

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE



REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE
FINANCIAL STATEMENTS OF THE NATIONAL SERVICE
VOTE 39

FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2005

Office of the Controller and Auditor General
National Audit Office
P.O. Box 9080
Tel: 255 22 2115157/8
Fax: 255 22 2117527
Email: ocag@nao.or.tz
Dar es Salaam, Tanzania

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 National Service for the year ended 30th June, 2005

- Responsibility for the Financial Statements
- Notes to the Financial Statements
- Statement of Vote Account - Supply
- Statement of Vote Account - Development
- Cash flow statement for Deposit Account
- Summary Statement of Revenue
- Summary - Development Appropriation Account
- Summary - Recurrent Appropriation Account
- Statement of Arrears of Revenue
- Summary Statement of Losses
- Statement of composition of Fund
- Statements and notes form art of this report

These statements are set out as Annexure II 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

CEO	- Chief Executive Officer
CNS	- Chief of National Service
CO	- Commanding Officer
DMI	- Director of Military Intelligence
DPD	- Director of Planning and Development
DINS	- Director of Investigation National Service
INTOSAI	- International Organisation of Supreme Audit Institutions
IPSAS	- International Public Sector Accounting Standards
ISA	- International Accounting Standards
DIC	- Director of Internal Construction
LONS	- Legal Officer National Service
DMP	- Director of Military Police
DMS	- Director of Medical Services
DGESC	- Director of General Education Sports & Culture
DCOMM	- Director of Communication
NSHQ	- National Service Headquarters
DWA	- Director of Women Affairs
IFMS	- Integrated Financial Management System
ERV	- Exchequer Receipt Voucher
DPA	- Director of Personnel and Administration
DLOG	- Director of Logistics
DOT	- Director of Training

DFIN - Director of Finance
TRA - Tanzania Revenue Authority
VAT - Value Added Tax
JKT - Jeshi la Kujenga Taifa (The National Service)

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1. Introduction

We have completed the audit of the National Service (Vote 39) for the year ended 30th June, 2005. Audit findings arising from examination of accounting records, appraisal of activities as well as evaluation of the internal control system, which require management attention and action are set out under part 3 of this report.

1.2. Brief history of establishment

The National Service was first established on 10th July, 1963. The operations of the National Service ceased in 1994. However, on 23rd November, 2000, the President of United Republic of Tanzania decided to re-establish the National Service activities as per special supplement instrument no. 4 of 1st December, 2000 and official Gazette No. 48 Vol. 81 dated 1st December, 2000 and Government Notice No. 467 and 468 Published on 1st December, 2000

1.3 Operational Objectives

(a) Care of youth

In this area youth are educated about: -

Habit of being loving each other and to avoid apartheid in tribe, area, religion, education, income, color and gender. Habit of being hard workers especially manual works, and to cultivate sense of responsibility and hope amongst the youth, to develop our good customs of Tanzania as well as to strengthen national culture and good citizens of Tanzania.

(b) Defence

In this field youth are:-

Prepared to be courageous, honest and obedient citizens to learn various methods of military activities for the purpose of guarding the public properties as well as boundaries, to prepare them to join other defence and security organs, and to prepare them to assist in rescue activities incase of accidents, and hazards such as floods and fire.

(c) Production activities

In 1981 the National Service decided to increase their activities by establishing production activity under SUMA Cooperation Sole.

The aim was to teach youths in the field of agriculture as well as to assist Government in solving problem of food crops. By doing that youths were able to employ themselves in agriculture activities when they return home.

1.4. Financing

The National Service like any Government entities receives funds through Exchequer issues. During the year under review, a total sum of Shs.28,116,044,617 was released for the operations of the National Service.

Description	Amount Shs.
Recurrent Account	28,116,044,600
Development	<u>NIL</u>
	<u>28,116,044,600</u>

1.5 Management Structure

The National Service is headed by Chief of National Service and assisted by the Deputy Chief National Service. The Detailed management and organization structure is shown in Annexure No. 1 to this report.

1.6 Brief description of Internal Control System

(a) Accounting system

The National Service operates the usual government accounting system based on the Central Payment Office using Integrated Financial Management System. The financial statements are being prepared based on cash basis of accounting pursuant to Regulation 53.

(b) Internal Audit Unit

Under section 28 of the Regulations, the accounting officer is responsible for the establishment of an effective internal audit service unit.

The Internal Audit Unit has the following staff:-

- Chief Internal Auditor - 1
- Internal Auditors - 3

Duties of the Internal Audit Service Unit are to review and report on: -

- Proper Control over the receipts, custody and utilization of all financial resources of the unit.
- Conformity with financial and operational procedures and good practices.
- Correct classification and allocation of revenue and expenditure accounts.
- Readability and integrity of financial and operational data which allows for preparation of accurate financial statements and other reports.
- The system in place used to safeguard assets and as appropriate the verification of the existence of such assets.

- Operations or programs to ascertain whether results are consistent with established objectives and goals.
- Adequacy of action by management in response to internal audit reports
- Adequacy of control built into computerized system in place within the unit.

(c) Audit Committee

The National Services has not established an audit committee contrary to Public Finance Regulation No. 30, 31(1) and 32(2) we recommend that the management establish the committee so as to strengthen the Internal Control System within the Vote.

(d) Military Tender Board

The National Services uses the facility of the Military Tender Board. The Military Tender Board has 8 members.

1.7 Financial performance

Supply Vote

The supply vote closed with a saving of Shs.193,883 arising from actual net expenditure of Shs.28,115,850,717 against net approved estimates of Shs.28,116,044,600. However, actual exchequer issues received during the year totalled Shs.28,116,044,617 against a net expenditure of Shs.28,115,850,717 resulting into a saving of shs.193,900 with the Paymaster General.

Statement of Revenue.

The statement of revenue reflected a total collection of Shs.3,115,459.15 against an annual budget of Shs.2,926,000.000 resulting into an over collection of Shs.189,459.15 or 6.48% of the estimates.

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) and 37 (1) of the Public Finance Act No. 6 of 2001 the Controller and Auditor General is the statutory auditor of all government revenues and expenditure, including the National Service.

1.9 Audit Objectives

The main objective of conducting the audit is to enable the Controller and Auditor General to express a professional opinion on the financial statements of the National Service 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 account and to allow the preparation of the financial statements in accordance with the International Public Sector Accounting standards and as per requirements of the PFA No. 6 of 2001.
- To determine whether funds received through exchequer issues were used exclusively and judiciously to meet eligible expenses, as per approved budget and regulations governing government funds.
- To ascertain whether all relevant supporting documents records and accounts have been kept in respect of all transactions.
- To verify whether goods and services bought were acquired through laid down procurement procedures.
- To perform compliance tests to determine whether the National Service management complied in all material respects with the ISAs.
- To evaluate whether the internal control system instituted is effective to provide relevant and reasonable information to the management, for implementing and monitoring activities and that the assets of the National services are adequately safeguarded against losses from unauthorized use or disposition.
- To determine whether the management of the National Service has taken adequate corrective action on previous years audit recommendations.

1.10 Audit scope

The audit of the National Service for the period ended 30th June, 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 National Service, 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 the audit were made available to us. As auditors we are not specifically required to search for fraud therefore our audit cannot be relied upon to disclose all such matters. Our audit however, was planned and carried out in such a way that we would have a reasonable expectation of detecting material misstatement in the financial statements. The responsibility for setting up and maintaining an adequate system of internal control for detecting and preventing fraud rests with the management of the National Service.

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:

- Planning the audit to obtain an adequate understanding of the National Service, its activities and operations and assessment of the major risk areas.
- Carrying out substantive test of the balances reported by the National Service in order to obtain reasonable assurance regarding the amounts and disclosures included in the financial statements.
- Review the adequacy of the Internal Control System in place, testing whether it is in compliance with laid down rules, policies, procedures and regulations.
- Conducting Interviews and discussions with some of the employees of the National Service.
- Visits to selected areas or stations of the National Service.

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: Mr. Abel Mwisumo,
Accounting Officer of Vote 39,
National Service.**

**Re: Audit Report on the Financial Statements of the National
Service for the year ended 30th June, 2005.**

I have audited the financial statements of the National Service shown as Annexure I 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 statement 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 National Service.

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 National Service.

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 National Service 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 National Service Vote 39 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 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 National Service 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.

Further to my opinion, except for the non submission of the schedule of assets, the procedures for the procurement of uniforms, sports goods drugs and medicines, vehicles and crafts, ration (purchase of food), minor civil works and services were generally done in accordance with the public procurement Act No. 21 of 2004 and the related Regulations.

Limitation of scope and non-compliance with laws

1. There was no correlation between the physical and financial performance indicating inefficient use of the available financial resources.
2. The management did not prepare a schedule of assets along with the appropriation account.
3. A sum of Shs.468,500,000 was transferred to another activity code (sub-vote) without proper authority apparently indicating misallocation resources.
4. There are entries in the bank statements amounting to Shs.97,987,537.24 which have not been reconciled with the cash book.

5. Expenditures amounting to Shs.142,343,127.20 were made without adequate supporting documentation.

The details of these matters are given under part 3 of this report.

Dr. Frank Moses 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 Follow up on previous years audit findings

At the time of writing this report (January, 2006) one matter relating to previous years had not been resolved. The matter required the management to submit a fixed assets schedule disclosing the value of all assets owned by the National Service as directed through Treasury letter Ref. No. TA/30/362/2.

Recommendation

Management's attention is drawn to the advantages of acting promptly on audit observations with a view to securing Public accountability by arresting financial and accounting control deficiencies.

3.2 Current audit findings

3.2.1 Audit queries and management letters

A test check of the accounts and related records for the year 2004/05 resulted in the issue of 17 audit queries. As at the date of writing this report, 3 queries were still outstanding, of which the more significant matters raised are referred to in this report.

3.2.2 Operational performance

The management planned to implement three activities during the year under review. Physical achievement in respect of these activities was between 60% and 72% of their planned levels. However, all the funds planned for these activities were exhausted indicating that there was no correlation between physical and financial achievements.

Planned targets	Achieved targets	Approved budget Tshs.	Actual Expenditure Tshs.
To rehabilitate 8 training camps by 80% by year 2005	7 training caps were rehabilitated by 72%	571,000,000	571,000,000
To upgrade the training standards by 75% by year 2005	Training standards was performed by 60%	490,558,200	490,558,200
To improve the working environment for permanent staff and youths in the National Service by 75% by year 2005	The working environment was improved by 62%	15,905,102,100	15,905,102,100
	Total	16,966,660,300	16,966,660,300

Audit implication

Failure to meet the targeted levels accompanied with exhaustion of the allocated funds may imply inadequate controls over the allocated funds.

Recommendation

The management should find out the reasons for partial execution of targets with a view to take the necessary action.

3.2.3 Statement of Miscellaneous Deposit

The miscellaneous Deposit Account for the year ended 30th June 2005 closed with a credit balance of Shs.698,827.10 made up of two accounts as follows:

Account/center no.	Description	Credit Balance Shs.
6930 D 01001	Unpaid salaries	54,593.00
6930 D 01005	Deposit General	<u>644,234.10</u>
		<u>698,827.10</u>

The credit balance need to be refunded to the Treasury.

3.2.4 Schedule of Fixed Assets not submitted

The financial statements submitted did not include a schedule of fixed assets contrary to Treasury circular Ref. No. TA/30/362/2. It was also noted that the management does not maintain a register of plant and equipment. In lieu of these books and records we were unable to establish the correctness of the value and physical existence of the assets owned by the National Service including those acquired during the year under review.

Implication

Non recording and disclosing of the fixed assets owned can result into misuse, loss, or misplacement of the assets owned.

Audit recommendation

The management should submit the schedule and ensure a register of plant and equipment is maintained.

3.2.5 Unauthorised reallocation of funds Shs.468,500,000

A sum of Shs.468,500,000 was reallocated from item 260505 (Vehicles and crafts) to items 261109 (Ration Shs.448,500,000) and item 261131 (National Expenses Shs.20,000,000). However, authority for reallocation within the votes was not submitted when requested for audit purposes.

Implication

- Funds could be shifted from the key activities to less priority areas.
- Non implementation of intended objectives.

Audit recommendation

The management should confirm that authority from the Treasury was obtained to support the reallocation of the funds between the votes.

3.2.6 Unreconciled items in the bank reconciliation statement

A review of the bank reconciliation statements as at 30th June, 2005 for the recurrent account No. 11:3901 revealed debit in bank statements not in the cash book of Shs.97,987,537.24. Clearance of this non-reconciling item has not been confirmed.

Implication

Likelyhood of wrong debits being charged to the National Service bank account.

Audit recommendation

The management should communicate with the bank to clear the non reconciling item.

3.2.7 Inadequately supported expenditure Shs. 142,343,127.20

A review of accounting records revealed that payments totalling Shs.40,248,447.9 were made to various suppliers of goods and services without adequate supporting documentation. In addition, payment vouchers carrying a total sum of Shs.102,094,679 were not produced for audit. Authenticity of these payments could not be ascertained in the absence of adequate supportive evidence.

Implication

- The legitimacy of the transactions may be in question
- The management is facing a risk of paying double or fictitious claims.

Audit recommendation

The Management should ensure that payments are adequately supported and the missing payment vouchers are submitted for examination.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the National Service during exit meeting held on 26th January, 2006 the Management has promised to take appropriate action with a view to rectify the situation. We shall appreciate to receive formally the actions taken in this respect.

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

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.

MANAGEMENT STRUCTURE

Annexure I

