

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE
FINANCIAL STATEMENTS OF THE MINISTRY OF COOPERATIVES AND
MARKETING VOTE 24**

FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2005

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February 2006

Office of the Controller and Auditor General

The National Audit Office,
United Republic of Tanzania

(Established under Article 143 of the Constitution of the URT).

The statutory duties and responsibilities of the Controller and Auditor General are given in the Public Finance Act No. 6 of 2001.

Our Vision

We aspire to be an organization that fosters a culture of financial discipline, transparency and accountability within the Government of Tanzania.

Our Mission

We are the Supreme Audit Institution in Tanzania, which strives to provide timely and high quality audit services to all our clients in order to enhance public sector financial performance by educating key stakeholders on the effective management of public finances; providing value added services and functioning independently and impartially in auditing and reporting on public accounts.

Therefore, our Core Values are

- ✓ We strive to achieve and maintain objectivity in providing impartial audit services so as to promote our independence
- ✓ We pursue excellence in the provision of our audit services
- ✓ We exercise professional integrity by demonstrating high ethical standards
- ✓ We focus on people and have great respect to our stakeholders
- ✓ We encourage and promote innovation amongst our members of staff; and
- ✓ We ensure best resource utilization at national as well as individual public entity level.

We do this by.....

- contributing to better stewardship of public funds ensuring that ministries, departments, agencies, and public authorities are accountable for the resources entrusted to them;
- helping to improve the quality of public services by supporting innovation on the use of public resources;
- providing technical advice to our clients on operational gaps in their operating systems;
- Systematically involve our clients in the audit process and audit circles; and
- Providing audit staff with adequate working tools and facilities that promote independence;

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Definitions of terms and Abbreviations

Financial Statements means the following statements, notes and supporting schedules of the Ministry of Cooperatives and Marketing for the year ended 30th June 2005.

Responsibilities for the financial statements

Statement of Vote Account Supply

Statement of Vote Account Development

Cash Flow Statement for Recurrent Account

Cash Flow Statement for Development

Cash Flow Statement for Deposit Account

Notes to Financial Accounts

Statement of Revenue Recurrent

Summary of Appropriation Account Revenue

Summary Appropriation of Account Development

Summary Statement of Losses

Statement of Arrears of Revenue

These Financial Statements are attached as annexure No. 1 to this report

Act means the Public Finance Act No. 6 of 2001 as amended in 2004

Regulations means the Regulations of the Public Finance Act issued under G.N Number 259 of 2003.

Ministry Means Ministry of Cooperatives and Marketing

Act Public Finance Act No. 6 of 2001 as amended in 2004

BOT Bank of Tanzania

COASCO Cooperative Audit and Supervision of Cooperatives

F/Y Financial Year

INTOSAI International organization of Supreme Audit Institutions

ISA International Standards on Auditing

ISCF Inspection and Supervision of Cooperatives Fund

ISCIC Registrar of Cooperative Inspection and Supervision Fund

IFMS Integrated Financial Management System

PAC Public Accounts Committee

PFR Public Finance Regulations

PPA Public Procurement Act

RCSF Registrar of Cooperatives Societies Fund

RMFSP Rural Microfinance Service Project

SACCOS Saving and Credit Society

URT United Republic of Tanzania

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

We have completed the audit of the Ministry of Cooperatives and Marketing (Vote 24) for the year ended 30th June 2005. Audit findings arising from examination of accounting records, and evaluation of the internal control system, which require management attention and action, are set under part 3 of this report.

1.2 Establishment

The Ministry of Cooperatives and Marketing was established by the President of the United Republic of Tanzania (URT) on 23rd November 2000. The President reestablished the Ministry of Cooperatives and Marketing pursuant to article 55 of the Constitution of URT through an Instrument published under GN No. 467 of 1st December, 2000 issued as a special supplement No. 4 on the Official Gazette No.48 Vol.81 dated 1st December, 2000.

1.3 Operational Objectives

The main objectives of the Ministry of Cooperatives and Marketing are as follows:-

- To make research and survey of agricultural commodities in and out of Tanzania.
- Coffee/Cotton marketing development and trade promotion project (Trade Policy and implementation)
- Connection of marketing development centers
- Conducting Seminars to Members
- To issue Cooperative policy and plan
- Mobilization of various societies (SACCOS) in the country
- Controlling the government agencies falling under the Ministry e.g. COASCO

1.4 Financing

The Ministry of Cooperatives and Marketing like any Government Ministry receives funds from Treasury in the form of Exchequer Issues. During the year under review, a total sum of Shs.12,004,252,400 was released for the operations of the Ministry as follows:-

Vote	Amount Shs.
Supply Vote (Expenditure)	7,930,231,400
Development Vote (Expenditure)	4,066,819,000
Revenues (from own sources)	<u>7,202,000</u>
Total	<u>12,004,252,400</u>

1.5 Management Structure

The Ministry is headed by the Minister, and the day to day activities are managed by the Permanent Secretary who is also the Accounting Officer for Vote 24. In order to perform its assigned roles, the Ministry of Cooperative and Marketing has five departments and two divisions as follows:-

1. Administration and General
2. Finance and Accounting
3. Policy and Planning
4. Co-operatives
5. Marketing development

Extra Ministerial Departments

Cooperative Audit and Supervision of Cooperatives (COASCO)

Registrar of Cooperative Inspection and Supervision

1.6 Brief description of Internal Control System

1.6.1 Accounting System

The Ministry operates usual Government accounting system based on Central payment office at the Treasury, using Intergrated Financial Management System using Epicor accounting packages. The financial statements are being prepared and presented based on cash basis of accounting pursuant to Public finance Act No.6 of 2001 Regulation No.53.

1.6.2 Internal Audit and Audit Committee

The Public Finance Regulations 28 requires Accounting Officers to establish an effective Internal audit Unit. The Internal Audit Unit will help on effectiveness of Internal Controls functions. The Ministry has established Internal Audit Unit to oversee its day to day activities.

1.7 Financial performance

Supply Vote Account

The statement of vote account as at 30th June, 2005 (Supply Vote) reflected an apparent saving of Shs. 132,822,960 arising from a net expenditure of Shs. 7,797,408,440 against the net approved estimates of Shs.7,930,231,400. However, exchequer issues received during the financial year 2004/2005 amounted to Shs. 7,804,082,714 resulted in unspent balance of Shs. 6,624,274, the balance was reduced by outstanding imprests of Shs. 1,780,000 thereby leaving a cash book balance of Shs. 4,842,274 with the Paymaster General's Account.

Development Vote Account

The development vote account closed with an apparent saving of Shs.910,035,896 arising from a net expenditure of Shs. 3,147,783,104 against approved estimates of Shs. 4,066,819,000. This saving was mainly attributed by some of the direct to project funds which were not received from the expected donors. However, total exchequer issues received during the year was Shs.3,147,783,104 resulting in a nil balance with the Paymaster General's Account.

1.8 Audit Mandate

By virtue of the provision of Article 143 of the constitution of the United Republic of Tanzania and Section 30 (1) of the Public Finance Act No.6 of 2001, the Controller and Auditor General is the appointment auditor of all government revenue and expenditure including this of the Ministry of Cooperatives and Marketing.

1.9 Audit Objectives

The main objective of conducting the audit is to enable me to express an opinion on the financial statements of the Ministry of Cooperatives and Marketing for the period ended 30th June, 2005 and in particular:-

- To determine whether transaction were executed in accordance with Management authorization and recorded properly in the books of accounts to permit the preparation of the financial statements in accordance with the International accounting Principles and Treasury Instructions
- To determine whether funds have been collected properly and used exclusively and judiciously for eligible expenses as per approved budget and regulations governing government expenditure with due attention to economy and efficiency.
- To ascertain whether all relevant supporting documents, records and accounts have been kept in respect of the Ministry activities.
- To verify whether goods and services bought for the Ministry of Cooperatives and Marketing were acquired through laid down procurement procedures and the Public Procurement Act No.3 of 2001 and 21 of 2004.
- To perform compliance tests to determine whether the Ministry's Management complied in all material respects with the Public finance Act No. 6 of 2001.
- To evaluate whether the internal control procedures instituted are effective to provide relevant and reasonable information to the management for implementing and monitoring activities and that the assets of the Ministry are adequately safe guarded against losses from unauthorized use or disposition.

- To determine whether the management of the Ministry has taken adequate corrective action on the previous year's audit observations/recommendations.
- To review the Management Structure with the aim of ensuring that there is clear segregation of duties

1.10 Audit Scope

The audit of the Ministry of Cooperatives and Marketing for the year ended June 30th 2005 was carried out in accordance with ISA and procedures that are consistent with those recommended by the INTOSAI. The audit covered the evaluation of the effectiveness of the financial accounting system and internal control over the activities of the Ministry, examination and verification of the accompanying financial statements of vote and appropriation account, and other auditing procedures as was considered necessary under the circumstances for the purpose of forming an opinion on the financial statements. The audit was carried out on a test check basis, therefore the audit findings are confined to the extent that records, documents and information requested to the purpose of the audit were made available to us.

As auditors, we are not required to search specially for fraud; therefore our audit was planned in such a way that we would have a reasonable expectation of detecting material misstatements in the financial statements, including those resulting from fraud or irregularities. The responsibility for detection and prevention of fraud and irregularities rests with the Ministry management who are responsible for setting up and maintaining an adequate system of internal control.

1.11 Audit Methodology

Our audit included such tests of the accounting records, site visits and other procedures in order to satisfy the objective of the audit. Our audit procedures included the following steps:-

- A review of the establishment Act, regulation, and other Ministry documents as was deemed necessary under the circumstances.
- Examination of receipts and payments to confirm compliance with existing legislation, financial regulation and other instructions or directives.
- Review of the Internal control structure by assessing significant policies and procedures and determine its adequacy.
- Review of the Ministries financial statements and other associated information.
- Conduct compliance tests on the system of procurements contracts and their execution as well as stores management.
- Appraisal of the previous audit recommendations to determine whether the management has taken adequate corrective action.

- Hold entrance and exit meetings with the auditee to discuss the audit objectives and results of exercise respectively.

1.12 Presentation of audit findings

The audit was carried out according to the mandate stated above, applying professional standards and audit procedures that were considered appropriate in each situation.

The audit findings are divided into two parts. The first part comprises the opinion on the critical examination of the financial statements submitted for audit and the circumstances surrounding their preparation and presentation.

The second part comprises the detailed findings on the gaps and shortfalls in the internal control system which, if rectified on time, will greatly improve the effectiveness of the internal control system applied.

2.0 AUDIT REPORT AND FINANCIAL STATEMENTS

**To: The Permanent Secretary,
Accounting Officer of Vote 24**

**Re: Audit Report on the Financial Statements of the Ministry of
Cooperatives and Marketing for the year ended 30th June 2005**

I have audited the financial statements of the Ministry of Cooperatives and Marketing shown as Annexure 1 for the year ended 30th June 2005.

Responsibilities of the Accounting Officer

Section 25(4) of the Act places responsibility to the Accounting Officer to prepare the financial statements based on Generally Accepted Accounting Standards.

In addition, Regulation 35 requires the Accounting Officer and the entity management to establish an effective Internal Control System appropriate to the circumstances of the Ministry and the affiliate bodies.

Responsibilities of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements, and on procurement procedures adopted by the Ministry based on the audit. According to Section 30 of the Act my specific responsibilities are to examine, inquire into, audit and report on the accounts of the Ministry.

In addition, Section 31 of the Act requires me to satisfy myself that the accounts have been kept in accordance with generally accepted accounting practice; reasonable precautions have been taken to safeguard the collection of revenue, the receipt custody, disposal, issue and proper use of public property, that the laws, directions and instructions applicable thereto have been duly observed, expenditure of public monies has been properly authorized; and to satisfy myself whether the funds appropriated to the Ministry were used exclusively and judiciously to meet eligible expenditures with due regard to economy and efficiency.

Basis of Opinion

The audit was conducted in accordance with the ISA and procedures that are consistent with those recommended by the INTOSAI. Those standards require that I plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the significant estimates and judgments

made in the preparation of the financial statements, assessing whether the internal control system and the accounting policies are appropriate to the circumstances of the Ministry of Cooperatives and Marketing (Vote 24) consistently applies and adequately disclosed, evaluating the overall financial statements presentation, and assessing the extent of compliance with the relevant statutory requirements. I believe the audit provides a reasonable basis for my opinion.

The financial statements have been prepared and presented based on the cash basis of accounting pursuant to Regulation 53. Under the cash basis, cash receipts are recognized when they are received and cash payments are recognized when they are paid.

Qualification

In my opinion, except for the matters specified below, the financial statements of the Ministry have been prepared based on the generally accepted accounting standards and that they fairly reflect, in all material respects the results of its operations and cash-flows for the year ended on 30th June 2005 and the financial position as at the date.

Limitation of scope and disagreement in records keeping

1. The Ministry received direct to the projects funds of Shs.2,837,623,114 which was to be accounted at MVIWATA - Morogoro. However the accounting details were not availed to audit to verify accountability of the funds.
2. The footnotes to the appropriation accounts submitted did not reflect nugatory expenditure. However, examination of the years account disclosed similar payments totalling Shs. 6,929,418 being penalty for late payment of employee's pension contributions.
3. Shs.43.6m. being cash loss which occurred during 2003/2004 at MVIWATA is omitted in the statement of Losses.
4. Stores worth Shs. 27,620,170 were not taken on ledger charge and its utilization particulars could not be verified.

5. Previous audit findings show that there are long outstanding audit recommendations and PAC instructions not yet acted upon.

The details of these matters are given in Part 3 of this report.

Frank Mosses Hiza Mhilu
Ag: CONTROLLER AND AUDITOR GENERAL

Office of the Controller and Auditor General
National Audit Office
Dar es salaam

February 2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Followup on Implementation on previous audit findings

In our management report for the year 2003/2004 issued on 7th February 2005, we pointed out several weaknesses requiring the management to take remedial measures. However, the following matters are still outstanding for action.

3.1.1 Para 4.2 Fund Accounts not submitted

The accounts of Inspection and Supervision of Cooperatives Fund and Registrar of Cooperatives Societies Fund are yet to be submitted.

The reply given vide your letter Ref. No. EA 30/5/01/69 of 24/2/2005 para 4.2 was not satisfactory. Despite several comments issued in our previous management reports no action has been taken to date.

3.1.2 Para 5.8.1

Double Payment of subsistence Allowances, Shs. 8,941,860 is still outstanding

3.1.3 Collections Not Accounted for Shs. 3,813,325

Out of Shs. 3,813,325 unaccounted for collections, Shs. 3,595,675 have been settled leaving a balance of Shs. 217,650 outstanding.

3.1.4 Outstanding Bills Shs. 5,157,960 is still outstanding.

Implication

Financial instructions and the Public Accounts Committee directives were violated.

Recommendation

The Management should take measures to clear the outstanding matters, and in future adhere to Financial instructions, PAC directives and auditors recommendations.

3.2 Current Audit Findings

3.2.1 Financial controls issues

3.2.1.1 Direct to project Funds Valued Shs. 2,837,623,116

Scrutiny of the exchequer issues notifications for development vote account for the year under review disclosed that the Ministry received direct to project funds of Shs. 2,837,623,116 as per exchequer issues notification Ref. No. 24/ERW340/2004/005 which was to be accounted for at MVIWATA, Morogoro. However, accounting details were not available to audit to validate accountability of the funds.

Implication

This implies that, in the absence of the accounting documents and records, funds that were issued might not be properly spent.

Recommendation

Management should ensure that all accounting documents and records are submitted to audit for scrutiny.

3.2.2.2 Errors in the Appropriation Accounts

It was noted during examination of the appropriation accounts (Supply Vote) that actual expenditure figures for the under mentioned activities differs with figures reflected in the Integrated financial management system report from sub-Treasury viz:

Expenditure as per appropriation Supply Vote					Expenditure as per Account IFMS	
S/N	Sub-Vote	Sub-Head	Item	Amount	Amount	Variance
1.	241001	259100	250101	126,790,700	151,485,298.27	(24,694,598.27)
		250300	250309	2,080,000	5,080,000.00	(3,000,000.00)
		260700	260701	10,000,000	7,000,000.00	3,000,000.00
			Sub Total	138,870,700	163,565,298.27	(24,694,598.27)
2.	241002	250100	250101	29,606,600	27,734,013.00	1,872,586.36
		250300	250324	2,825,000	2,725,000.00	100,000.00
		260600	260602	550,000	250,000.00	300,000.00
			Sub Total	32,981,600	30,709,013.64	2,272,586.36
3.	241003	250100	250101	44,605,200	38,595,732.92	6,009,467.08
		260800	260802	4,750,000	3,750,000	1,000,000.00
		261100	261103	30,610,000	30,609,999.99	0.01
			Sub Total	79,965,200	72,955,732.91	7,009,467.09
4.	244001	250100	250101	111,324,650	104,045,480.78	7,279,169.22
		270500	270503	65,255,600	69,070,500.00	(3,814,900.00)
			Sub Total	176,580,250	173,115,980.78	3,464,264.22
5.	244002	250100	250101	63,423,000	53,889,624.39	9,533,375.61
		250300	250317	9,792,000	7,000,000.00	2,792,000.00
		250300	250318	7,000,000	9,000,000.00	(2,000,000.00)
		260100	260106	19,400,000	18,711,451.00	688,549.00
		260600	260602	6,230,644	4,870,644.00	1,360,000
			Sub Total	105,845,644	93,471,719.39	12,373,924.61
		Grand Total	534,243,394	533,817,744.99	425,649.01	

Implication

The total vote expenditure as at 30th June 2005 was overstated by Shs.425,649.01

Recommendation

The management should investigate and review the records to effect the necessary adjustments in order to have the correct actual expenditure total.

3.2.2.3 Reasons for Material Differences between approved estimates and actual expenditures

Reasons for material differences between the approved estimates and actual expenditure were not provided just below the appropriation accounts for ease of reference to the underspent or overspent items of expenditure reflected in the appropriation accounts.

Implication

This implies non-compliance with Financial Regulations and guidelines.

Recommendation

Management should adhere to financial Regulations and Guidelines issued by the Treasury.

3.2.2.4 Nugatory Expenditure Shs. 6,929,418.24

The footnotes to the appropriation accounts submitted did not reflect cases of nugatory expenditure. However, examination of the year's accounts disclosed similar payments totalling Shs.6,929,418, being penalty for late payment of employees pension contributions contrary to the pensions scheme Act No. 2 of 1999, Regulations No. 9(6).

Implication

This implies that there is non-compliance with Rules and Regulation

Recommendation

The management should ensure that these expenditures are included in the footnotes as nugatory expenditures.

3.2.2.5 Statement of Losses

The footnotes of the appropriation accounts disclosed losses of stores amounting to Shs. 12,425,000. However, a loss of cash Shs. 43.6m which occurred during 2003/04 at MVIWATA Project office and reported vide letter Ref. No. MV/JV/ET/1049 of 19/8/2003 was omitted in the footnotes. Further more no action was taken to finalise the loss.

Implication

This implies a non-compliance with Rules, Regulations and Guidelines.

Recommendation

Management should include these losses into the statement and ensure their finalization.

**3.2.2.6 Development Expenditure charged against Supply vote
Shs.2,672,825**

It was noted during the audit that a sum of Shs.2,672,825 was paid to the Bank of Tanzania (BOT) being refund of money loaned by the Ministry and spent for purchase of IRO Office equipment and additional costs incurred on behalf of the Ministry under the Rural Microfinance Service Project (RMFSP) Credit No.3278 TA the expenditure appeared to be of a development nature. However it was charged against supply vote instead of Development Vote Account.

Implication

The supply vote expenditure was overstated by the same amount. Also due to this anomaly there are activities planned to be implemented through these funds, were not implemented.

Recommendation

The management should ensure that the expenditures are charged to the respective accounts and in future management should adhere to Budget Provisions.

3.2.2.7 Improper Payments of allowances Shs. 1,545,850

Payment of Shs. 1,545,850 was made to employees who attended various training courses abroad as incidental expenses, air tickets and tax charges. However, audit scrutiny has revealed that the training courses were fully financed by donors. In this regard, the payment was effected contrary to Government Instruction Ref. No. C/AC/17/213/01 of 9/7/2003 Para 3 and standing order G.20

Implication

This implies a non-compliance to Staff Circular and Standing Orders, and hence may lead to loss of public funds.

Recommendation

The management should ensure that the amount is recovered by submitted recovery particulars or treat as a nugatory expenditure.

3.2.2.8 Stores not taken on ledger charge Shs. 27,620,171

Examination of the payment vouchers for the period under review disclosed stores worth Shs. 27,620,171 were purchased and paid for. However, verification of the stores disclosed that the stores had neither been recorded in the stores ledger nor utilization records produced for audit. Details are as shown below:-

Stations	PV.Nos.	Crin Nos.	C/N	Item	Quantities	Values
Sub-office in Dar es Salaam	49/8		796527		3,000 lts	2,340,000
- " -	293/2	501278	849179	Diesel	5,000 lts	4,400,000
- " -	111/6	507543	858110	Diesel	9,000 lts	8,730,000
- " -	398/5	510834	852798	Diesel	3,166 lts	3,150,170
Dodoma Headquarter	226/3	505365	850797	Diesel	5,000 lts	4,400,000
- " -	23/5	509516	851202	Diesel	5,000 lts	4,600,000
Total					30,166 lts	27,620,170

Implication

This indicates that stores records are not properly kept as a result management may be unable to control the receipts and issues of stores.

Recommendation

The management should ensure that the goods are taken into ledger and that there is proper accountability of stores.

3.2.2.9 Internal Control system

No evidences were availed to audit indicating existence and effectiveness of Internal audit unit, Audit Committee and Procurement Tender Board.

Implication

In the absence of evidences, audit could not ascertain establishment and effectiveness of Internal audit unit, Audit Committee and Ministry Tender Board.

Recommendation

The management should confirm establishment and effectiveness of these units by submitting relevant files containing minutes and reports.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of Ministry of Cooperatives and Marketing during exit meeting. Management of the Ministry has promised to take appropriate action with a view to rectify the situation. We will appreciate to receive formally the action taken in this respect.

Lastly, I would like to express my appreciation for cooperation given to the audit team. It is my hope that such good working relationship will be extended during future audits.

Dr. Frank Mosses Hiza Mhilu
Ag CONTROLLER AND AUDITOR GENERAL

Copy: The Chief Secretary,
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P. O. Box 9120,
Dar es Salaam

The Permanent Secretary and Paymaster General
Ministry of Finance,
P. O. Box 9111,
Dar es Salaam

**STATEMENT OF THE RESPONSIBILITY ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2005**

These Financial Statements have been prepared by the management of the Ministry of Cooperatives and Marketing in accordance with the provisions of Section 25(4) of the Public Finance Act. No.6 of 2001. The Financial statements comply with the generally accepted accounting practices as required by the said Act and are presented in a manner consistent with the International Standards on Financial Reporting under the Cash Basis of Accounting.

The management of the Ministry is responsible for establishing and maintaining a system of effective Internal Control designed to provide reasonable assurance that the transactions recorded in the accounts are within the statutory authority and that they contain the receipt and use of all public financial resources by the Ministry.

To the best of my knowledge, the system of Internal Control has operated adequately throughout the reporting period and that the records and underlying accounts provide a reasonable basis for the preparation of the Financial Statements for the 2004/2005 financial year.

I accept responsibility for the integrity of the Financial Statement, the information it contains, and its compliance with the Public Finance act 2001 and instructions from the Treasury.

Signed by Accounting Officer

Date

5.0 ANNEXURES

Financial statements, accounting policies and notes to the financial statements.