

**THE UNITED REPUBLIC OF TANZANIA**  
**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE  
FINANCIAL STATEMENTS OF THE MINISTRY OF INDUSTRIES AND TRADE  
VOTE 44**

**FOR THE FINANCIAL YEAR ENDED 30<sup>TH</sup> JUNE, 2005**

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DAR ES SALAAM.

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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## Definitions of terms and Abbreviations

Financial statements means the following statements, notes and supporting schedules of the Ministry of Industries and Trade for the year ended 30<sup>th</sup> June, 2005.

- Statement of Vote Account - Supply
- Statement of Vote Account - Development
- Cash Flow Statement for Recurrent Account
- Cash flow statement for Deposit Account
- Cash flow statement for Development
- Summary Statement of Revenue
- Summary - Development Appropriation Account
- Statement of Arrears of Revenue
- Summary Statement of Losses
- Statement of composition of Fund
- Statement of Assets and Liabilities

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.

Ministry	Means Ministry of Industries and Trade
Act	Means Public Finance Act No.6 of 2001 as amended in 2004
CAG	Controller and Auditor General
CPO	Central Payment Office
GN	Government Notice
ISA	International Standard on Auditing
INTOSAI	International Organization of Supreme Audit Institutions
MIT	Ministry of Industry and Trade
PAC	Public Accounts Committee

## 1:0 BACKGROUND INFORMATION TO THE AUDIT

### 1.1 Introduction:

We have completed the audit of the annual accounts of the Ministry of Industries and Trade for the year ended 30<sup>th</sup> June, 2005. Audit findings arising from examination of accounting records and evaluation of Internal Control System, which require management attention and action are set out under Part 3 of this report.

### 1.2 Brief history of the Client Establishment

The Ministry of Industry and Trade was established by the President of United Republic of Tanzania on 23<sup>rd</sup> November 2000. The President reestablished the Ministry of Industry and Trade Pursuant to article 55 of the constitution of United Republic of Tanzania through an Instrument Published under GN No 467 of 1<sup>st</sup> December, 2000 issued as a special supplement no. 4 in the official Gazette No. 48 Vol. 81 dated 1<sup>st</sup> December 2000.

### 1.3 Operational Objectives of the Ministry

- To create conducive working environment for efficient and effective delivery of supportive services.
- To ensure effective allocation and proper management of resources for Ministry Support Services operations.
- To create conducive enabling environment for sustainable investments in the Industry and Trade Sector.

### 1.4 Financing

The main sources of funds for the budget for the Ministry is through appropriation from the Exchequer and Development partners/donors. Budget against actual expenditure for the year 2004/2005 was as shown below:

	Estimates (Shs)	Actual (Shs)
Recurrent expenditure	8,953,795,000	8,751,158,297.93
Development expenditure	<u>1,562,649,000</u>	<u>852,906,711.07</u>
	<u>10,516,444,000</u>	<u>9,604,065,009.00</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. The organization structure of the Ministry of is shown at annexure II.

## 1.6 Brief description of Internal Control System

### Accounting System

The Ministry operates the usual Government accounting system based on central payment office in Dar es Salaam using Intergrated Financial management Epicor Accounting packages. The financial statements are being prepared and presented basing on the cash basis of accounting pursuant to Public Finance Act No.6 of 2001 Regulation 53. To promote understanding and comprehension of the data the court has included additional Public Sector Accounting standards for the cash basis accounting.

- **Internal Audit Unit**

The internal audit unit helps to evaluate the adequacy and effectiveness of internal control in the organization. It also reviews and conducts operational/value for money audits throughout the office. The Ministry has established an internal audit unit which has only one staff member.

- **Audit Committee**

The Ministry has establish an audit committee to strengthen internal control system.

- **Tender Board**

The Public Procurement Act No.21 of 2004 section 33 and 34 requires the Ministry to establish a Tender Board, and a Procurements Management Unit to assist in strengthening the system of procurement of goods, services and works from the right source in the right quantity, at the right time, place and price. The Ministry has established a Tender Board Committee.

## 1.7 Out turn

### Statement of Vote Account - Supply

The supply vote closed with a net expenditure of Tshs.8,751,158,297.93 for the year 2004/2005 against the approved estimates of Tshs.8,953,795,000.00 resulting in an apparent saving of Tshs.202,636,702.07. Exchequer issues received during the year amounted to Tshs.8,754,473,298 resulting in a surplus of issues over expenditure of Tshs.3,315,000.07 balance with the Paymaster General's Account.

### Statement of Vote Account - Development:

The Development vote closed with a net expenditure of Tshs.852,906,711.07 against approved estimates of Tshs.1,562,649,000 resulting in an apparent saving of Tshs.709,742,288.93. However actual exchequer issues received during the year amounted to Tshs.852,906,711.07 only, therefore there was a NIL balance with the Paymaster General's account.

### **Statement of Revenue**

During the year actual revenue collected was Tshs.196,496,179.37 against the approved estimates of Tshs.298,260,000 resulting in an under collection of Tshs.101,763,821 which is about 34% of the estimates.

### **Bank Reconciliation Statements**

The Revenue Bank Reconciliation Statement has been prepared and submitted for audit. Bank reconciliation statements for the Supply Vote, Development Vote and Deposit Account, were prepared by the central payment office - Treasury.

### **Miscellaneous Deposit Account**

The Statement of receipts and payments for Miscellaneous deposit account showed a balance of Tshs.33,226,587.49 which agreed with the Deposit cash book balance.

## **1.8 Audit Mandate**

By virtue of the provisions 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 appointed auditor of all government accounts including the accounts of the Ministry.

## **1.9 Audit Objectives**

- The main objective of conducting the audit is to enable me to express an opinion on the Appropriation Accounts and other financial statements of the Ministry for the year ended 30<sup>th</sup> June, 2005 and in particular:
- To ensure that revenue due to the government is properly assessed, collected and accounted for and that payments are effected with due regard to the Parliamentary appropriation and are duly supported.
- To determine whether the Appropriation Accounts and other financial statements are prepared in accordance with Treasury Instructions and International Accounting principles.
- To determine the accuracy and completeness of the accounts and statements and to assist the Accounting Officer in streamlining the Ministry's operations to avoid possible errors and omissions.
- To determine whether the internal control structure provides management with reasonable assurance that the assets of the ministry are safeguarded against loss from unauthorized use or disposition.
- To determine whether the procurement of goods and services is being done in accordance with the Public Procurement Act No.21 of 2004.
- To determine whether the ministry is managing or utilizing its resources in an economical and efficient manner and the causes of any inefficiencies or uneconomical practices are identified and reported on.
- To determine whether the desired results and/or benefits are being achieved and whether the objectives established by the Parliament are being met.

- Follow-up of the previous years audit findings and recommendations and instructions of the Public Accounts Committee (PAC).

#### **1.10 Audit Scope**

The audit of the Ministry for the year ended June 30<sup>th</sup> 2005 was carried out in accordance with ISA and procedures that are consistent with those recommended by 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 the vote and the 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 for the purpose of the 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 a way that we would have a reasonable expectation of detecting material misstatement 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 procedures include the following:-

- Carrying out substantive verification of the balances reported by the Ministry in order to obtain reasonable assurance regarding the amounts and disclosure included in the financial statements.
- Review the internal control system in place and testing whether it is in compliance with the Act No. 6 of 2001 and PPA.No. 3 of 2001.
- Examination of payment vouchers with their related supporting documents.
- Planning the audit to obtain an adequate understanding of the Ministry its activities and operations and obtaining an assessment of the major risk areas.
- Interviews and discussions with key personnel
- Site visits to selected Offices

## **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 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 44.  
Ministry of Industries and Trade

Re: Audit Report on the Financial Statements of the Ministry of Industry and Trade for the year ended 30<sup>th</sup> June, 2005.

I have audited the financial statements of the Ministry of Industry and Trade shown as Annexure I for the year ended 30<sup>th</sup> June, 2005.

### **Responsibilities of the Accounting Officer**

Section 25(4) of the PFA 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.

### **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, expenditures 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 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 recognised when they are received and cash payments are recognised when they are paid.

### **Opinion**

In my opinion, the financial statements of the Ministry of Industry and Trade have been prepared based on 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 30<sup>th</sup> June 2005, and the financial position as at that date.

Further to my opinion, the procurement of office furniture and fittings, IT equipment and accessories thereon, Motor vehicles and office equipment were generally done in accordance with the Public Procurement Act No. 21 of 2004 and the related Regulations.

### **Matter of emphasis**

Payment vouchers and supporting documents to support expenditure totalling Shs. 73,576,271 in respect of recurrent account and Shs.13,337,185 for deposit account were not made available to audit for examination.

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

Dr. Frank Mosses Hiza Mhilu

**Ag: CONTROLLER AND AUDITOR GENERAL**

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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 of previous audit findings

The following matter arising from the previous years audit report shown here under is still outstanding.

Para	F/Y	Description	Amount Involved (Tshs.)	Outstanding Balance (Tshs.)	Comment
10	2003/04	Unvouched and Improperly Vouched Expenditure	203,176,931	43,133,600	Missing supporting Documents.

#### Recommendation

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

#### Management Response

During the year 2004/2005, 66 audit queries and one management letter were issued. As at the time of replying to this report all 66 audit queries and one management letter have been replied while Thirty Five (35) audit queries have been closed. 39 audit queries have been closed. Three (3) queries, which were re-issued have been replied.

#### Comment

Management should clear the outstanding amount of Shs.43,133,600/-

#### 3.2 Current Year's Audit findings

A test check of the accounts and related records for the year 2004/05 resulted in the issuance of 66 audit queries and 1 (one) management letter. As at the time of writing this report January 2006, only 22 queries were replied. Furthermore more 23 audit queries relating to financial year 2003/2004 are still outstanding.

##### 3.2.1 Unvouched and improperly vouched Expenditure Tshs.591,149,880.14

The footnotes to the appropriation accounts did not show unvouched expenditure. However, audit examination of the Ministry payment vouchers for the year ended 30<sup>th</sup> June, 2005 noted unvouched expenditure amounting to Tshs.591,149,880.14 as shown below:-

Category	Account	Amount Tshs.
Missing Vouchers	Recurrent	94,035,845.04
Improperly Vouched expenditure	Deposit	13,337,183.00
Improperly Vouched expenditure	Recurrent	483,776,852.10
	<b>Total</b>	<b>591,149,880.14</b>

#### Implication

The situation above indicates that there is a weakness in financial controls and

records keeping.

### **Recommendation**

The missing payment vouchers and supporting documents should be traced and be submitted to auditors for verification otherwise the whole expenditure should be treated as unvouched expenditure as per Public Finance Regulation No. 95(4).

### **Management Response**

The amount involves 39 audit queries of financial year 2004/2005 of which 21 queries amounting to TShs.504,200,581.10 have been verified and confirmed closed. The Audit Queries for the remaining amount of TShs.86,913,454.04 are still being dealt with.

### **Comment**

The missing payment vouchers/supporting documents to support the remaining expenditure of Shs.86,913,454 should be traced and be submitted for verification.

### **3.2.2 Outstanding Imprest Tshs.2,029,500:**

Audit scrutiny of the imprest register revealed that imprests amounting to Tshs.2,029,500 were still outstanding. One audit query issued on the subject has not been replied.

### **Implication**

The existence of outstanding imprests implied that the funds were tied up.

### **Recommendation**

The Accounting Officer should ensure that all imprests are retired within 14 days of return to base.

### **Management response**

The transaction of retirement of imprest No.3,4,7,79,80 and 81 as per audit query no 3 financial year 2004/2005 have been erroneously omitted in the retirement of imprest register but the retirement made in time, the transactions were recorded and audit query number 3 have been replied.

### **Comment**

The outstanding imprest should be cleared.

### **3.2.3 Free Issue of Licences Worth Tshs. 14,600,000:**

Licences worth Tshs.14,600,000 were issued without collecting licence fees during the months of July and August 2004. However, the reasons for non collection of licence fees were not explained.

### **Implication**

Non collection of licence fees deny government revenue.

**Recommendation**

Management should recover all uncollected licence fees and submit recovery particulars for audit verification.

**3.2.4 Irregular Procurement Of Goods And Services worth Tshs.30,188,900**

A test examination of payments to suppliers made during the year noted that, procurement procedures in respect of goods and services worth Tshs.30,188,900 were not followed in the sense that quotations were not attached, purchase agreements not produced and in some cases items of stores purchased were not accounted for in the stores ledgers. Thirteen (13) audit queries seeking explanation on this issue are yet to be replied.

**Implication**

In the absence of competitive quotations there was no justification that the prices paid were the most economical and it would appear that the ministry was denied the benefit of the lowest price.

**Recommendation**

Management should comply with the procurement Regulations of goods and services.

**Management Response**

This refers to 13 audit queries of which 6 audit queries amounting to TShs.11,665,800 have been replied and closed and the remaining are still being dealt with.

**Comment**

The correct balance still outstanding is Shs.18,983,100.

**3.2.5 Unverified fixed assets Shs. 1,013,897,380**

Section 25(1) of the Public Finance Act No.6 of 2001 requires the Accounting Officer to submit a signed Summary Statement of Assets. In the year under review only a detailed list and value of assets with total value of Tshs.1,013,897,380 was submitted.

The physical verification of the Assets was not carried out because the Ministry's fixed Asset Register which provides asset details such as types, code number and other unique identification marks was not available.

**Implication**

Loss of assets through theft or pilferage might go undetected by management.

**Recommendation**

Fixed assets registers should be produced for audit verification.

### **3.2.6 Stores not Accounted for Tshs.52,364,160:**

A test check of the payment vouchers and local purchase orders, revealed stores purchased worth Tshs.52,364,160/= had not been brought into ledger charge.

#### **Implication**

The situation indicates the existence of weakness in inventory control.

#### **Recommendation**

The management should ensure that the stores purchased are recorded in the ledgers.

#### **Management Response**

This refers to 3 audit queries of financial year 2004/2005 of which 2 queries amounting to TShs.49,300,160 verified and confirmed closed. The remaining query (AQ.40 of TShs.3,064,000) is being dealt with.

#### **Comment**

Utilization account in respect stores worth Shs.3,064,000 should given for verification.

## **4.0 CONCLUSION**

The detailed audit findings presented above have been communicated to management of the Ministry during exit meeting. 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 the cooperation given to the audit team. It is my hope that such good working relationships will be extended during future audits.

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

**Copy to:-** Chief Secretary,  
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P. O. Box 9120,  
Dar es Salaam

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

**5.0 ANNEXURES**  
Financial Statements and notes to the Financial Statements,  
Management Structure

**STATEMENT OF RESPONSIBILITY ON THE FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 30<sup>TH</sup> JUNE, 2005**

These Financial Statements have been prepared by the management of the Ministry of Industries and Trade 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 of Industries and Trade 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 of Industries and Trade.

To the best of my knowledge, the system of Internal Control has operated adequately throughout the reporting period and that the Accounts and underlying records 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 Statements, the information it contains, and its compliance with the Public Finance Act No. 6 of 2001 and the instructions issued by the Treasury in respect of the year under review.

\_\_\_\_\_  
**Signed by Accounting Officer**

\_\_\_\_\_  
**Date**