

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF THE MINISTRY OF DEFENCE
AND NATIONAL SERVICE - NGOME
VOTE 38**

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 by ensuring that our clients 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 cycles; and
- providing audit staff with adequate working tools and facilities that promote independence.

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Definition of terms and Abbreviations:

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

- Responsibility for the Financial statement
- Statement of vote Account - Recurrent
- Statement of vote Account - Development
- Cash flow statement for Recurrent Account
- Cash flow statement for Development Account
- Cash flow statement for Deposit Account
- Statement of Losses
- Statement of arrears of revenue
- Notes to the financial statements
- Statement of commitment outstanding

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

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

Act	Public Finance Act No. 6 of 2001 as amended in 2004
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
PFR	Public Finance Regulations

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Brief history of the client establishment

The Tanzania Peoples Defence Forces (TPDF) was officially established on 1st September, 1964 under indigenous command. Tanzania Peoples Defence Force is a unified force. It is composed of Field formations, Air Defence and Naval Commands, National Service Formation; Military Schools/Colleges and Several specialized units.

1.2 Operational objectives

The operational objectives of the TPDF are guided by the country's internal and foreign polices. The roles are: -

- Defence of the country by safeguarding territorial integrity and national sovereignty
- Offering necessary assistance to civil authorities in emergency situation.
- Engaging in national production activities, the role which is achieved through the National Service.

1.3. Operational Objectives

Objectives of Defence Forces

- To promote and ensure combat readiness of the Tanzania Peoples Defences (TPDF).
- To enhance reserve forces capability
- To enhance cooperation with other security forces in the country and strengthen international military cooperation.
- To participate in international forums and programs involving peace support operations.

1.4. Financing

During the year under review, Defence Forces approved budget was as follows:

Recurrent Account Shs.137,677,022,944.

Development activities were financed directly from the Defence Ministry's approved budget.

1.5. Management Structure

The TPDF is under the administration of the Chief of Defence Forces who is assisted by the Chief of Staff, the TPDF accounting officer.

1.6 Brief Description of Internal Controls

The internal audit sections do exist. However, no internal audit reports were made available to us during the year under review.

Audit committee

Although the audit committee was launched on 11/02/2004 we have never received any report on the functioning of the committee. This is contrary to section 32 (i) of the Public Finance Act of 2004.

1.7 Financial performance

Total expenditure during the year amounted to Shs.137,677,002,944 and tallied exactly with the exchequer issues received from Treasury and the approved budget.

1.8. Audit Mandate

The Controller and Auditor General is empowered by the Constitution of the United Republic of Tanzania under Article 143 and Section 30 (i)(d) of the Public Finance Act No. 6 of 2001, to conduct audit on all government revenue and expenditure.

1.9 Audit Objectives

The main objective of conducting the audit is to enable me to express a professional opinion on the financial statements of TPDF for the period ended 30th June, 2005 and in particular:

- To determine whether transactions 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 Public Sector Accounting standard, and requirements of the Government Accounting Standards.
- To determine whether funds allocated from the Ministry of Finance were used exclusively to meet eligible expenses as per approved budget and regulations governing Government expenditure.
- To ascertain whether all relevant supporting documents, record and account have been kept in respect of all Defence activities.
- To verify whether goods and services bought were acquired through laid down procurement procedures and other relevant legislation or agreement.
- To perform compliance tests to determine whether TPDF Management had complied in all material respects with Circular and Standing Orders
- To evaluate whether the internal control procedures instituted are effective to provide relevant and reasonable information to the Management for implementing and monitoring of activities and that the assets of the Defence Forces are adequately safeguarded against losses from unauthorized use or disposition.

- To determine whether the Management of Defence has taken adequate corrective actions on the previous years audit recommendations.

1.10 Audit Scope

The audit of the TPDF accounts for the period ended 30th June, 2005 was carried out in accordance with International Organization of Supreme Audit Institutions (INTOSAI). The audit covered the evaluation of the effectiveness of the financial accounting system and internal control over the activities of Defence, examination and verification of the accompanying financial statements 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 for the purpose of audit were made available to us.

As Auditors we are not required to search specifically for fraud. Therefore our audit cannot be relied upon to disclose all such matters. However, our audit was planned in such away that we would have a reasonable expectation of detecting material misstatements in the financial statement, including those resulting from fraud or irregularities. The responsibility for detection and prevention of fraud and irregularities rest with the Defence Management who are responsible for setting up and maintaining an adequate system of internal control

1.11 Audit Methodology

In auditing the financial statements together with the related records and schedules, the following steps were followed:

- Planning of the audit work in order to establish the extent of tests to be performed and audit steps to be followed by drawing up audit programme.
- Review of legal documents
- Examination of payment vouchers to check for eligibility and propriety of the payments made and determine whether they were properly accounted for in the books of accounts.
- Conducting compliance tests
- A review of the internal control structure
- Review of the TPDF financial statements and MTEF (Medium Term Plan Expenditure Frame work).
- Interview and discussions
- Site visits
- Appraisal of the previous audit observations and recommendation to ascertain Management action.

- Preparation of draft Management letter and discussion with the
- Management through exit conference.

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 three parts:

The first part comprises of 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 ON FINANCIAL STATEMENTS

To: The Permanent Secretary,
Accounting Officer of Vote 38,
Ministry of Defence and National Service

Re: **Audit Report on the Financial Statements of the Ministry of Defence and National Services for the year ended 30th June 2005.**

I have audited the financial statements of Vote - 38 - Ngome for the year ended 30th June 2005.

Responsibilities of the Accounting Officer

Section 25(4) of the Public Finance Act places responsibility to the Accounting Officer to prepare the financial statements based on the 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 entity.

Responsibilities of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements, and on procurement procedures based on the audit. According to section 30 of the Act 2001 my specific responsibilities are to examine, inquire into, audit and report on the accounts of the Ministry of Defence and National Services.

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; all reasonable precautions have been taken to safeguard the collection of revenue, the receipt, custody, disposal, issue and proper use of public property, and that the law, directions and instructions applicable thereto have been duly observed, all expenditures of public money has been properly authorized; and to satisfy myself whether the funds appropriated to the Ministry of Defence and National Services 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 about whether the financial statements are free of material

misstatements. 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 Defence and National Services consistently applied 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 Public Finance Regulation 53. Under the cash basis, cash receipts are recognised when they are received and cash payments are recognised when they are paid.

Adverse

In my opinion, the financial statements do not present fairly the financial position of Vote 38 as at 30th June, 2005.

Further to my opinion, the procurement of buildings, repair and maintenance of buildings and motor vehicles have not been done in accordance with the Tanzania Procurement Act of November, 2004 and related Regulations.

Dr. 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. Status of Outstanding Matters in the Previous Audit Report

Audit queries relating to previous years account are still outstanding as follows: -

Year	Queries issued	Closed	Outstanding queries
2001/2002	99	94	5
2002/2003	66	57	9
2003/2004	72	32	40
2004/2005	51	0	51

Audit verification of response to previous audit report for the year ended 30th June, 2004 revealed the following outstanding matters.

Report paragraph on 2001/2002	Audit observation	Outstanding amount	Audit comment
176.1	Overdrawn Deposit Account	127,299,110	Overdrawn amount in Deposit Account still not yet reimbursed
178	Payment made without proper authority	499,250,000	Retrospective approval from Treasury not yet obtained
	Total	626,549,110	

Implication

There is inadequate following of matters raised by auditors

Recommendation

The Accounting Officer's attention is drawn to the advantages of acting promptly on audit findings with a view to securing public accountability by instituting financial and accounting control as recommended.

3.2 Current year's audit findings

3.2.1 Position of Audit Queries

During the year under review 51 audit queries were raised. As at the time of writing this report only three (3) audit queries were replied.

3.2.2 Drawings from miscellaneous deposit account Shs.523,277,508.92

During the year under review TPDF spent total amount of Shs.523,277,508.92 from miscellaneous deposit account to meet expenditure of recurrent nature. (AQ2. 35 of 2004/05)

Implication

It may imply excess vote of Shs.523,277,508.92 unless explanation is given to justify the purposes and reasons for having such monies in the miscellaneous deposit account.

Recommendation

TPDF management is required to submit documentary evidence showing analysis and purpose of the monies deposited in the miscellaneous Deposit Account.

3.2.3 Audit Committee

In reference with file number GA 29/69/01, Audit Committee in the Ministry was launched on 11/2/2004.

However, audit could not ascertain the effectiveness of such a committee due to non-availability of records of meetings held. This is contrary to Public Finance Act Section 32.1(a) of 2004.

3.2.4 Outstanding imprests Shs.222,124,983

The footnotes to the financial statements disclosed that as at the end of the year there was no outstanding imprests. However, the examination of the imprest register and payment voucher revealed that imprests totalling Shs.222,124,983 remain unretired up to 30th June, 2005. (Ref. No.36 of 2004/2005)

Implication

Non disclosure of the outstanding imprests implies overstatement of the total expenditure reported in the final accounts. The anomaly implies inadequate controls in place.

Recommendation

The outstanding imprests should be revised and recovered and the financial statements should be reviewed to reflect the actual amount spent.

Management reply

The replies to the quoted audit query were received on 9th February 2006 and are awaiting auditors to verify the figures.

Audit comment

Efforts should be made to ensure that imprests are timely retired as per regulation 103 (1-4) of Public Finance Regulations.

3.2.5 Questionable rehabilitation costs: Shs.154,778,400

House number 2055 located at Sea View Upanga is occupied by Senior Army Officer. The house was rehabilitated by M/s Building Contractors and General Supplies Ltd. Test check of payment vouchers revealed part payment of Shs.154,778,400 to the contractor. The details disclosed further that NHC would have to contribute Shs.38,500,545 for the project as narrated in the letter referenced MMJ/5315-1. However, as at the time of writing this report no payment was acknowledged to have been received from the NHC LTD.

Implication

Such payments may necessitate further reallocation if NHC will not refund the monies on time. It also implies inadequate follow up efforts.

Recommendation

Ownership status should be clearly stated and deliberate efforts should be made to have the monies refunded.

3.2.6 Unvouched Expenditure Shs.1,981,240,588.94

Audit test check to the payment vouchers and other records disclosed payment of Shs.1,041,635,287 and Shs.939,605,301 from the Deposit and Recurrent accounts respectively which were not supported by the relevant payment vouchers contrary to Public Finance Regulations. {Part xi - 86 (i)} Ref. AQ. No. AQ2 Nos 25, 44 and 47 of 2004/05.

Implication

Implies internal control weakness as payments are not subjected to internal check and approved by responsible officers

Management replies

Audit queries No. 47 and 44 of 2004/2005 worth Shs.1,282,304,882 were submitted to audit for verification on 09/02/2006.

Audit comment

The remaining outstanding balance of Shs.698,935,706.50 should be regularized as a proper charge otherwise be declared as a loss.

3.2.7 Questionable expenditure Shs.26,823,605

The payment was made for airway bills in favour of officers who traveled on private visits abroad. Audit query number 34 of 2004/05 seeking for explanation remained outstanding as at the date of this report.

Up to the time of writing report investigation was not made to prove if the expenditure were eligible or to ascertain that the payments were eligible.

3.2.8 Purchase of House in London Shs.240,000,000

Being payment to M/S Tanzania Foreign Accounts Box 2939 Dar es salaam in respect of purchasing a house in London for Defence Advisory (DA) London letters CAB/164/371/01/70 of 14/6/2005, MMJ/1030 - 31/345 (c of s) dated 06/06/2005, MMJ/1030 - 31/345 (c of s) of 24/11/2004, MMJ/53/6-1 of 24/5/2005 and MMJ/1050-31/354 (MI) dated 16/6/2006. Vide PV. 38VC 4024525 Cheque No. 772575 of Shs.240,000,000. (AQZ No. 27 of 2004/2005 refers).

Necessary supporting documents were not submitted to audit on request.

3.2.9 Questionable expenditure to meet medical expenses abroad Shs.50,569,577

Examination of payment vouchers revealed that the Defence forces remitted funds to Military attachees through Bank of Tanzania Foreign accounts for treatment of patients referred abroad by the Defence Forces. (AQZ.No. 30 of 2004/2005 refers).

There was no information on whether the procedures for authorization for medical treatments abroad were approved by the Ministry of Health.

The payments were based on estimates only. As at the time of writing this report no returns were remitted to account for the funds. Audit is still waiting for expenditure details.

Implication

Such payment may have not been spent genuinely for treatment of patients as expected. Further, the monies may wrongly be included in the final expenditure.

3.2.10 Missing statement of expenditure Shs.502,607,089

TPDF headquarters paid the Bank of Tanzania foreign accounts Shs.502,607,089 externalized and transferred to our missions abroad for purchases of motor vehicles and other expenses to Military attaches. (AQ. No. 31 of 2004/05 refers)

Such payments were estimated and actual expenditure were not submitted to audit on request. Even the final accounts do not disclose

the assets purchased by the Military Attachees as such complicated the whole exercise of confirming the actual amount spent during the year for procurement of various assets for the officers.

Implication

Non accountability implies that the Final Accounts needs adjustments to reflect the actual monies paid during the year.

Recommendation

Expenditure statements showing all the assets purchased for the offices of Military attachees be prepared and submitted for audit verification.

3.2.11 Questionable repair of 11 motor vehicles Shs.100,553,120

Payments were made to M/s Hame Investment in respect of repair of motor vehicles as per letter Ref. No. CFA.41/379/02/21 of 28/5/2004. Payments made vide PV No. 38VC 3023351 Cheque No. 747634 and PV No. 38VC4005275 cheque No 758499 of Shs.40,183,360 and 41,183,360 respectively

Further more, other claims of Shs.19,184,400 vide PV No. 38VC4007904 with cheque No. 948912 was also paid as additional cost on those motor vehicles.

Audit noted the following anomalies:

- (i) On average one motor vehicle was repaired for Shs.9,141,193 regardless of the status of the respective motor vehicles.
- (ii) Handing over notice of the motor vehicles repaired was not availed to audit
- (iii) Additional cost of Shs.19,184,400 was not authorized by Military Tender Board.

Up to the time of writing this report the management has not replied to the audit query.

Implication

In the absence of proper controls abuse of financial discipline cannot be ruled out.

Recommendation

TPDF management should adhere to the Government Procurement regulations on the repair of motor vehicles and ensure that there is value for money spent on such activities.

3.2.13 Questionable purchase of television set TShs.9,540,000

Being payment made to M/s United Traders Dar es salaam in respect of supplying television set for house No. 2055/5. Vide PV.38VC 4010398

Cheque No. 951301. (AQZ. No. 41 of 2004/2005 refers). The payment was made in advance. No reliable evidence to prove that the service was rendered.

Implication

Implies weakness on the accountability of stores

Recommendation

All the assets purchased should be properly located, coded and recorded in the stores registers for verification.

3.2.14 Questionable price charged on 6 air Conditions 2HP Shs.7,200,000

Payment was made to M/s Emmao General Supplies in respect of supplying six (6) Air Condition 2HP @ 1,200,000. Payments were effected through cheque numbers 748542,748543 and 748544.

Audit verification revealed that the prices charged by the supplier were too high compared to the prevailing market prices. The same item was purchased for Shs.545,000 PV No. 38VC 4009699, Cheque No. 950655. (AQZ. No. 45 of 2004/2005 refers).

Implication

The amount was adequate to buy 12 Air conditioners for TPDF. The inflation of prices could mean that the prices were deliberately inflated.

Recommendation

TPDF should recover the monies from the responsible officers.

3.2.15 Payment for demurrage charges Shs.14,088,735.

The TPDF management imported refrigerators and bicycles for sale in their duty free shops operated and managed by TPDF.

Examination of payment vouchers revealed payments of Shs.10,728,735 and Shs.3,360,000 being costs for demurrage charges raised on delays in clearing 3x40ft and 1x20ft containers containing refrigerators and bicycles respectively. The payments were made the in form of special imprest to the CO DFHQ vide letter referenced MMJ14001 [CLE] and payment vouchers number 38vc4010846, and 38vc4009585.

Audit noted the following irregularities

Invoices were not attached to confirm genuinity of the transactions. The delivery and distribution of the goods could not be ascertained.

Implication

Such high charges may have serious impact on the retail prices..

Recommendation

The missing relevant supporting documents should be traced and submitted for audit confirmation.

3.2.16 Payment supported by proforma invoices Shs.1,578,035,744.32

A test check of the accounts documents during the year revealed that expenditure totaling Shs.1,578,035,744.32 was paid in advance using proforma invoices. Reply of six (6) audit queries raised on the matter is still awaited.

Implication

We could not confirm whether the goods and services paid for were correctly received and properly accounted for.

Recommendation

Management should ensure that all the goods and services paid for in advance are taken on ledger charge and submit the receipt/particulars for confirmation.

3.2.17 Payment made without proper authority Shs.2,015,503,373.56

A total sum of Shs.2,015,503,373.56 was paid to several contractors in order to supply goods and services to various army units six (6) audit queries raised on this issue are still not attended.

Implication

No internal control system in place.

In addition, no proper authority such as Military Tender Board (MTB) was consulted on this issue.

Recommendation

The management is advised to request retrospective approval from the Treasury to regularize the expenditure. Also, the Accounting Officer should ensure that control systems are effectively introduced.

3.2.18 Matters arising from local inspection

Audit test check of the army units accounts for the year 2004/2005 revealed that Financial Regulations were not adhered to as evidenced below:

(i) 44KJ - Mbeya

Payment made in advance Shs.10,087,980

A total of Shs.10,087,980 was paid in advance to various payees in order to facilitate supply of goods and services at the unit (44KJ - Mbeya). We could not ascertain the proper accountability of the services rendered

and confirm delivery of the goods paid for as the relevant supporting documents were not submitted on request.

Implication

Services and goods paid for may not have been delivered or could be substandard.

Recommendation

The unit Management should confirm that all the items purchased in advance were received and accounted for. Adherence to Procurement regulations is recommended to ensure value for money spent on procurement of goods and services.

4.0. CONCLUSION

During the course of the audit we encountered difficulties of getting records/documents especially from stores. We could not get the requested documents on time. However, we appreciate for the assistance and cooperation extended to us by the management.

Dr. Frank Mosses Hiza Mhilu
Ag. CONTROLLER AND AUDITOR GENERAL

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

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

5.0 ANNEXURES

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