

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE



REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF THE MINISTRY OF
HOME AFFAIRS (VOTE 51)

FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2005

Office of the Controller and Auditor General
National Audit Office
P.O. Box 9080
Tel: 255 (022) 2115157/8
Fax: 255 (022) 2117527
E-Mail: ocag@nao.or.tz
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.

© This audit report is intended for use by government authorities. However, upon receipt of the General Report of the CAG by the Speaker, this report is a matter of public record and its distribution may not be limited.

CONTENTS

	Page
1.0: Background information to the audit	5
1.1: Introduction	5
1.2: Brief history of the client establishment	5
1.3: Operational objectives	5
1.4: Financing	5
1.5: Management structure	5
1.6: Brief description of internal control system	6
1.7: Financial Performance	7
1.8: Audit mandate	7
1.9: Audit objectives	7
1.10: Audit scope	8
1.11: Audit methodology	8
1.12: Presentation of audit findings	9
2.0: Audit report on the financial statements	10
2.1: Audit report	10-12
3.0: Audit findings and recommendations	13
3.1: Follow up of previous year's audit findings	13
3.2: Current year's findings	13-18
4.0: Conclusion	18
5.0: Annexures	19
Financial statements, accounting policies and notes to the financial statements	

Definition of terms and Abbreviations:

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

- Responsibility for the Financial statement
- Statement of Vote Account - Recurrent
- Statement of Vote Account - Development
- Cash flow statement for Recurrent Account
- Cash flow statement for Development Account
- Cash flow statement for Deposit Account
- Statement of Composition of Fund

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

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

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

ACP	- Assistant Commissioner of Police
CPO	- Central Payment Office
DANIDA	- Danish International Development Agency
IFMS	- Integrated Financial Management System
ISA	- International Standard on Auditing
INTOSAI	- International Organization of Supreme Audit Institutions
UNHCR	- United Nations High Commissioner for Refugees
WFP	- World Food Programme

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

We have completed the audit of the Ministry of Home Affairs (Vote 51) for the year ended 30th June 2005. Audit finding arising from examination of accounting records, appraisal of the Ministry of Home Affairs 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 letter.

1.2 Brief history of client establishment

The Ministry of Home Affairs was established under Article 55 (I) of the constitution of the United Republic of Tanzania, 1977 which empowers the President to establish and disestablish such offices in the government of the United Republic of Tanzania. Therefore, establishment of the Ministry of Home Affairs under the instrument vide Government Notice No 467 published on 01/12/2000 and became operational on the 23rd day of November, 2000.

1.3 Operational Objectives

- To control refugees
- To protect life and property
- Alternative to imprisonment

1.4 Financing

The total net approved budget of the Supply vote account of the Ministry of Home Affairs in the year under review was Shs.3,009,090,000 financed by the Government of the United Republic of Tanzania through exchequer issues. The total exchequer issues received by the Ministry of Home Affairs for the financial year ended 30th June, 2005 was Shs.2,961,689,804 or 98.4% as against the estimated budget. However, the net expenditure of Shs.2,961,485,890 (about 99.9%) was spent as against the total exchequer issues of Shs.2,961,689,804 received during the financial year resulted in unspent balance of issues of Shs.203,914.

1.5 Management Structure

The Management hierarchy according to the organizational set up is as follows:-

- Permanent Secretary - Accounting Officer
- Director of Administration and Personnel Division
- National Community Service Coordinator - Secretariat for National Committee for Community
- Director of Policy and Planning Division
- Chief Accountant - Finance and Accounts Unit
- Chief Internal Auditor - Internal Audit Unit

- Fire & Rescue Division - Commissioner
- Police Force - Inspector General of Police (Sub-Accounting Officer)
- Prison Department - Principal Commissioner of Prisons (Sub-Accounting Officer)
- Immigration Services-Director (Sub-Accounting Officer)
- Refugees Division - Director

1.6 Brief description of Internal Control system

Part (V) Para 28 and 30 of the Public Finance Regulations requires the Accounting Officer to establish an effective Internal Audit Service unit and Audit committee to assist in strengthening the system of Internal control.

Audit committee

The Accounting Officer of the Ministry of Home Affairs established an audit Committee on 8th October, 2004 comprising of five members as follows:

1. Jossey Mwakasyuka - Assistant Director, Refugees Unit - Chairman
2. Apolinary Shayo - Senior Accountant, Ministry of Home Affairs - Member
3. Dawson Mongi - Senior Immigration Officer, Immigration Services - Member
4. Julius Toba - Accountant, Police, Member
5. ACP, Marcel Lori, Prisons - Member

Internal Audit Unit

The function of Internal Audit Unit among others is to review and report proper control over receipts, custody and utilization of all financial resources of the Ministry. The Ministry has established an Internal Audit Unit headed by the Chief Internal Auditor and other four audit staff.

Accounting System

The Ministry of Home Affairs operates the usual government's financial accounting system based on Central Payment Office (CPO) Dar es Salaam and Sub-Treasuries at Regions using Integrated Financial Management System (IFMS). Accounting procedures revolve around the Public Finance Act No. 6 of 2001 and the Public Procurement Act No. 21 of 2004 together with the related Regulations, Treasury instructions, Accounting Officer's instruction and manuals.

1.7 Financial Performance

Supply Vote

The supply vote closed with a net expenditure of Shs.2,961,485,890 against the approved estimates of Shs.3,009,090,100 (about 98.4%) resulting in a saving of Shs.47,604,210. However, exchequer issues received during the financial year totalled Shs.2,961,689,804 (about 99.9%) leaving a cash balance of Shs.203,914 with the Paymaster General's Supply Vote Account.

1.8 Audit Mandate

By virtue of the provision of Article 143 of the constitution of the United Republic of Tanzania and section 30 (1) and 37 (1) of the Public Finance Act No 6 of 2001, the Controller and Auditor General is responsible for the audit of all government offices which include the Ministry of Home Affairs.

1.9 Audit objectives

The main objective of conducting the audit is to enable me to express a professional opinion on the financial statements of the Ministry of Home Affairs 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 to permit the preparation of the financial statements in accordance with the International Accounting Principles and Treasury instructions.
- To determine whether funds have been collected properly and used exclusively and judiciously for eligible expenses as per approved budget and regulations governing government expenditure with due attention to economy and efficiency.
- To ascertain whether all relevant supporting documents, record and accounts have been kept in respect of the Ministry's activities.
- To verify whether goods and services bought for the Ministry of Home Affairs were acquired through laid down procurement procedures and the Public Procurement Act No. 3 of 2001 and 21 of 2004 and related Regulations.
- To perform compliance tests to determine whether the Ministry's Management complied in all material respects with the Public Finance Act No. 6 of 2001.
- To evaluate whether the internal control procedures instituted are effective to provide relevant and reasonable information to the management for implementing and monitoring activities and that the assets of the Ministry of Home Affairs are adequately safe guarded against losses from unauthorized use or disposition.
- To determine whether the management of Ministry of Home Affairs

has taken adequate corrective action on the previous year's audit observations/recommendations.

- To review the management structure with the aim of ensuring that there is clear segregations of duties

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 Ministry of Home Affairs, 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 purposes of the audit were made available to audit. 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 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 carried by the auditors:

- (i) Review of legal documents
- (ii) Examination of receipts and disbursements and payment records
- (iii) A review of the internal control structure to assess main control policies and procedure
- (iv) Review of project financial statements and progress reports
- (v) Compliance tests
- (vi) Interviews and discussions
- (vii) Site visits
- (viii) Review of awarding of contracts and their execution

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 ON FINANCIAL STATEMENTS

To: Mr. Solomon Odunga,
Accounting Officer of Vote 51,
Ministry of Home Affairs

Re: **Audit Report on the financial statements of the Ministry of Home Affairs for the year ended 30th June, 2005**

I have audited the financial statements of the Ministry of Home Affairs shown as Annexure I for the year ended 30th June, 2005.

Responsibility of the Accounting Officer

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

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

Responsibility 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 of Home Affairs 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, 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 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 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 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 Regulations 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 Ministry of Home Affairs comply with 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 that date.

Limitation of scope and non compliance with laws

- (1) Two matters related to previous years' audit reports involving an amount totalling Shs.3,452,941,000 are still not acted upon.
- (2) Direct to Project funds not booked Shs.12,734,896,865 and US \$ 2,020,265.20 respectively
- (3) Non collection of revenue due to government amounting to Shs.534,161,000 and US \$ 1,260 respectively
- (4) Stores including fuel worth Shs.172,931,057 were not taken on ledger charge.
- (5) There are long outstanding audit queries (since 2003/04 audit) that which require urgent action.

The details of these matters and other are given under Part 3 of this report.

Without prejudice to the qualified opinion stated above, the procedures applied for the procurement of Uniforms, Arms and Ammunitions, specialized instruments and related services was generally done in accordance with the Public Procurement Act No. 21 of 2004 and related Regulations.

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

Office of the Controller and Auditor General,
National Audit Office,
Dar es Salaam.

February, 2006

3.0. AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow -up of previous audit findings

PERIOD	PARA NO.	AUDIT OBSERVATIONS	AMOUNT REPORTED (SHS) (USD)	AMOUNT OUT STANDING (SHS) (USD)	AUDIT COMMENTS
2000/2001	330.3	Outstanding Domestic debts	4,636,062,282	2,923,000,000	Not yet settled
2001/2002	345.3	Arrears of Revenue	528,681,000 USD 1260	528,681,000 USD 1260 or Tshs.1,260,000	Not yet collected.
			Total	3,452,941,000	

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 arresting financial and accounting controls deficiencies.

3.2 Current year's audit findings

3.2.1 Status of audit queries

A test check of the accounts and related records for the year under review resulted in 18 audit queries being issued; the most significant observations are commented upon in this report of which non had been replied as on the date of writing this report (January, 2006). In addition there were 17 queries pertaining to year 2003/2004 which are still outstanding as at this report date.

Implication

Efforts to respond to audit queries are far inadequate.

Recommendation

Management should ensure that audit queries are attended promptly as required by Finance Regulations.

3.2.2 Internal Control System

- **Audit Committee**

The Accounting Officer established an audit committee on 8th October, 2004 comprising five members all from the Ministry of Home Affairs contrary to Para 31 of the Public Finance Regulations which require one member to be appointed from external sources. In addition, it was noted that the committee met twice on 2nd November 2004 and 7th June 2005 instead of at least four times during the year.

Implication

Failure to meet at least quarterly may deter the internal audit function to work effectively.

Recommendation

The accounting officer should nominate one member from external source to be member of audit committee. Also the committee should meet at least quarterly as required by the Public Finance Regulation

Reliance on Internal Audit

During the year under review, 2004/2005 we have attempted to evaluate the effectiveness of Internal Audit Unit to ascertain any work carried out on which we could place reliance.

We observed that no internal audit reports were submitted to us in order to evaluate the effectiveness of the unit.

Implication

- Internal Audit Reports are not produced as intended.
- We could not place reliance on the work of the Internal Audit Unit in order to reduce the extent of our audit tests.

Recommendation

Ministry management should ensure that Annual Work Plan, Programmes and Report issued by the Internal Audit Unit are availed to external auditors.

3.2.3 Statement of Recurrent Revenue**Over collection of Revenue Shs.7,291,904**

The statement of recurrent revenue as at 30th June 2005 submitted along with the Appropriation Accounts showed that a total sum of Shs.315,113,904 was collected as against the estimated provision of Shs.307,822,000 an overall over collection of Shs.7,291,904 or 2.4% above the approved estimates. It would appear that the revenue estimates were materially understated.

Implication

Over collection of revenue might be a result of unrealistic budgeting.

Recommendation

Realistic revenue estimates should be prepared.

3.2.4 Financial Controls

(a) **Direct to Project funds not booked Shs.12,734,896,865 and US\$2,020,265.20**

Despite the fact that the Ministry did not submit a statement of Development vote account for the financial year under review (2004/2005). It received from donors direct to Projects funds amounting to Shs.12,734,896,865 and US \$ 2,020,265.20, as shown below:

Description /Project	Amount	
	(Shs)	(USD)
• Food for refugees camps (WFP)	10,194,294,452.20	-
• Humanitarian Assistance to Refugees UNHCR/NGO	2,529,421,093.38	2,020,265.20
• DANIDA/Refugees Affected areas	11,181,319.50	-
TOTAL	12,734,896,865.00	2,020,265.20

- In the circumstance the Development vote has been understated by the same amount.
- Non-accountability of D-Funds is due to the Ministry's failure to have an effective system of monitoring and accounting/booking of D-Funds.
- Furthermore, there were no documents produced confirming receipt and proper utilization of the goods at the intended projects.

Implication

Non disclosure of direct to project funds in accounting books may understate the development expenditure figure.

Assets relating to direct to project funds may be misappropriated.

Recommendation

The Management should ensure that funds disbursed to projects under the Ministry are fully booked.

(b) **Non-Production of Specific Agreements**

The specific agreements/memorandum of understanding between the United Nations World Food Programme (WFP), United Nations High commissioner for Refugees (UNHCR), Danish International Development Agency (DANIDA) and the Government of the United Republic of Tanzania in respect of humanitarian assistance (Materials and equipment) were not furnished though requested.

Implication

The quantity and value of assets, materials and equipment supplied by various donors may not be ascertained thus misstatement in the financial statements.

Recommendation

The Ministry's management for audit should avail documents requested.

- (c) **Arrears of Revenue Shs.534,161,000 and USD 1,260.**
The statement of Arrears of Recurrent Revenue as at 30th June, 2005 showed an accrued amount of Shs.532,730,000 in respect of administration (Shs.376,800,000) and Fire (Shs.155,930,000), excluding a total sum of Shs.1,431,000 and USD 1260 being arrears of revenue relating to the previous years.

Implication

Non collection of arrears of revenue would deter implementation of other public activities or loss of public money.

Recommendation

Effective action is required to collect large outstanding arrears of revenue.

- (d) **Statement of Fixed Assets Shs. 1,721,058,310**
The footnotes to the appropriation accounts as at 30th June 2005 reported a sum of Shs.1,721,058,310 being value of fixed assets. As assets undergo depreciation, valuation was of vital importance. Hence, audit could not ascertain the values of all assets indicated in the schedules of final accounts.

Implication

Values of Assets reported in financial statement could be misstated.

Recommendation

There should be a proper fixed assets management system to ensure that all fixed assets are identified, valued and easily located.

- (e) **Fuel not taken on ledger charge Shs.28,468,400**
A sum of Shs.28,468,400 was paid to M/S Chief Supplies Officer, Government Stores, DSM in respect of Supplies of petrol, diesel and oil.
However, the accountability of the fuel purchased as shown below could not be verified as the relevant records such as fuel register, log books were not made available to audit: -

PV. NO.	CHEQUE NO	AMOUNT (SHS.)
85/8/04	00397378	5,000,000
36/9/04	00406321	1,500,000
115/9/04	0048306	5,000,000
65/12/05	00443951	1,000,000
65/05/05	00502349	4,000,000
194/05/05	00506977	1,584,000
240/5/05	00508394	929,600
241/5/05	00508395	884,800
10/06/05	00512804	3,570,000
106/06/05	00515346	5,000,000
	Total	28,468,400

Implication

Non recording of stores in the stores Ledger might lead to Loss and Misplacement of the purchased items.

Recommendation

The Management is advised to ensure that adherence to Public Procurement Act No. 21 of 2004 is in place and those items be booked accordingly.

(f) Unvouched and improperly vouched expenditure Shs.1,917,618

The footnotes to the appropriation accounts did not show unvouched and improperly vouched expenditure. However, audit examination of the Ministry payment vouchers for the year ended 30th June 2005 noted improperly vouched expenditure amounting to Shs.1,917,618.

Implication

The genuineness of the expenditure or the purpose for which the payments were made could not be ascertained.

Recommendation

It is recommended that the missing documents should be produced for audit verification.

(g) Stores not taken on ledger charge Shs.144,462,657

Stores purchased amounting to Shs.144,462,657 were not confirmed as having been received and taken on ledger charge. It was therefore not possible to ascertain whether the stores were delivered and properly utilized.

Implication

Non recording of stores in the stores ledger might lead to loss and misplacement of the purchased items.

Recommendation

The Ministry Management should ensure that the stores valued at Shs.144,462,657 have been received and taken on ledger charge.

(h) Missing signed pay list Shs.3,210,000

It was noted that original signed pay lists relating to payment of allowances to the Ministry employees totaling Shs.3,210,000 were not made available to support the expenditure.

Implication

The genuineness of the expenditure for which the payments were made could not be ascertained.

Recommendation

It is recommended that the signed pay lists should be submitted for audit verification.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Ministry of Home Affairs 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:- 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.