

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF THE MINISTRY OF FINANCE
AND AFFILIATED BODIES (VOTE 50)
FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2005

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February, 2006

Office of the Controller and Auditor General,
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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 financial statements, notes and supporting schedules of the Ministry of Finance (Vote 50) for the year ended 30th June 2005

- Responsibility of the Financial statements
- Statement of vote account Recurrent (balance sheet)
- Statement of vote account development (balance sheet)
- Cash flow statement for recurrent
- Cash flow statement for development
- Cash flow statement deposit
- Summary statement of losses
- Statement of revenue
- Statement of arrears of revenue
- Statement of commitments outstanding
- Statement of composition of fund

These financial statements and notes are attached as annexure No. 1 to this report.

Act - Means the Public Finance Act No. 6 of 2001

Regulation of the Public Finance Act issued under G.N No. 259 of 2003

| | |
|----------|----------------------------------------------------------|
| ACGEN | Accountant General |
| AQs | Audit Queries |
| AIDS | Acquired Immune Deficiency Syndrome |
| BOT | Bank of Tanzania |
| CIS | Commodity Import Support |
| GAAS | Generally Accepted Auditing Standards |
| GOT | Government of Tanzania |
| HIV | Human Immune-deficiency Virus |
| IDA | International Development Agency |
| INTOSAI | International Organisation of Supreme Audit Institutions |
| IAA | Institute of Accountancy Arusha |
| IFM | Institute of Finance Management |
| ISA | International Standards on Auditing |
| LCs | Letters of Credit |
| LPOs | Local Purchase Orders |
| NBAA | National Board of Accountants |
| PMG | Paymaster General |
| THA | Tanzania Harbours Authority |
| TIA | Tanzania Institute of Accountancy |
| TIB | Tanzania Investment Bank |
| TRA | Tanzania Revenue Authority |
| URT | United Republic of Tanzania |
| VFM | Value for Money |
| Ministry | Means Ministry of Finance and the Affiliated Bodies |

1.0. BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

We have completed the audit of the Appropriation Accounts and Financial Statements of Ministry for the year ended 30th June 2005. Audit findings arising from examination of accounting records, appraisal of the Ministry's activities as well as an 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 client establishment

The Ministry was established by instrument made under article 55(i) of the Constitution of the United Republic of Tanzania, 1977, and released as a Special Supplement No.4 on 1st December 2000.

1.2.1 Role of the Ministry

The major role of the Ministry is to monitor the overall revenue, expenditure and financing of the Government of the United Republic of Tanzania and provide the Government with valuable advice on the financial affairs to achieve the Government's economic and social objectives.

Other responsibilities of the Ministry include preparation of the Central Government budget; developing tax policy and legislation; managing Government borrowings on financial markets; determining expenditure allocations to different Government institutions; transferring central grants to local governments; developing regulatory policy for the country's financial sector and representing Tanzania in international financial institutions.

In addition, the Ministry of Finance is critically concerned with monitoring of the performance of economy, international trade, monetary affairs and other aspects of the global economy that affect the country's domestic performance.

1.2.2 Vision of the Ministry

The vision of the Ministry is to attain high economic growth and macro-economic stability, sound financial management and ensure that accountability is achieved and sustained.

1.2.3 Mission of the Ministry

The mission of the Ministry is to achieve and maintain high economic growth, macro-economic stability, sound financial management through development of robust fiscal and monetary policies and enhancing professionalism and promote the use of Information Technology (IT)

1.3 Management Structure

During the year under review the Ministry Structure was made up of the Minister and his two Deputy Ministers who head the Ministry. There were two Permanent Secretaries in the Ministry, the Permanent Secretary Treasury (Paymaster General) and the Permanent Secretary Finance (Accounting Officer). In addition, there were two Deputy Permanent Secretaries, one for policy, and resources mobilisation and the other for Treasury services who assisted the two Permanent Secretaries.

The Ministry has various Departments and Divisions to facilitate day to day operations as detailed below:-

- (i) Administration and General
- (ii) Finance and Accounts Unit
- (iii) Legal and Services Unit
- (iv) Government Budget
- (v) Policy and Research
- (vi) Treasury Registrar
- (vii) External Finance
- (viii) Stock Verification
- (ix) Computer Services
- (x) Technical Audit Unit
- (xi) Internal Audit Unit

1.4.0 Operational Objectives.

A review of some departments operations noted the under listed objectives to have been set.

1.4.1 Government Budget

- To enhance efficiency in resource mobilization, allocation and utilization.
- Financial management and accountability.
- Maintain and develop human resources capacity to ensure quality service delivery.

1.4.2 Policy and Research Analysis.

- Stable macro Economic Growth/development
- To maintain and develop sustainable human resource capacity to ensure quality service delivery to the public.
- To enhance efficiency in resource mobilization, allocation and utilization.

1.4.3 External Finance.

- Stable macro Economic Growth/development
- To enhance efficiency in resource mobilization, allocation and utilization.

- Maintain and develop human resources capacity to ensure quality service delivery.

1.5 Financing

The primary source of fund for the Ministry is from government allocations made through exchequer issues. During the year under review, a sum of Shs.107,959,663,944.57 was released through exchequer issues for the operation of the Ministry as analysed below:

| | |
|-------------------------|----------------------------------|
| Recurrent Expenditure | 92,215,009,810.00 |
| Development Expenditure | <u>15,744,654,134.57</u> |
| | <u>107,959,663,944.57</u> |

1.6 Audit Mandate

By virtue of the provision of Article 143 of the Constitution of the United Republic of Tanzania, and Section 30 (i) and 37(i) of the Public Finance Act No.6 of 2001 the Controller and Auditor General is the appointed auditor of all government revenue and expenditure including the Ministry of Finance.

1.7 Financial Performance

Recurrent Expenditure Account

The year's out-turn on the Recurrent expenditure Account reflected an actual expenditure of Shs.92,021,762,810 against the net approved estimates of Shs.94,996,986,000, which resulted in an apparent saving of Shs.2,975,223,190. However, exchequer issues received for the year totalled Shs.92,215,009,810, when offset with the actual expenditure figure (Shs.92,021,762,810) nets to a cash balance of Shs.193, 247,000 with the PMG's account at the Bank of Tanzania (BOT) as at 30th June 2005.

Development Expenditure Account

The Development Expenditure Account closed with an apparent saving of Shs.2, 376,166,007 arising from a net expenditure of Shs.15, 744,653,993 against approved estimate of Shs.18, 120,820,000.

However, exchequer issues received during and in respect of the current financial year totalled Shs.15,744,654,135, which resulted in a cash balance of Shs.142 with the PMG Account at the BOT as at 30th June 2005.

1.8 Internal Control System

The Ministry has an internal audit section with three staff, headed by Chief Internal Auditor. The Ministry has established an Audit Committee comprising of seven members who are Permanent Secretary-Chairperson,

five members-heads of department and one member-TRA Chief Internal Auditor. Members are nominated by the Permanent Secretary.

Other members who are invitee to the Committee are Principal Accountant to the Treasury who is also a Secretary to the Committee, other invited persons are from External Audit, Chief Internal Auditor, in charge to the Procurement Management Unit and any heads of section who have outstanding query(s).

1.8.1 Procurement System

The Ministry has also established a Ministerial Tender Board comprising of six members who are heads of department and one member from Accountant General's office. The chairperson to the board is usually appointed from among the committee members of a particular meeting, whereby the in charge to the Procurement Management Unit is the Secretary to this Board. A review of procurements for the year noted the system to have been used.

1.8.2 Accounting system

The Ministry operates the usual government accounting system based on central payment office in Dar as Salaam and various sub Treasuries in the 21 mainland regions using Integrated Financial Management System and epicor accounting packages. Accounting procedures being followed revolve Public Finance Act No. 6 of 2001 and the Public Procurement Act No. 21 of 2004.

1.9 Audit Objectives

The main objective of the audit is to enable the Controller and Auditor General express a professional opinion on the financial statements of the Ministry of Finance for the period ended 30th June, 2005 and in particular:

- To determine whether the Appropriation Account and other financial statement are prepared in accordance with GAAS and Treasury Instruction/guidelines
- To ensure adequate disclosure of assets and liabilities in the appropriation accounts/statements of assets and liabilities,
- To determine whether the Internal Audit Section perform its duties properly with absolute independence and whether the Ministerial Audit Committee effectively performs its duties to ensure that the internal control system is adequate and reliable,
- To ensure that the Ministerial Tender Board perform its duties effectively, and that proper procurement procedures have been followed.
- To ensure that good governance has been enforced in the day to day operations of the Ministry and in carrying out the overall strategy of the Ministry. Heads of section are advised to ensure that good

governance is enhanced to ensure that they perform duties with due diligence and to the interest of the public.

- To determine whether the Ministry has properly addressed key social problem areas such as HIV/AIDS, gender balance etc. through seminars, work shops etc.
- To determine whether transactions were executed in accordance with management authorization and recorded properly in the books of the account to permit the preparation of the financial statements in accordance with the International Accounting Principles and requirements of the Ministry conditions.
- To determine whether receipts and revenue have been assessed and collected properly and used exclusively to meet eligible expenses, as per approved budget and regulations governing the government expenditure.
- To ascertain whether all relevant supporting documents, records and accounts have been kept in respect of the Ministry activities.
- To perform compliance tests to determine whether the Ministry management complied in all material respects with the Integrated Financial Management System Accounting Procedures Manual and 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 safeguarded against losses from unauthorized use or disposition.
- To determine whether the management of the Ministry has taken adequate corrective action on the previous years audit recommendations.

1.10 Audit scope

The audit was carried out in accordance with the ISA and the 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 of Finance, examination and verification of the accompanying financial statements to the appropriation account, and other procedures as was considered necessary in the circumstances. 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 audit. As auditors, we are not required to search specifically for frauds; 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 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 management of the Ministry 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:

Exchequer issues confirmation

- Review of legal documents
- A review of the internal control structure
- Compliance tests
- Examination of payment vouchers and their supporting documents,
- Review of the Ministry financial statements and progress reports,
- Interviews and discussions.

1.12 Presentation of audit findings

The audit was carried out according to the audit 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 which is given in pages 14 to 28 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. AUDIT REPORT ON THE FINANCIAL STATEMENTS

To The Deputy Permanent Secretary,
Accounting Officer of Vote 50
Ministry of Finance

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

I have audited the financial statements of the Ministry of Finance 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 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 Ministry of Finance.

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 Finance.

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, expenditures of public monies have 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 International Standards on Auditing and procedures that are consistent with those recommended by the International Organization of Supreme Audit Institutions. 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 Ministry of Finance (Vote 50) 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 recognized when they are received and cash payments are recognized when they are paid.

Qualification

In my opinion, except for the matters pointed out below, the financial statements of the Ministry have been prepared based on the Generally Accepted Accounting Standards, and 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 that date.

Limitation of scope of audit and disagreements in best practices on record keeping

- The position of outstanding commitments for two years totalling Tshs.3,553,487,790 was not availed as a result the status of goods works and services which were to be delivered or rendered as at the end of financial year (2004/2005) was not known.
- Declared dividends totalling USD 14,000 and Tshs.3,000,000,000 respectively have not yet been paid to the Government of Tanzania through the Ministry contrary to Regulation 60.
- Debts amounted to Shs.46,739,192 handed and taken over by an investor (Hotel business Mwanza) are not yet paid.
- There are considerable gaps of best practices in the management of the Commodity Import Support Programme Fund
- Long overdue audits and liquidation processes in the public entities where Government of Tanzania is an interested party has complicated the whole exercise of dividend declaration.
- There are long outstanding audit recommendations since financial year 2001/2002 to date not yet acted upon.
- The final balances reported in the financial statements could not be certified due to lack of audit trail. The soft copy (flash diskette) containing the relevant transactions supporting the balances could not be availed to audit. A part from the flash diskette which is

reported to have been misplaced, no back-up was kept by the Ministry on the audit trail.

Without prejudice to the qualified opinion stated above the procedures applied for the procurement of spare-parts, stationeries, furniture, equipment, construction of Treasury Annex building and other consultancy services was generally done in accordance with the Public Procurement Act No. 21 of 2004 and the related Regulations.

Dr. Frank Mosses Hiza Mhilu
ACTING 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 the previous audit recommendations

During the previous years audit recommendations were made on some key issues which required necessary action for improvement. We appreciate the effort made by the management in implementing some of the recommendations.

However, as at this reporting date (January, 2006), the following recommendations were not fully implemented.

Financial year 2001/2002

| Para | Details | Status |
|---------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| 31.0 | Suspected overpayment of personnel emoluments Shs.8,363,134,626 involving 63 Municipals and 7 Votes (Ministries) | Awaiting outcome of the investigation currently going on following suspension of the Accountant and budget officers implicated in the vice |
| 32(i) and 32.1 (ii) | <p>Treasury Registrar Overdue Loans and interest repayments: Shs.29,697,965,277</p> <p>A sum of Shs.19,346,664,275 and Shs.10,351,301,002. being principal and interest respectively were overlap as at the end of the year, but had not been collected from the respective borrowers and no evidence was produced to show follow up action taken to have the amount recovered.</p> | Not yet resolved |

Financial year 2003/2004

| Para No. | Description | Status |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|
| 8.2 | <p>Outstanding Loan and Interest Shs.152,110,066,612.84</p> <ul style="list-style-type: none"> These loans were issued to various Parastatal Organizations and private Companies through the Treasury Registrar. The records revealed that, most of loans would have been fully recovered way back in 1980s and 90s | The amount is yet to be cleared |

| | | |
|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| 11.2.1 | <p>Loan off set against TRC compensations claims Shs.80,138,095,000.00</p> <ul style="list-style-type: none"> In September 2002 the Ministry of Finance authorized Tanzania Railway Corporation-TRC to offset part of its long-term loans amounting to TZS 80,138,095,000.00 against the Corporation's claims. However, the authority from the Ministry of Finance did not specify loans supposed to be off-settled against TRC claims and which ones should be forwarded in the books of the Corporation. Because of the debt swap, the repayment schedule which signals current maturity of long-term loans portion and the general conditions of the original agreements have been disrupted, and therefore, the remaining loans do not have appropriate agreements and disclosure. | Not yet resolved |
|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|

3.1.1 Position of Audit Queries

A test check of accounts and related records for the year under review resulted in 24 audit queries being issued the more significant of which form the bases of this report. As at this report date (January, 2006) 8 queries had been replied satisfactorily and settled. In addition, 7 queries relating to year 2003/04 are still outstanding as follows:-

| Financial Year | Queries issued | Queries closed | Outstanding queries |
|----------------|----------------|----------------|---------------------|
| 2003/04 | 22 | 15 | 7 |
| 2004/05 | 24 | 8 | 16 |
| Total | 46 | 23 | 23 |

3.2.0 Current audit findings

3.2.1 Recurrent Revenue Collection

During the year under review, we noted an actual revenue collection of Shs.44,679,581,650 against an approved budget of Shs.45,808,800,000 resulting in under collection of Shs.1,129,218,350. Under collection of recurrent revenue may deprive the Government of its revenue.

3.3.0 Outstanding Commitments not yet paid

- 3.3.1 The Accountant General's guidelines for the preparation of annual Final Accounts directs that all Accounting Officers should prepare statement of commitments outstanding and in addition provide a note for:
- (i) Commitments cancelled and reasons for cancellation
 - (ii) Commitments outstanding for more than two years and reasons.

A statement of commitments outstanding for the two years was prepared and availed to us for audit and reason given for commitments was that goods and services were not delivered at the end of financial year 2004/2005.

Unpaid Commitment for the two years period are made up as follows:-

| SN | Description | Number of LPO'S outstanding | Commitments outstanding during 2003/04 | Commitment outstanding during 2004/2005 |
|----|-------------------------------------|-----------------------------|----------------------------------------|-----------------------------------------|
| 1. | Recurrent expenditure commitments | 57 | 204,419,040 | 2,891,624,318 |
| 2. | Development expenditure commitments | 2 | 2,665,772 | 389,628,775 |
| | Total | 59 | 207,084,812 | 3,281,253,093 |

Further, outstanding Commitments totalling Tshs.65,149,884.60 relating to the year 2003/2004 were apparently not incorporated as at 30th June, 2005.

Implication

There is violation of the instructions by the ACGEN and incorrect record of commitments for the year under audit.

Recommendations

- Since Goods and Services were not delivered towards the end of 30th June 2005 management should give an appraisal on the status of commitments to date.
- Management should ensure that expected goods and services are delivered and services are rendered. Particulars for goods delivered and services rendered should be communicated to audit for easy audit verification.

3.3.2 Long outstanding commitments not settled Shs.269,682,050

Furthermore, we noted that an analysis of deposits provided under note 6 reflect unpaid commitments totalling Shs.2,597,883,430, which were transferred to the deposit account relating to the year ended 30th June, 2004. Out of these only Shs.2,328,201,380 was confirmed to have been settled as at 30th June 2005 leaving a balance of Shs.269,682,050.

Implication

Non utilization of committed funds may imply exaggeration of the monies requested for particular activities.

Recommendation

Management should ensure that all the commitments are settled and the intended goods, services and works are received as envisaged.

3.3.3 Debts taken over by the Investor not yet paid Shs.46,739,192

An audit review of the privatization process of the New Mwanza Hotel revealed that an agreement was entered into between the Government of the United Republic of Tanzania and the Grand Hotels Limited (the investor) on 23rd February 2004 for the buyer to settle outstanding debts of Shs.46, 739,191, which were agreed to be settled as follows:

| Due date | Amount (Shs.) |
|------------------------------|-------------------|
| 1 st January 2004 | 11,684,798 |
| 1 st July 2004 | 11,684,798 |
| 1 st January 2005 | 11,684,798 |
| 1 st July 2005 | <u>11,684,798</u> |
| Total | <u>46,739,192</u> |

Implication

The investor has breached the original agreement.

Recommendation

Management should make a follow up with a view of ensuring that outstanding debts are settled by the investor as agreed.

3.3.4 Declared dividend not received USD 14,000

An examination of the Appropriation Account and its related records revealed that dividend amounting to USD 14,000 was declared by M/s African Re-Insurance in favour of the Government of Tanzania during the year under review. However, up to the time of audit, the amount had not been received.

Implication

Government revenue might not be realized.

Recommendation

Management should make efforts to recover dividend due to the Government.

Similarly, we noted that dividend due to the GOT amounting to Shs.3,000,000,000 was expected to be received from Tanzania Harbours Authority (THA) during the year under review. Apparently, the amount has not been paid to the Treasury in the pretext that the same would be used as cost for restructuring the Tanzania Harbours Authority. However, no evidence was provided to confirm that the decision was approved by the appropriate authority.

Implication

The Government might lose its revenue accruing in the form of dividend.

Recommendation

Management should furnish the relevant authority which necessitated retention of dividends for internal use by the Tanzania Harbours Authority

3.3.5 Improperly vouched expenditure Shs.350,233,912

We noted that payments totaling Shs.350,233,912 were observed to have been incurred without sufficient supporting documentation as follows:-

| Audit queries | AMOUNT (Shs.) |
|----------------------|---------------------------|
| 1 | 45,186,504 |
| 8 | 257,605,000 |
| 15 | 1,331,000 |
| 20 | 46,111,408 |
| Total | <u>350,233,912</u> |

Implication

- Laxity on control of accounting/supporting records
- Invoices may be re-presented for payment

Recommendation

Management should ensure that all payments are dully supported by proper documentation.

Implication

Nugatory expenditure figure reflected in the footnotes of the Appropriation Account has been understated by Tshs.3,840,000.

3.4.0 Commodity Import Support Programme Fund

3.4.1 The subsidiary agreement between the United Republic of Tanzania (URT) and the Tanzania Investment Bank (TIB), which was signed on 20th September, 2002 appoints the Tanzania Investment Bank to administer the Commodity Import Support fund under the Japanese Debt Relief Facility to Tanzania.

Article VI section 6.01 regarding duties and functions of TIB stipulate that in administering the fund on behalf of the Government, TIB shall have the following duties:-

- To invite and scrutinize applications of the Commodity Import Support Funds from the public (Ref. Sub-Section 6.01.1).
- To check on records of outstanding balances of arrears, if any and tax-compliance of applicant in consultation with the Tanzania Revenue Authority (TRA) (Ref. Sub-Section 6.01.2)
- To issue letters of award to successful applicants and give terms and conditions for procurement and repayment of the loans. (Ref. Sub-section 6.01.3)
- To collect and remit the proceeds of the loans to Treasury on a monthly basis (Ref. Sub-section 6.01.3)
- To ensure that within one year all the outstanding loans shall have been remitted to Treasury (Ref. Sub-section 6.01.6)
- To report to Treasury on a half yearly basis on the utilization of the funds of the Commodity Import Support Programme. (Ref. Sub-section 6.01.8)

However, we observed the following anomalies:-

3.4.2 A loan amount of Japanese Yen 1,005,033,840 (equivalent to TShs.10,050,338,400) was allocated to 134 beneficiaries from the month of March, 2002 to March, 2004, apparently only Yen equivalent to Tshs.617,905,373 (about 6%) have been repaid leaving a recoverable balance of Tshs.9,432,433,027. (MT.456/AQ. No.9 of 2004/2005 refers)

3.4.3 A sum of Tshs.2,240,000,000 was loaned to 30 Commodity Import Support Scheme beneficiaries. However, the collaterals submitted (in respect of the loans issued) were for Tshs.1,233,683,700, only resulting in unsecured balance of Tshs.1,006,316,300 (MT.456/AQ. No.7 of 2004/2005 refers)

Management response

The auditor's observation has been noted and is well appreciated. However, we wish to provide the following explanation.

The available range of security instruments included, inter-alia, mortgage on title deed, legal charge on the company assets, bank

guarantees, directors' guarantees, third party guarantees, escrow accounts, receivables and any other security deemed appropriate. In the course of administering the fund in 2002, a good number of owners of small enterprises complained to Treasury and TIB that they did not have tangible security. Upon Treasury's guidance, it was agreed that those beneficiaries who could not secure other forms of collateral be allowed to sign General Letter of pledge. This was aimed at giving small businesses, which did not have tangible securities, the opportunity to access CIS Funds. In this regard the amount of shs.1,006,316,300 (i.e. 45%) was secured by General letter of pledge though we agree is not a strong security. We understand that one of the objectives of the CIS fund was to empower Tanzanians by providing them with a source for financing their businesses. Seen this way, we believe the Government's decision for softer terms, including securities, was well intended.

- 3.4.4** A sum of Tshs.3,400,000,000 (equivalent to JPY 340,000,000) was loaned to 30 successful applicants prior to receipt of 30% cash cover. (MT.456/AQ. No.4 of 2004/2005 refers).

Management response

We assure the auditors that all beneficiaries of the CIS facility, including the 30 cases reported not to have paid the 30% cash cover before utilization of the facility. According to our records, all the listed 15 beneficiaries (not 30) paid 30% cash cover. The issue here is that, although all beneficiaries were required to pay 30% cash cover within 30 days counting from the date of the allocation, the 15 beneficiaries failed to meet requisite payment within 30 days. In this case, they requested for more time to raise cash cover either from banks or from own operations. After taking stock of their problems, and after ensuring that the procedures had been followed, it was considered prudent to grant them more time as requested. The said beneficiaries paid their 30% cash cover on the agreed dates as indicated on appendix.

- 3.4.5** We observed that 5 beneficiaries were not servicing their loans on time as a result the loan outstanding against them reached Tshs.500,000,000. Further, two of the beneficiaries have been reported to have closed their businesses and their whereabouts not known, whereas, the status of the other three beneficiaries also not known and no explanation has been given. (MT.456/AQ. No. 3 of 2004/2005 refers)

Management response

The auditor's observations have been noted.

a. Beneficiaries who have closed business

(i) Community Foods

Follow up was made in July 2004 and subsequently in February 2005. The beneficiary claimed that the Police in Kagera confiscated their Fishing vessels/ gears claiming that they were stolen properties. Follow up on release of the same is being made.

(ii) Salama Auto Spare Parts

Follow up was made in August 2004 and subsequently in September 2005. The beneficiaries have filed a miscellaneous civil case No. 72 of 2004 at the High Court in Moshi against the agent who was commissioned to clear the goods but instead sold the goods and did not remit the proceeds to the beneficiary. The case has been postponed to February 2006.

b. Saaf @ Africa, Triangle Adventures & Leons B.

The businesses are not doing well but the beneficiaries agreed to repay the facility. Follow up is being made to ensure that the beneficiaries service the facility.

3.4.6 A physical survey made by the Tanzania Investment Bank officials to verify the physical location of each Commodity Import Support beneficiary revealed that:

- 38 recorded project locations could not be traced, because their contact particulars appearing in the loan applications were false, fake, and hence not authentic.
- In some instances, some beneficiaries companies had not registered with their respective District Trade Officers (MT.456/AQ. No. 2 of 2004/2005 refers)

Management response

The auditor's observation is noted.

The beneficiaries who could not be traced during the follow up visits could have changed their contact addresses. The premise of providing false addresses needs further investigation.

Subsequent to the inability to trace some of the untraced beneficiaries with trade offices and TRA, TIB followed up with:

- Business Registration and Licensing Agency (BRELA)
- Third Party who deposited 30% cash cover for beneficiaries

Stanbic and Standard Chartered Banks who opened LCs for the beneficiaries.

3.4.7 We also observed that 103 beneficiaries who were allocated a sum of Tshs.7,560,000,000 (equivalent to JPY 756,000,000) during the period from mid 2002 to mid 2004 had not paid their dues in full despite the fact that the maximum repayment period of three years lapsed on 30th June, 2005. (MT.456/AQ. No. 8 of 2004/2005 refers)

Implications

- Doubtful recovery of the Commodity Import Support issued to various beneficiaries
- Potential losses are likely to be incurred due to non-repayment of loans issued.

Recommendations

- TIB management should institute measures to prevent potential losses from loan defaulters after failing to comply with the pertinent provisions governing the Commodity Import Support.
- TIB management should ensure that they collect and remit the loan proceeds to Treasury on a monthly basis (Ref. Sub-section 6.01.5)
- TIB management should ensure that within one year all the outstanding loans shall have been remitted to Treasury. (Ref. Sub-section 6.01.6)

3.4.8 We further observed that the TIB has been delaying to remit loan recoveries to the Treasury contrary to Section No. 6.01.5 of the subsidiary agreement (MT.456/AQ of 2004/2005 refers).

Management response

We agree with the auditors that some of the amount deposited by CIS beneficiaries, as 30% cash cover has not been remitted to Treasury as required under section No. 4.01 of the Subsidiary Agreement. The reason is that the bank requested Treasury to maintain an account with TIB (as TIB is a Government bank). The move is intended to reduce transaction costs involved in the administration of the funds. At the meeting between Treasury and TIB (which was chaired by the Permanent Secretary - Treasury) in June 2004 at the Treasury Dodoma sub office, it was agreed that Treasury will consider maintaining an account with TIB. In this case, Treasury undertook to consult with the Accountant General and inform TIB of the decision. TIB stands to be further guided on the matter.

The Auditor's recommendation has been noted.

TIB is continuing to follow-up with the Treasury in order to get their decision on maintaining an account with TIB where recoveries from beneficiaries will be maintained.

3.4.9 Treasury Registrars Government Investment and Public Interest as at 30th June 2005

3.4.9.1 A review of the Treasury Registrar Statement of 179 Government Investments administered by the Ministry has revealed that several of the Government Parastatals have not finalized their liquidation or privatization processes. Further, we observed that most of these Parastatals have long overdue audits.

Recommendation

The Ministry should expedite the liquidation/privatization processes. Arrangement should also be made to have these public bodies audited so as to ensure accountability.

3.4.10 Operational performance issues

3.4.10.1 Performance overviews

The Accountant General’s Guidelines for the preparation of annual final accounts stipulate that all MDAs should comment on what has been achieved at each target level, when reporting the current year’s performance. However, a review of physical progress of activities performed by the Ministry in order to achieve intended objectives and factors which contributed to less expenditure has revealed the following features:

3.4.10.2 Achievement of the intended objectives

Sub Vote: Administration and General

| Objective | Target | Achievement | Audit comments |
|----------------------------------------------------|--------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| To Improve services and reduce HIV/AIDs, infection | Combating HIV/AIDs in general by 2006/07 | A review has been undertaken to determine how to combat HIV in the Ministry of Finance | Nature of the review undertaken has not been made clear; and the report not produced for audit verification. |
| | Preventing the spread of HIV/AIDs infection by 2006/07 | Consultants have submitted final document of he assessment document of HIV/AIDs situation analysis in MOF | The consultant report not produced for audit verification. |

Sub Vote: Internal Audit

| | | | |
|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|
| Financial management and accountability VFM | To ensure that all Government regulations rules and financial procedures are adhered to by 2007 | Accounts of TRAT, TR, Finance and accounts and administration were reviewed and report produced. | The achievement is inconsistent with the pre-set objective. |
| | To ensure timely availability of accurate and updated assets and liabilities report annually by 2009/10. | Ministerial Tender Board reviewed | Review results have not been made clear. |
| | To enhance Transparency efficiency and accountability in mobilization, allocation and utilization of Public resources. | Audit plan prepared and actual audit review done on seven departments including TIA Mbeya Wing. | TIA Mbeya wing reports not made available for audit verification. |
| | To have efficient and effective financial services in the Institutes annually. | The four Institutions namely IFM, IAA, and NBAA received salaries, subvention and other subsidies on time. | Accountability of the subventions to the four institutions is awaited. |

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Ministry during our exit meeting held on 27th December 2005 management of the Ministry has promised to take appropriate action with a view to rectify the situation. We shall appreciate to receive formally the action 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 relationship will be extended during future audits.

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

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The Permanent Secretary and Paymaster General,
Ministry of Finance,
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5.0 ANNEXURES

Financial statements and statement of responsibility