion on the Authority's financial statements**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Medicines Control Authority of Zimbabwe as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).



## Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs) and International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Authority in accordance with the ethical requirements that are relevant to my audit of the financial statements, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Key Audit Matters

Key Audit Matters are those matters that, in my professional judgment, were of most significance in my audit of the consolidated financial statements of the Medicines Control Authority of Zimbabwe for the year ended December 31, 2017. These matters were addressed in the context of my audit of the consolidated financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. The key audit matters noted below relate to the audit of the financial statements.

Key Audit Matter	How my audit addressed the Key Audit Matter
<p><b>Valuation of trade receivables, refer to notes 8 and 3.4.1.2 in the financial statements.</b></p> <p>Management has estimated the recoverable amount of the trade receivables for the Authority to be \$897 073 as at December 31, 2017 with an allowance for credit losses of \$219 438.</p> <p>The valuation of trade receivables is dependent on certain key assumptions that require significant management judgement. As a result, the valuation of receivables was significant to my audit.</p> <p>The level of judgement required to recognise and accurately measure allowance for credit losses increases the risk that allowances may be inappropriately disclosed.</p>	<p>The following are the audit procedures that I performed to address the risk of material misstatement relating to valuation of trade receivables:</p> <ul style="list-style-type: none"><li>• Reviewed customers' payment history to confirm adherence to the terms and conditions of credit.</li><li>• Assessed the customers' ability to meet the obligations over time.</li><li>• Evaluated the reasonability of management judgements and assumptions made in estimating the allowance for credit losses considering the nature and suitability of any historic data used to support these assumptions.</li></ul> <p>I was satisfied that the Authority's trade receivables were fairly valued.</p>
<p><b>Revenue recognition, refer to notes 13, 14 and 3.5 in the financial statements.</b></p> <p>The Authority's revenue amounted to \$4 007 325 for the year ended December 31, 2017. Revenue is predominantly derived</p>	<p>The following are the audit procedures that I performed to address the risk of material misstatement relating to revenue recognition:</p> <ul style="list-style-type: none"><li>• Tested the internal controls system around revenue.</li></ul>



Key Audit Matter	How my audit addressed the Key Audit Matter
<p>from medicines control income and laboratory services income.</p> <p>Revenue recognition is highly complex given the large number of service offerings and high volumes of transactions.</p>	<ul style="list-style-type: none"> <li>• Conducted substantive analytical procedures on revenue.</li> <li>• Scrutinised journals related to revenue to assess the timing and fair values of revenue recorded.</li> <li>• Evaluated the adequacy of the disclosures regarding the trade receivables.</li> </ul> <p>I was satisfied that revenue was fairly valued.</p>
<p><b>Investment property, refer to notes 5 and 3.1.4 in the financial statements.</b></p> <p>The Authority's investment property was valued at \$1 600 000. Valuation of the investment property involves the use of judgments and estimates. There may be also inadequate documentation to support the assumptions that investment properties reflect the existing business circumstances and economic conditions.</p>	<p>The following are the audit procedures that I performed to address the risk of material misstatement relating to valuation of Investment property:</p> <ul style="list-style-type: none"> <li>• Reviewed whether there was adequate documentation /policy to support the assumptions that investment properties reflect the existing economic conditions and existing business circumstances.</li> <li>• Reviewed the assumptions used for valuation of investment property carried at fair value.</li> <li>• Reviewed whether the basis of assumptions used comply with IFRS 13 Fair value measurement.</li> </ul> <p>I was satisfied that the Authority's Investment property was fairly valued.</p>

### Other information

The directors are responsible for the Other Information. The Other Information comprises all the information in the Authority's 2017 annual report. The Other Information does not include the financial statements and my auditor's report thereon. My opinion on the Authority's financial statements does not cover the Other Information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the Authority's financial statements, my responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Authority's financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.



## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

The Authority's management and directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Medicines and Allied Substances Control Act [Chapter 15:03] and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but it's not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

#### **Report on Other Legal and Regulatory Requirements**

In my opinion, the financial statements have, in all material respects, been properly prepared in compliance with the disclosure requirements of the Medicines and Allied Substances Control Act [Chapter 15:03] and other relevant statutory requirements.

July 10, 2018.

M. Chiri  
**M. CHIRI (MRS),  
AUDITOR-GENERAL.**

**MEDICINES CONTROL AUTHORITY OF ZIMBABWE**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

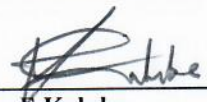
as at December 31, 2017

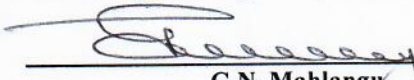
	Note	MCAZ GROUP		AUTHORITY	
		2017 US\$	2016 US\$	2017 US\$	2016 US\$
<b>ASSETS</b>					
<b>Non-Current Assets</b>		<b>4 376 115</b>	<b>4 412 354</b>	<b>4 117 207</b>	<b>4 141 366</b>
Property, plant and equipment	4	2 776 115	3 073 854	2 298 612	2 584 271
Investment property	5	1 600 000	1 338 500	1 600 000	1 338 500
Investment in subsidiary	6	-	-	218 595	218 595
<b>Current Assets</b>		<b>1 565 032</b>	<b>1 441 302</b>	<b>1 541 081</b>	<b>1 434 197</b>
Inventories	7	30 249	23 242	30 249	23 242
Trade and other receivables	8	846 731	729 565	835 400	730 116
Cash and cash equivalents	9	688 052	688 495	675 432	680 839
<b>Total Assets</b>		<b>5 941 147</b>	<b>5 853 656</b>	<b>5 658 288</b>	<b>5 575 563</b>
<b>RESERVES AND LIABILITIES</b>					
<b>Reserves</b>		<b>4 500 346</b>	<b>4 494 746</b>	<b>4 225 583</b>	<b>4 226 411</b>
Capital reserve		5 234 444	5 234 444	5 444 017	5 444 017
Accumulated fund		(932 487)	(935 451)	(1 218 434)	(1 217 606)
Non Controlling Interest		198 389	195 753	-	-
<b>Non-Current Liabilities</b>		<b>477 309</b>	<b>585 965</b>	<b>467 551</b>	<b>576 325</b>
Deferred income	10	464 986	573 760	464 986	573 760
Deferred tax	11	9 758	9 640	-	-
Staff vehicle contribution scheme		2 565	2 565	2 565	2 565
<b>Current Liabilities</b>		<b>963 492</b>	<b>772 945</b>	<b>965 154</b>	<b>772 827</b>
Trade and other payables	12	772 352	583 433	774 014	583 315
Leave pay provision		191 140	189 512	191 140	189 512
<b>Total Reserves and Liabilities</b>		<b>5 941 147</b>	<b>5 853 656</b>	<b>5 658 288</b>	<b>5 575 563</b>

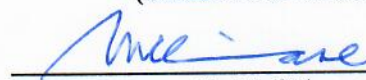
05/07, 2018.

05/07/18, 2018.

09/07/18, 2018.

  
**E. Kulube,**  
**(HEAD FINANCE AND BUSINESS SUPPORT).**  
**Msc Strategic Management, Bcom. Accounting.**

  
**G.N. Mahlangu,**  
**(DIRECTOR- GENERAL).**

  
**Dr M. Chiware,**  
**(CHAIRMAN).**



**MEDICINES CONTROL AUTHORITY OF ZIMBABWE**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

**for the year ended December 31, 2017**

	Note	<b>MCAZ GROUP</b>		<b>AUTHORITY</b>	
		<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
		<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>INCOME</b>		<b>4 925 093</b>	<b>4 525 605</b>	<b>4 926 081</b>	<b>4 503 190</b>
Medicines control income	13	3 362 134	3 058 916	3 362 134	3 058 916
Laboratory services	14	645 191	835 485	645 191	835 485
Other income	15	917 768	631 204	918 756	608 789
<b>EXPENDITURE</b>		<b>4 917 263</b>	<b>4 694 876</b>	<b>4 926 909</b>	<b>4 664 452</b>
Other expenses	16	2 917 505	2 691 850	2 917 505	2 691 850
Administration costs	18	1 999 758	2 003 026	2 009 404	1 972 602
<b>Surplus/(deficit) for the year</b>		<b>7 830</b>	<b>( 169 271)</b>	<b>( 828)</b>	<b>( 161 262)</b>
<b>Taxation</b>	11	<b>( 2 230)</b>	<b>( 620)</b>	<b>-</b>	<b>-</b>
<b>Other Comprehensive Income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income/(loss)</b>		<b>5 600</b>	<b>( 169 891)</b>	<b>( 828)</b>	<b>( 161 262)</b>
<b>Profit attributable to:</b>					
Equity holders of the parent company		2 964	( 166 353)	-	-
Non controlling interest		2 636	( 3 538)	-	-
<b>Surplus/(deficit) for the year</b>		<b>5 600</b>	<b>( 169 891)</b>	<b>( 828)</b>	<b>( 161 262)</b>

**MEDICINES CONTROL AUTHORITY OF ZIMBABWE**

**STATEMENT OF CHANGES IN RESERVES**

for the year ended December 31, 2017

Group	Accumulated	Capital	Total	Non	Total
	Fund	Reserve		Controlling	Reserves
	US\$	US\$	US\$	Interest	US\$
Balance as at January 1, 2016	(769 098)	5 234 444	4 465 346	199 291	4 664 637
Deficit for the year	(166 353)	-	(166 353)	(3 538)	(169 891)
Balance as at December 31, 2016	(935 451)	5 234 444	4 298 993	195 753	4 494 746
Balance as at January 1, 2017	(935 451)	5 234 444	4 298 993	195 753	4 494 746
Surplus for the year	2 964	-	2 964	2 636	5 600
Balance as at December 31, 2017	(932 487)	5 234 444	4 301 957	198 389	4 500 346

Authority	Accumulated	Capital	Total
	Fund	Reserve	Reserves
	US\$	US\$	US\$
Balance as at January 1, 2016	(1 056 344)	5 444 017	4 387 673
Deficit for the year	(161 262)	-	(161 262)
Balance as at December 31, 2016	(1 217 606)	5 444 017	4 226 411
Balance as at January 1, 2017	(1 217 606)	5 444 017	4 226 411
Deficit for the year	(828)	-	(828)
Balance as at December 31, 2017	(1 218 434)	5 444 017	4 225 583



**MEDICINES CONTROL AUTHORITY OF ZIMBABWE**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

for the year ended December 31, 2017

	Note	MCAZ GROUP		AUTHORITY	
		2017 US\$	2016 US\$	2017 US\$	2016 US\$
<b>Net cash flow from operating activities</b>		<b>67 510</b>	<b>303 121</b>	<b>62 138</b>	<b>328 752</b>
Surplus/(deficit) for the year		7 830	( 169 271)	( 828)	( 161 262)
<b>Adjusted for non cash items:</b>		<b>( 5 066)</b>	<b>402 901</b>	<b>( 15 442)</b>	<b>395 542</b>
Depreciation	4	383 247	418 515	370 747	408 098
Taxation		( 2 112)	( 3 043)	-	-
Increase in provision for leave pay		1 628	67 586	1 628	67 586
Fair value adjustment on investment property		( 250 541)	-	( 250 541)	-
Deferred income	10	( 108 774)	( 115 425)	( 108 774)	( 115 425)
Profit on disposal of property, plant and equipment		( 10 907)	( 8 857)	( 10 907)	( 8 857)
Loss on disposal of financial asset		-	62 039	-	62 039
Interest earned		( 17 607)	( 17 914)	( 17 595)	( 17 899)
<b>Working capital changes:</b>		<b>64 746</b>	<b>69 491</b>	<b>78 408</b>	<b>94 472</b>
(Increase)/decrease in inventory		( 7 007)	1 152	( 7 007)	1 152
Increase in trade and other receivables		( 117 166)	( 258 402)	( 105 284)	( 237 521)
Increase in trade and other payables		188 919	326 741	190 699	330 841
<b>Net cash flow from investing activities:</b>		<b>( 67 953)</b>	<b>( 86 417)</b>	<b>( 67 545)</b>	<b>( 86 432)</b>
Purchase of property, plant and equipment		( 85 634)	( 120 926)	( 85 214)	( 120 926)
Additions to investment property		( 10 959)	-	( 10 959)	-
Proceeds from disposal of property, plant and equipment		11 033	16 595	11 033	16 595
Interest received		17 607	17 914	17 595	17 899
<b>Net cash flow from financing activities:</b>		<b>-</b>	<b>( 6 425)</b>	<b>-</b>	<b>( 6 425)</b>
Staff vehicle contributions		-	( 6 425)	-	( 6 425)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>( 443)</b>	<b>210 279</b>	<b>( 5 407)</b>	<b>235 895</b>
Cash and cash equivalents at beginning of the year		688 495	478 216	680 839	444 944
<b>Cash and cash equivalents at year end</b>	9	<b>688 052</b>	<b>688 495</b>	<b>675 432</b>	<b>680 839</b>



**MEDICINES CONTROL AUTHORITY OF ZIMBABWE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended December 31, 2017**

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**1. NATURE OF BUSINESS.**

The Medicines Control Authority of Zimbabwe was established by the Medicines and Allied Substances Control Act [Chapter 15:03] and became operational from August 1, 1997. The main purpose of the Authority is to ensure the availability of safe and effective medicines on the market for human and animal consumption. The purpose of the Act was to create an autonomous institution able to operate as a business entity.

**2. BASIS OF PREPARATION**

**2.1 Statement of compliance**

The consolidated financial statements for the year ended December 31, 2017, have been prepared in conformity with International Financial Reporting Standards promulgated by the International Accounting Standards Board (IASB).

**2.2 Basis of measurement**

The Group's financial statements are based on the statutory records that are maintained under the historical cost basis, except for the following material items in the statement of financial position:

- Available-for-sale financial assets are measured at fair value;
- Investment property is measured at fair value;

**2.3 Functional and presentation currency**

The Group's financial statements are presented in United States Dollars (US\$) which is the Group's functional currency. All the financial information presented has been rounded to the nearest dollar.

**2.4. Critical accounting judgements, assumptions and estimates**

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts presented in the financial statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant judgments include the following:

**2.4.1 Useful lives and residual values of property, plant and equipment**

The Group assesses useful lives and residual values of Property, Plant and Equipment each year taking into account past experience and technology changes. The depreciation rates are set out in note 3.1.2 and no changes to these useful lives have been considered necessary during the year. Management has set residual values for all classes of property, plant and equipment at nil.



**MEDICINES CONTROL AUTHORITY OF ZIMBABWE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended December 31, 2017**

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**2.5 New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2017 and not early adopted**

The Authority did not adopt any new or revised accounting standards or interpretations in the current year that could have had an impact on the amounts or disclosures reported in these financial statements.

**i. IFRS 9 Financial Instruments effective January 1, 2018**

**a. Classification and measurement of financial assets**

All financial assets are measured at fair value on initial recognition, adjusted for transaction costs if the instrument is not accounted for at fair value through profit or loss (FVTPL). Debt instruments are subsequently measured at FVTPL, amortised cost or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.

There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL.

However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) (without subsequent reclassification to profit or loss).

**b. Classification and measurement of financial liabilities**

For financial liabilities designated as fair value through profit or loss (FVTPL) using the fair value option (FVO), the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in other comprehensive income (OCI). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

IAS 39 Financial Instruments: Recognition and Measurement classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

**c. Impairment**

The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to: debt instruments accounted for at amortised cost or at FVOCI; most loan commitments; financial guarantee contracts; contract assets under IFRS 15; and lease receivables under IAS 17 Leases.



**MEDICINES CONTROL AUTHORITY OF ZIMBABWE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended December 31, 2017**

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**ii. IFRS 15 Revenue from contracts with customers**

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue) and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of disposal of certain non-financial assets including property, equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard is effective for accounting periods beginning on or after January 1, 2018, however early adoption is permitted.

**2.6 Basis of consolidation**

**2.6.1 Group**

The consolidated financial statements comprise the financial statements of the Group and its 59% stake in the subsidiary – Percentage Discount (Private) Limited, as at 31 December 2017.

**2.6.2 Subsidiary**

Subsidiary is an entity over which MCAZ exercises effective control. Control is achieved when the Authority is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

A Subsidiary is fully consolidated from the acquisition date, being the date on which control is transferred to MCAZ and continue to be consolidated until the date that control ceases. On acquisition of subsidiary, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

All intra group balances, income, expenses, unrealized gains, and losses resulting from intra-group transactions are eliminated in full on consolidation. In all material respects, the accounting policies of the subsidiaries are consistent with those adopted by the Group.

Non-controlling interests represent the portion of the profit or loss and net assets not held by the Group, and are presently disclosed in profit or loss and within equity in the Group



**MEDICINES CONTROL AUTHORITY OF ZIMBABWE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended December 31, 2017**

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statement of financial position, separate from parent shareholders' equity. Non-controlling interests are measured at its proportionate share of the net assets acquired.

**2.6.2.1 Change in degree of control**

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

**2.6.2.2 Loss of control**

If the Group loses control over a subsidiary, it;

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative transaction differences recorded in equity;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Recognises the fair value of the consideration received;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

**2.7 Going concern**

Management of Medicines Control Authority of Zimbabwe (MCAZ) have satisfied themselves that the Group is in a sound financial position and has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements.



**MEDICINES CONTROL AUTHORITY OF ZIMBABWE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended December 31, 2017**

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**3 ACCOUNTING POLICIES**

The accounting policies applied in the preparation of these financial statements are consistent with those applied in the financial statements for the year ended December 31, 2016.

**3.1 Property, plant and equipment**

**3.1.1 Recognition and measurement**

Property, plant and equipment held for use in the supply of services or for administrative purposes, are stated at cost less accumulated depreciation and impairment losses.

**3.1.2 Depreciation**

Depreciation, which is calculated on the straight line basis, is provided to write off the cost less the estimated residual value of fixed assets over their estimated useful lives. The Group assesses useful life and residual values of property, plant and equipment each year taking into account past experiences and technological changes. No changes to these useful lives have been considered necessary for all other items of property, plant and equipment. Management has set residual values for all classes of property, plant and equipment as zero. Land is not depreciated.

The rates that were applied per annum are as follows:

Furniture, fixtures and fittings	10%
Office equipment	25%
Computer equipment	33.33%
Motor vehicles-new	20%
Motor vehicles – pre owned	33.3%
Buildings	2.5%
Plant and machinery	10%

**3.1.3 Revaluation of property, plant and equipment**

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of property, plant and equipment is recognized in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed.



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**3.1.4 Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs.

Subsequently the Investment Property is measured under fair value model. Any gains or losses on disposal of an investment property is recognised in profit or loss. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

**3.3 Grants and donations**

Grants related to assets, including non-monetary grants at fair value, are presented in the statement of financial position as deferred income under non-current liabilities and are recognized as income on a systematic and rational basis over the useful life of the asset.

Revenue grants are recognised as income in the year in which they are received and are credited to the statement of comprehensive income.

Donations are recognised as deferred income when used to purchase assets and are amortised over the economic useful life of the assets.

**3.3 Taxation**

Income tax expenses represent the sum of the tax currently payable and deferred tax. The currently payable tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is recognised on difference between carrying amounts of assets and the liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the Statement of Financial Position liability method. Deferred tax liabilities are generally recognized for all taxable



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temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences arise from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged directly to equity, in which case the deferred tax is also dealt in equity. Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Current and deferred income tax**

Current income tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. Deferred income tax is provided using the full balance sheet liability method on temporary differences at year end between the tax bases of assets and liabilities at year end between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and carrying forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax losses can be utilized.

The Authority is exempted from paying corporate tax.

**3.4 Financial instruments**

Financial instruments are contracts that give rise to financial assets or financial liabilities. Financial assets and financial liabilities are recognized on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. These instruments are generally carried at their estimated carrying values.

Non-derivative financial instruments carried in the statement of financial position comprise: cash and cash equivalents, trade and other receivables, trade and other payables.



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These instruments are recognized initially at fair value plus any directly attributable transaction costs.

**3.4.1 Financial assets**

**3.4.1.1 Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits (funds on placement) with maturities of three months or less from acquisition date that are subject to insignificant risk of changes in fair value, and are used by the Group in the management of its short – term commitments.

**3.4.1.2 Trade and other receivables**

Trade and other receivables are measured at their cost less impairment losses. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators that the trade receivables are impaired. When a trade receivable is uncollectible, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against the trade receivables impairment provision in profit or loss.

**3.4.1.3 Impairment**

A financial asset not classified at fair value through profit or loss is measured at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss events had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by the debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor will enter bankruptcy, changes in the payment status, and disappearance of an active market for a security.



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**3.4.2 Financial liabilities**

**3.4.2.1 Liabilities and provisions**

Liabilities payable after one year from the reporting date are treated as non-current liabilities in the statement of financial position. Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and a reliable estimate to the amount of such obligation can be made. Obligations payable at the demand of the creditor or within one year of the reporting date are treated as current liabilities in the statement of financial position.

**3.5. Revenue recognition**

Medicines and laboratory services income is realized after services are or have been rendered. Interest income is accrued over the period in which it is earned based on the underlying agreements. Other income is recognized in accordance with the underlying transactions and events. 30% of the registration income is allocated to samples registration. Provided the amount of revenue can be measured reliably and it is probable that the Group will receive any consideration, revenue for services is recognized in the period in which they are rendered.

**3.6 Employment benefits**

**Defined benefit plan**

The Authority has a defined benefit scheme with a 60% Gross Replacement Ratio (GRR) underpin. This GRR is for employees retiring in the next 10 years. The Authority made a commitment to fund any gap that would arise at a future date using any of its resources including the cession of such shares in its property investments to meet this obligation. This position creates a potential future liability.



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Below is a table showing the projected capital shortfalls to meet the targeted 60% GRR:

<b>Retirement period</b>	<b>Number of employees</b>	<b>Projected accumulation (\$)</b>	<b>Capital shortfall at NRA to target 60% GRR (\$)</b>	<b>Present value of capital shortfall (\$)</b>
1 – 3 years' time	1	90 190	305 782	229 417
4 – 6 years' time	2	44 653	42 595	29 475
7 – 10 years' time	3	128 897	200 310	111 086
<b>Total</b>		<b>263 740</b>	<b>548 687</b>	<b>369 978</b>

The following are the key policies and assumptions of the 60% GRR:

- i. Members must be employees of the Authority until retirement
- ii. Employees should have served not less than 20 years at the Authority
- iii. Members will retire at the age of 65 years

**Defined contribution plan**

The Authority also has a defined contribution plan, which is a post- employment benefit plan under which the Group pays fixed contributions into separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the period during which related services are rendered by employees.



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**MCAZ GROUP**

**4.1 Property, plant and equipment**

	Land and Buildings	Plant and Machinery	Motor Vehicles	Computer and Equipment	Office Equipment	Furniture and Fittings	Work in Progress	Total 2017	Total 2016
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<b>Opening carrying amount</b>	1 945 864	779 733	101 097	83 170	29 732	96 165	38 093	3 073 854	2 686 044
Gross carrying amount	2 316 058	1 887 626	592 880	322 637	96 023	182 658	38 093	5 435 975	4 701 868
Accumulated depreciation	(370 194)	(1 107 893)	(491 783)	(239 467)	(66 291)	(86 493)	-	(2 362 121)	(2 015 824)
<b>Additions at cost</b>	-	2 604	-	39 515	18 493	12 893	12 129	85 634	120 926
<b>Transfer from Investment property</b>	-	-	-	-	-	-	-	-	500 000
<b>Donations</b>	-	-	-	-	-	-	-	-	193 138
<b>Disposals carrying amount</b>	-	-	(126)	-	-	-	-	(126)	(7 739)
Disposals at cost	-	-	(73 345)	-	-	-	-	(73 345)	(79 957)
Accumulated depreciation	-	-	73 219	-	-	-	-	73 219	72 218
<b>Depreciation for the year</b>	(57 901)	(188 838)	(58 790)	(44 584)	(14 092)	(19 042)	-	(383 247)	(418 515)
<b>Closing carrying amount</b>	1 887 963	593 499	42 181	78 101	34 133	90 016	50 222	2 776 115	3 073 854
Gross carrying amount	2 316 058	1 890 230	519 535	362 152	114 516	195 551	50 222	5 448 264	5 435 975
Accumulated depreciation	(428 095)	(1 296 731)	(477 354)	(284 051)	(80 383)	(105 535)	-	(2 672 149)	(2 362 121)



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**AUTHORITY**

**4.2 Property, plant and equipment**

	Land & Buildings	Plant & Machinery	Motor Vehicles	Computer & Office Equipment	Furniture & Fittings	Work in Progress	Total 2017	Total 2016
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<b>Opening carrying amount</b>	1 456 281	779 733	101 097	83 170	29 732	96 165	2 584 271	2 686 044
Gross carrying amount	1 816 058	1 887 626	592 880	322 637	96 023	182 658	4 935 975	4 701 868
Accumulated depreciation	(359 777)	(1 107 893)	(491 783)	(239 467)	(66 291)	(86 493)	(2 351 704)	(2 015 824)
<b>Additions at cost</b>	-	2 604	-	39 515	18 493	12 893	85 214	120 926
<b>Donations</b>	-	-	-	-	-	-	-	193 138
<b>Disposals carrying amount</b>	-	-	(126)	-	-	-	(126)	(7 739)
Disposals at cost	-	-	(73 345)	-	-	-	(73 345)	(79 957)
Accumulated depreciation	-	-	73 219	-	-	-	73 219	72 218
<b>Depreciation for the year</b>	(45 401)	(188 838)	(58 790)	(44 584)	(14 092)	(19 042)	(370 747)	(408 098)
<b>Closing carrying amount</b>	1 410 880	593 499	42 181	78 101	34 133	90 016	2 298 612	2 584 271
Gross carrying amount	1 816 058	1 890 230	519 535	362 152	114 516	195 551	4 947 844	4 935 975
Accumulated depreciation	(405 178)	(1 296 731)	(477 354)	(284 051)	(80 383)	(105 535)	(2 649 232)	(2 351 704)



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	<b>MCAZ GROUP</b>		<b>AUTHORITY</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>5 Investment property</b>				
Opening fair value	1 338 500	1 838 500	1 338 500	1 338 500
Fair value adjustment	250 541	-	250 541	-
Transfer to property, plant and equipment	-	( 500 000)	-	-
Additions to investment property	10 959	-	10 959	-
Closing value	<u>1 600 000</u>	<u>1 338 500</u>	<u>1 600 000</u>	<u>1 338 500</u>
<b>6 Investment in subsidiary</b>				
Percentage Discount (Pvt) Ltd	-	-	218 595	218 595
	<u>-</u>	<u>-</u>	<u>218 595</u>	<u>218 595</u>
<b>7 Inventories</b>				
Fuel	9 606	5 542	9 606	5 542
Provisions	7 740	4 399	7 740	4 399
Stationery consumables	12 903	13 301	12 903	13 301
	<u>30 249</u>	<u>23 242</u>	<u>30 249</u>	<u>23 242</u>
<b>8 Trade and other receivables</b>				
Trade receivables	908 406	796 623	897 075	787 891
Allowance for credit losses	( 219 438)	( 219 438)	( 219 438)	( 219 438)
Prepayments	8 890	-	8 890	-
Rentals	28 708	28 708	28 708	28 708
Staff receivables	62 789	54 173	62 789	54 173
Related party receivables	-	-	-	9 283
Sundry receivables	57 376	69 499	57 376	69 499
	<u>846 731</u>	<u>729 565</u>	<u>835 400</u>	<u>730 116</u>
<b>9 Cash and cash equivalents</b>				
Bank	687 747	585 661	675 127	578 005
Funds on placement	305	102 834	305	102 834
	<u>688 052</u>	<u>688 495</u>	<u>675 432</u>	<u>680 839</u>
<b>10 Deferred income</b>				
Opening carrying amount	573 760	496 048	573 760	496 048
Additions of donated equipment	-	193 137	-	193 137
Amortisation charge for the year	( 108 774)	( 115 425)	( 108 774)	( 115 425)
	<u>464 986</u>	<u>573 760</u>	<u>464 986</u>	<u>573 760</u>



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		MCAZ GROUP		AUTHORITY	
		2017 US\$	2016 US\$	2017 US\$	2016 US\$
<b>11</b>	<b>Income tax expense</b>				
	<b>Major components of tax expense</b>				
	<b>Current tax</b>				
	Current tax	( 32 940)	118	-	-
	<b>Deferred tax</b>				
	Movement on temporary difference	35 170	502	-	-
		<b>2 230</b>	<b>620</b>	<b>-</b>	<b>-</b>
<b>11.1</b>	<b>Tax reconciliation</b>				
	Profit before tax	8 659	2 407	-	-
	Notional tax thereon at a rate of 25.75%	2 230	620	-	-
		<b>2 230</b>	<b>620</b>	<b>-</b>	<b>-</b>
<b>11.2</b>	<b>Deferred tax</b>				
	Analysis of temporary differences				
	<b>Investment property</b>				
	Investment property	9 758	9 640	-	-
	Net deferred tax liability	9 758	9 640	-	-
<b>12</b>	<b>Trade and other payables</b>				
	Audit fees	14 415	14 415	14 415	14 415
	Trade payables	115 733	41 760	115 300	41 760
	Sundry payables	613 425	508 792	613 425	508 792
	Related party payables	-	-	4 325	-
	Tax payable	2 230	118	-	-
	Unallocated income	26 549	18 348	26 549	18 348
		<b>772 352</b>	<b>583 433</b>	<b>774 014</b>	<b>583 315</b>
<b>13</b>	<b>Medicines control income</b>				
	Amendment fees	146 911	147 566	146 911	147 566
	Clinical trials	46 200	25 700	46 200	25 700
	Dangerous drugs license	5 625	11 255	5 625	11 255
	Drug registration and forensic examination	5 628	8 230	5 628	8 230
	Import and export licenses	325 018	299 342	325 018	299 342
	Inspection	359 410	350 381	359 410	350 381
	Persons and premises licenses	159 800	178 475	159 800	178 475
	Registration fees	669 625	472 708	669 625	472 708
	Renewal of licenses	393 053	362 515	393 053	362 515
	Retention fees	826 550	758 525	826 550	758 525
	Sales representatives and wholesale dealers	164 521	157 270	164 521	157 270
	Unregistered medicines	207 193	248 859	207 193	248 859
	Veterinary permits	52 600	38 090	52 600	38 090
		<b>3 362 134</b>	<b>3 058 916</b>	<b>3 362 134</b>	<b>3 058 916</b>
<b>14</b>	<b>Laboratory services Income</b>				
	Condom testing	58 120	44 195	58 120	44 195
	Complementary medicines	20 808	61 050	20 808	61 050
	Glove testing	11 863	9 445	11 863	9 445
	Medical devices-registration	4 400	600	4 400	600
	Samples - external clients	550 000	720 195	550 000	720 195
		<b>645 191</b>	<b>835 485</b>	<b>645 191</b>	<b>835 485</b>

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	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>15 Other income</b>				
Amortisation for the year	108 774	115 425	108 774	115 425
Donations	145 257	217 129	145 257	217 129
Interest earned	17 607	17 914	17 595	17 899
Rentals	147 834	166 223	147 834	143 823
Fair value adjustment	250 541	-	250 541	-
Sundry income	236 848	105 656	237 848	105 656
Profit on disposal of property, plant and equipment	10 907	8 857	10 907	8 857
	<b>917 768</b>	<b>631 204</b>	<b>918 756</b>	<b>608 789</b>
<b>16 Other expenses</b>				
<b>Employment costs</b>				
Salaries and wages	2 530 680	2 346 841	2 530 680	2 346 841
Pension and medical aid	330 622	294 655	330 622	294 655
Staff training expenses	23 057	22 117	23 057	22 117
Staff welfare	33 146	28 237	33 146	28 237
	<b>2 917 505</b>	<b>2 691 850</b>	<b>2 917 505</b>	<b>2 691 850</b>
<b>17 Related party transactions</b>				
The remuneration of the Board members and other key management personnel during the financial year was as follows:				
<b>17.1 Board members benefits</b>				
Board members fees	43 997	19 748	43 997	19 748
	168 345	65 032	163 850	60 402
	<b>212 342</b>	<b>84 780</b>	<b>207 847</b>	<b>80 150</b>
<b>17.2 Key management staff</b>				
Remuneration of key management staff of the Authority comprise of annual basic salary annual bonus, social security contributions, pension and medical aid contributions				
Director General benefits	9 840	7 200	9 840	7 200
Director General salary	84 995	66 504	84 995	66 504
	<b>94 835</b>	<b>73 704</b>	<b>94 835</b>	<b>73 704</b>



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	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>18 Administration expenses</b>				
Audit fees	15 915	16 165	14 415	14 415
Board fees	212 342	84 780	207 847	80 150
Bank charges	26 320	24 688	25 831	23 966
Communications	48 668	35 623	48 668	35 623
Consumables	29 865	44 485	29 865	44 485
Credit Losses	260	-	260	-
Directors expenses	19 252	20 694	19 252	20 694
Depreciation	383 247	418 515	370 747	408 099
General administration	57 247	53 586	86 668	49 986
Inspections	194 560	233 439	194 560	233 439
General expenses	-	134 008	-	133 683
IT expenses	14 768	8 518	14 768	8 518
Legal and professional fees	90 659	92 310	90 659	92 310
Printing and stationery	57 957	45 478	57 957	45 478
Increase in provision for leave pay	1 628	67 586	1 628	67 586
Public relations	77 384	34 104	77 384	34 104
Quality assurance costs	84 738	7 687	84 738	7 687
Rates, electricity and water	32 408	51 328	32 408	45 928
Repairs and maintenance	142 007	146 413	141 717	142 832
Security and insurance costs	30 358	39 209	29 857	39 209
Strategic planning	165 922	127 643	165 922	127 643
Subscriptions	11 613	10 814	11 613	10 814
Travelling and subsistence	114 105	110 971	114 105	110 971
Vehicle running costs	188 535	194 982	188 535	194 982
	<b>1 999 758</b>	<b>2 003 026</b>	<b>2 009 404</b>	<b>1 972 602</b>