

**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL  
ON THE FINANCIAL STATEMENTS OF THE DEFENCE AND  
NATIONAL SERVICE AND AFFILIATED BODIES**

**VOTE 57**

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

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DAR ES SALAAM.

March, 2006

## **Office of the Controller and Auditor General**

The National Audit Office,  
United Republic of Tanzania

*(Established under Article 143 of the Constitution of the URT).*

The statutory duties and responsibilities of the Controller and Auditor General are given in the Public Finance Act No. 6 of 2001.

### **Our Vision**

We aspire to be an organization that fosters a culture of financial discipline, transparency and accountability within the Government of Tanzania.

### **Our Mission**

We are the Supreme Audit Institution in Tanzania, which strives to provide timely and high quality audit services to all our clients in order to enhance public sector financial performance by educating key stakeholders on the effective management of public finances; providing value added services and functioning independently and impartially in auditing and reporting on public accounts.

### **Therefore, our Core Values are .....**

- ✓ We strive to achieve and maintain objectivity in providing impartial audit services so as to promote our independence
- ✓ We pursue excellence in the provision of our audit services
- ✓ We exercise professional integrity by demonstrating high ethical standards
- ✓ We focus on people and have great respect to our stakeholders
- ✓ We encourage and promote innovation amongst our members of staff; and
- ✓ We ensure best resource utilization at national as well as individual public entity level.

### **We do this by.....**

- contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- helping to improve the quality of public services by supporting innovation on the use of public resources;
- providing technical advice to our clients on operational gaps in their operating systems;
- systematically involve our clients in the audit process and audit cycles; and
- Providing audit staff with adequate working tools and facilities that promote independence.

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## Definition of terms and Abbreviations

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

- Responsibility for Financial Statements
- Statement of Vote Account - Recurrent
- Cashflows -Statement for Recurrent
- Cash flow Statement for Development
- Cash flow Statement for Deposit
- Statement of Revenue
- Summary statement of losses
- Statement of arrears of revenue
- Statements of composition of funds
- Statement of commitments outstanding
- Summary Appropriation Account-Recurrent
- Notes to the Financial Statements

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.

## 1.0 BACKGROUND INFORMATION TO THE AUDIT

### 1.1 Introduction

We have completed the audit of the Accounts and related records of the Defence & National Service and Affiliated Bodies for the year ended 30<sup>th</sup> June, 2005. Audit findings arising from examination of accounting records, appraisal of activities as well as evaluation of the Internal Control System which require management attention and action are set out under Part 3 of this report.

### 1.2 Establishment of the Ministry

The Ministry of Defence and National Service was established by the president of the United Republic of Tanzania on 23<sup>rd</sup> November 2000 as a special instrument No. 40 of 1<sup>st</sup> December 2000 and Government Notice No 467 and 468 Published on 1<sup>st</sup> December 2000.

### 1.3 Operational objectives

- (a) To ensure that our armed forces are well equipped and trained.
- (b) To promote the well being of the armed forces
- (c) To effectively and efficiently support disaster relief and other civil operations
- (d) To run successful National Service Program
- (e) To enhance the volunteer and reserve forces
- (f) To ensure the Ministry has excellent and ethical staff
- (g) To improve the organization/management capacity of the Ministry
- (h) To proactive seek and successfully mobilize adequate funding for the armed forces
- (i) To focus only on core activities and successfully divert non-core activities.

### 1.4 Financing

During the Financial year 2004/2005 the Ministry of Defence and National Service received a total of Shs.52,084,901,118 in the form of Exchequer Issues from the Ministry of Finance as follows:

Supply	5,116,237,886
Development Vote	<u>46,968,663,232</u>
Total exchequer received	<u><b>52,084,901,118</b></u>

### 1.5 Management Structure

The management structure of the ministry comprises of

- Permanent Secretary
- Director of Administration and personnel
- Commissioners for Research and Development Industry,

- construction and Agriculture.
- Planning and Policy

### **Vision**

The overall vision of the Ministry of Defence and National Service and the Tanzania people Defence Forces is to maintain permanent peace and security through out the United Republic of Tanzania.

### **Mission**

The Mission is to build a national Defence Forces that at all the times has the capability, commitment and discipline to ensure peace and security through Defence of the territorial integrity of the United Republic of Tanzania.

## **1.6 Brief description of internal control system**

### **Accounting System**

The Ministry of Defence and National Service operates the usual Government Accounting System based on central payments office in Dar es salaam using integrated Financial Management System (IFMS) used Epicor accounting software package. Accounting procedures revolve around the public Finance Act No. 6 of 2001; the Public Procurement Act No. 3 of 2001 as amended in the year 2005.

### **Internal Audit**

The Public Finance Regulations, Regulations 28-35 requires Accounting Officers to establish an effective Audit Committee and Internal Audit Unit. The Internal Audit Unit is required to appraise the soundness and application of accounting, financial and operational controls within his duty of station. The Ministry of Defence and National Service has established the Internal Audit Unit to oversee the controls instituted.

### **Audit Committee**

Regulation 28 of the Act requires the accounting officer to establish an audit committee to strengthen internal control system. The Ministry has established the Audit Committee since February 2004.

### **Procurement Tender Board**

The Public Procurement Act No.21 of 2004 section 33 and 34 requires the Ministry to form Tender Boards, and 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 a Tender Board Committee and a Procurement Management unit.

## 1.7 Financial performance

### Supply Vote

The Supply Vote Account closed with an apparent saving of Shs.20,537,275 arising from a net expenditure of Shs.5,115,752,524 against the approved estimates of Shs.5,136,289,800. However, the exchequer issues received during the year totalled Shs.5,116,237,886 thus ending with a cash balance of Shs.485,361 with the Paymaster General Account.

### Development account

The year's outturn on the Development Account was an expenditure Shs.46,960,275,645 against the approved estimates of Shs.46,977,378,400 resulting in an apparent saving of Shs.17,102,755 Actual exchequer issues received during the year amounted to Shs.46,968,663,232 thus closing with a cash balance of Shs.8,387,587 with Paymaster General's Account.

## 1.8 Audit Mandate

By Virtue of the provision of Articles 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 Defence and National Service.

## 1.9 Audit Objectives

The main objective of conducting the audit is to enable the Controller and Auditor General to express an opinion on the financial statements of the Ministry of Defence and National Services Vote 57 for the period ended 30<sup>th</sup> June,2005 and in particular:-

- To determine whether transaction were executed in accordance with Management authorization and were recorded properly in the books of accounts 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, records and accounts have been kept in respect of the Ministry of Defence and National Services activities.
- To verify whether goods and services bought for the Ministry of Defence and National Services were acquired through laid down procurement procedures and the Public Procurement Act No.3 of

2001 and 21 of 2004.

- To perform compliance tests to determine whether the Ministry of Defence and National Services 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 Defence and National Services are adequately safe guarded against losses from unauthorized use or disposition.
- To determine whether the management of the Ministry of Defence and National Services has taken adequate corrective action on the previous year's audit observations/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 Office of Registrar of Political Parties, 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 an auditor, I am not required to search specifically for fraud; therefore our audit cannot be relied upon to disclose all such matters.

However, my audit was planned in such a way that I would have reasonable expectation of detecting material misstatements in 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 their underlying records, the following steps were followed:-

- A review of the establishment Act, regulations, and other documents as was deemed necessary under the circumstances.
- Examination of receipts and payments to confirm compliance with existing legislation, financial regulation and other instructions or directives.
- Review of the internal control system by assessing significant policies and procedures and determine its adequacy.

- Review of Ministry financial statements and other associated information.
- Conduct compliance tests on the system of procurements contracts and their execution as well as stores management.
- Appraisal of the previous audit recommendations to determine whether the management has taken adequate corrective action.
- Hold entrance and exit meetings with the auditee to discuss the audit objectives and results of exercise respectively.

#### **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: The Permanent Secretary,  
Accounting Officer of Vote 57,  
Ministry of Defence and National Service.**

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

I have audited the financial statements of the Ministry of Defence and National Services as shown in annexure I for the year ended 30<sup>th</sup> June 2005.

### **Responsibilities of the Management of the Ministry of Defence and National Services.**

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

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

### **Responsibilities of the Controller and Auditor General**

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

In addition, section 31 of the Act requires me to satisfy myself that the accounts have been kept in accordance with generally accepted accounting practice; all reasonable precautions have been taken to safeguard the collection of revenue, the receipt, custody, disposal, issue and proper use of public property, and that the law, directions and instructions applicable thereto have been duly observed, all expenditures of public money has been properly authorized; and to satisfy myself whether the funds appropriated to the Ministry of defence and National Services were used exclusively and judiciously to meet eligible expenditures with due regard to economy and efficiency.

### **Basis of Opinion**

The audit was conducted in accordance with the ISA and procedures that are consistent with those recommended by the INTOSAI. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the significant estimates and judgments made in the preparation of the financial statements, assessing whether the internal control system and the accounting policies are appropriate to the circumstances of the Ministry of Defence and National Services consistently applied and adequately disclosed, evaluating the overall financial statements presentation, and assessing the extent of compliance with the relevant statutory requirements. I believe the audit provides a reasonable basis for my opinion.

The financial statements have been prepared and presented based on the cash basis of accounting pursuant to Regulation 53. Under the cash basis, cash receipts are recognized when they are received and cash payments are recognized when they are paid.

### **Qualification**

In my opinion, except for the matters specified below the financial statements of the Ministry of Defence and National Services and related bodies have been prepared based on the generally accepted accounting standards and that they fairly reflect, in all material respect the true and fair view of 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 the date.

Further to my opinion, except for the procurement of works, the procurement of office furniture's, computers, and printers were generally done in accordance with the Public Procurement Act No. 21 of 2004 and the related Regulations.

### **Limitation of Scope of audit and disagreement in record keeping**

1. There were no bills of Quantity availed to audit to substantiate an expenditure of Shs.1,101,706,254 for the construction of administrative building at 36KJ Msangani Kibaha. The Project is yet to get completed.
2. Utilization particulars of Shs.400,000,000 were not made available to audit being payment made to MS. National Service Construction (Agency) for the rehabilitation of various infrastructure.

3. Audit of the Tanzania Automotive Technology Centre (TATC) has revealed that an expenditure aggregating Shs.390,393,872 in Raw materials and Spare Parts was not recorded in the stores ledgers.
4. Unpaid salaries amounting to Shs.127,200,023 was not surrendered to the Treasury instead the money was used for other activities without proper authority.

The details of these matters are given in para 3 of this report.

Dr. Frank Moses Hiza Mhilu  
**Ag: CONTROLLER AND AUDITOR GENERAL**

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National Audit Office,  
Dar es Salaam

**31 March 2006**

### 3.0 AUDIT FINDINGS AND RECOMMENDATIONS

#### 3.1 Follow up of previous year's audit findings

##### Statement of Revenue

The actual revenue collected during the year was Shs.7,674,020 against approved estimate of Shs.18,122,000 or Shs.10,447,980 (58%) is below the approved revenue estimates.

##### Implication

Undercollection implies that revenue from sale of tender documents was not adequately monitored.

##### Recommendation

It is recommended that efforts should be made to utilize all sources of revenue.

#### 3.2 Current year's Audit findings

##### 3.2.1 Bank reconciliation statement

The bank reconciliation statement as at 31<sup>st</sup> December, 2005 reflected uncleared items as shown below:-

	recurrent account Shs.	development account Shs.
Unpresented cheques	1,233,600	45,000
<b>Total</b>	<b>1,233,600</b>	<b>45,000</b>

##### Recommendation

Management should ensure that efforts are made to clear all the outstanding items.

##### 3.2.2 Construction complex phase 1A at Mkalama - Dodoma

Request for payment with reference number CBC 286/371/01/5562 disclosed a contract sum of Shs.205,072,465/83 which was paid vide Pv.57VC 57VC 400737 Cheque No. 002137 dated 1<sup>st</sup> October 2004 as the contract price for the construction of Mkalama complex phase 1A at Mkalama Dodoma. At the time of audit it was revealed that the job was about 95% stage of completion, and for that case the complex was suitable for occupation, however till the time of writing this report the complex was still unoccupied.

**Implication**

The Ministry denies the value for money for not occupying the complex.

**Recommendation**

The management of the Ministry should ensure that the building is soon occupied.

**3.2.3. Underlivery of 6 fast Patrol Vessels**

The Ministry ordered 6 fast patrol vessels of 9.5 meters for USD 768,000 from M/S SEASPRAY MARINE Service and Engineering FCZ. It was agreed by both parties that the delivery of the Patrol Vessels to be July 2005. The audit noted, despite the fact that the Ministry had paid up front USD 768,000 which is equivalent to Shs.871,162,609 being 100% of the purchasing price, the vessels were not yet delivered to the Ministry.

**Implication**

Inadequate follow up of the ordered Patrol Vessels.

**Recommendation**

The management is responsible to ensure that the patrol vessels are delivered as per agreed terms and conditions.

**3.2.4 Completion of Administrative buildings at 36KJ Msangani Kibaha**

The Ministry of Defence entered into contract No. DNS/D.20/3/147-8 (1990/91) of 16<sup>th</sup> March 1991 with M/s Tanzania Building works Ltd. Box 2962 Dar es salaam at contract sum of Shs.1,101,706,254 for completion of Administration buildings at 36KJ Msangani Kibaha. The date of commencement was 3<sup>rd</sup> June 1991 and the date of completion was expected to be 31st September 1993. The parties revised the completion date to be September 2004. The management paid the contractor an advance payment of Shs.330,551,876.20 being 30% of the contract price vide PV. 57 4001082 with cheque No. 002161 of 3/1/2004.

Review of the reply on the matters raised above revealed the following:

- (i) There was no BOQ attached to confirm the analysis of the total amount of Shs.1,101,706,254
- (ii) The Ministry stated that the project is still on going and has reached 90% to completion but the status of the works on site was not disclosed to audit.
- (iii) Reasons for failure to complete the project as per revised completion date were not given.

**Implication**

Delay in completion of works on time may lead to cost over run due to price fluctuations on materials, labour, plants and deprived Ministry staff from working in conducive environment.

**Recommendation**

Management of the Ministry should provide the action taken to ensure the construction of the buildings are completed and put in use.

**3.2.5 Questionable payment of Shs.400,000,000**

The Ministry paid a sum of Shs.400,000,000 to the National Service Construction vide Pv. No. 57VC 4001498 and Cheque No. 002214 dated 16<sup>th</sup> December, 2004. This request for payment was for rehabilitation of infrastructures and construction of works. A review of document with reference No. CBC.268/371/01/5569 noted that commencement and completion dates of works were not mentioned. In addition, Interim payment certificates, progress reports, and valuation sheets were not attached to the payment voucher.

**Implication**

It implies inadequate controls in the construction activities which may results to substandard works.

**Recommendation**

The ministry should submit all the necessary documents to support the construction works going on.

**3.3 Audit findings and recommendations related to Nyumbu project (Tanzania Automotive Technology centre)****3.3.1 Follow up of previous year's Audit findings and Recommendations****3.3.2 Outstanding debtors and staff loans Shs.32,285,384**

Verification made in November 2005 disclosed that a total of Shs.19,543,164 have been recovered and the outstanding debtors amount was Shs.12,742,220

**3.3.3 Non-maintenance of a Counter Folio Register**

The centre has not established proper Counter Folio Register to control all accountable documents contrary to section 65-66 of the Public Finance Regulations 2001.

We have noted that, the Center has now established a Counter Foil Register.

### 3.3.4 Payments made in advance Shs.3,658,000

Only goods received notes (GRN) were verified by the auditor. There were no stores ledgers to account for the items purchased.

As at the time of field work, no stores ledger was in use.

#### Recommendation

Management should clear the outstanding matters

## 3.4 Current year's findings

### 3.4.1 Financial performance

During the year, TATC had a total expenditure of Shs.1,033,370,000 against a total income of Shs 1,980,455,000 and ended with a cash balance of Shs 947,085,000 as at the year end.

### 3.4.2 Payment made in advance Shs.8,107,365

A test check of the accounts disclosed that, the Center had paid Shs.8,107,365 in advance to various payees to purchase oil seals and lining material as follows:

PV.NO.	CHEQUE NO.	AMOUNT	PAYEE
6053 of 8/3/2005	003009	4,037,725	NBC - Corporate branch (M/S Ceretco South Africa) Proforma invoice No. 0019/05. 23/2/05
7449 of 22/12/2004	0003354	4,069,640	NBC Fadden Engineering Ltd) with proforma invoice No. 3300043 of 3/12/2004.
	<b>TOTAL TSHS.</b>	<b>8,107,365</b>	

As at the time of audit, the items were yet to be delivered.

#### Recommendation

Management should ensure that the items are received failure to that the amount paid for should be refunded.

### 3.4.3 Unrecorded Raw Materials and Spare Parts TShs.390,193,872

Audit verification revealed that a total of TShs.390,193,872 of Raw materials and spares parts purchased by the Centre were not recorded in the stores ledgers contrary to Public Finance Regulation 2001 Sections 198 - 208.

Furthermore, verification disclosed that the last records/posting in the stores ledgers were done in December 2004, and in addition no recording of receipts and issues records were made in the bin tally cards during the year under review and no ledger folio references were quoted to the

Goods Received Notes.

Due to the above irregularities we could not ascertain the correctness of the end balance figures recorded on the bin tally cards aggregating Shs.390,193,872.

**Implication**

The Internal Control System over recording of transactions is inadequate.

**Recommendation**

Management should ensure that the Public Finance Regulations are adhered to. In addition, the management should strengthen controls over stocks and safeguarding the assets of the centre. Also ledger folio references should be quoted to the Goods Received Notes.

**3.4.3 Unpaid salaries not surrendered to the Treasury 127,200,023.**

Audit examination on the payroll revealed that there were Shs.127,200,023 as unpaid salaries which belongs to the financial year under review. Audit scrutiny revealed that the Management had used the money to finance other activities contrary to the financial regulations which requires the unpaid salaries to be surrendered to the treasury.

**Implication**

Inadequate controls over cash management

**Recommendation**

The Management should:

- Prepare budget on Personal Emoluments according to the number of employees;
- Ensure refund of unpaid salaries to the Treasury, and
- Seek retrospective approval from the Treasury to regularize the receipts/payments of Shs.127,200,023

**3.4.5 Trade Debtors Shs.30,614,732**

Note 11 to the financial statements disclosed the figure of trade debtors of Shs.30,614,732 as at 30<sup>th</sup> June 2005. We noted that the Center has no proper follow up mechanism on the outstanding amounts and some have been outstanding for quite a long time and their recovery may be doubtful. We further noted debts in respect of inter Ministry - Defence and National Service amount to a total of Shs.12,517,690 (41%).

**Implication**

Unsatisfactory efforts on debts collection.

**Recommendation**

The Management should make a close follow up to recover the long outstanding debtors and make write-off action where recovery is impossible.

**3.4.6 Property, plant, and equipment worth Shs.2,878,174,000**

The accounts reflected the value of property, plant, and equipment of Shs.2,878,174,000.

We noted that the assets were re-valued in May, 2002 by a Government valuer from the Ministry of Defence and National Service by using the historical value concept method instead of the market value. This resulted to a directive issued by the Board to the Management to engage a professional valuer to revalue the Centre's Assets in line with IFRS (Reference 18<sup>th</sup> General Purpose Meeting).

It was further observed that only the revaluation of the assets made on 30/6/1996 were posted on the non current Assets Registers and the Revaluations made on May 2002 were not posted in the Fixed Asset Register.

**Implication**

Unrealistic Values of Assets held.

**Recommendation**

The Management should expedite revaluation of the assets as directed by the Board and confirm recording of the assets in the Assets Registers.

**3.4.7 Land worth Shs.160,218,000 (Tittle Deed No. 49046 Plot No 1 Kittenge - Kibaha)**

Board meeting No. 54 held on 1/7/2003 directed the Management of TATC to surrender its Title Deed to the Permanent Secretary Ministry of Defence and National Service through the Kibaha District Land Officer. The Management Surrendered the Title Deed to the Commissioner of Land by letter Ref. TATC/5000-1 dated 14/4/2004 as required.

The Ministry of Defence and National Service requested their Title Deed of Land to Commissioner of Land by reference letter Reg. CBA65/428/01/30 dated 18<sup>th</sup> October, 2004. However no response has been received as at the time of writing this report - February 2006.

**Recommendation**

The Management should make a follow up of the matter for the purpose of obtaining the Title deed from Commissioner of Lands.

### 3.4.8 Office furniture and Computer TShs.19,160,000

A test check of the assets disclosed additions of office furniture and computer worth TShs.9,726,000 and Shs.9,434,000 respectively made during the year which were not posted in the Non Current Asset Register.

#### Recommendation

Management should record the assets in the Register.

### 3.4.9 Stock Counts

Inventories were reported to be worth Shs.367,576,000/= as at 30<sup>th</sup> June, 2005 . However the reported figure could not be relied upon due to:

- (i) The stock taking exercise was not attended by an independent witness and the stock counting sheets were not signed by those who attended the exercise;
- (ii) The centre does not post receipts and issues in the stores ledger and bin tally cards when items are received or issued as evidenced below:-

RAW MATERIAL	LEDGER BALANCE AS AT QUANTITY	RATE	BIN CARD AS AT	QUANTITY	RATE
Bentomine	13/12/2004 Kg 4600	-	30/6/2005	Kg. 21680	@ 333
Coal dust	1/9/2004 Kgs. 530	@ 700	30/6/2005	Kgs 9150	@ 1500
Fecrasilicon	2.08.2004 Kgs 50	@ 5000	30/6/2005	Kgs 1850	@ 5000
Stock duct cat 35A	-	-	30/6/2005	Kgs 275	@ 8094

#### Implication

The stock taking exercise was unsatisfactory could not be relied upon.

#### Recommendation

Management should ensure that receipts and issues are posted in the stores ledger and that stock taking exercise is attended by external auditor.

### 3.4.10 Absolute Stocks Shs. 75,244,476

Previous year 2003/04 obsolete stocks worth Shs.75,244,476 were reported, but during the year under review obsolete stocks were reported as a nil. We neither got evidence to show their disposal nor

satisfactory explanation as to why the obsolete stocks were excluded from the balance sheet as at 30<sup>th</sup> June 2005.

#### **Implication**

The also late stock could have been lost or misused.

#### **Recommendation**

The Management should include obsolete stocks in the Financial Statements until when write-off authority has been granted.

#### **3.4.11 Re-production Expenses Shs.285,543,000**

The accounts reflected the pre-production costs of the Center on vehicles of Shs.285,543,000 since 1992/1993. This move has an adverse effect on pre-production development of TATC.

We were not provided with satisfactory reasons to justify these reported constant costs.

#### **Recommendation**

The Management should account for the pre - production expenses worth Shs.285,543,000/= has been constant for all those years.

#### **3.4.12 Operational performance issues**

##### **(a) Objectives/targets fully achieved**

- (i) Promote TATC R & D initiative by improving the centre's technology capabilities. We noted that 7 Nyumbu trucks were completed and 14 other trucks were manufactured and distributed to various army units on December, 2005.

##### **(b) Objectives/targets partially achieved**

- (i) Maintain the TATC infrastructure and Buildings regularly by conducting minor civil works and proper ground keeping.

We observed that own generated funds were used to accomplish some of these activities. Government subvention was not received for this job.

- (ii) Instituting career development plan by conducting or arranging for professional and still advancement course seminars, workshops or study tours for all cadres in order to upgrade or up date their skills.

Little was made on this area due to limited funding on local and foreign training.

- (iii) To promote the commercialisation of TATC researched products by selling the technologies to entrepreneurs or industrialists who would then produce them commercially.
- (c) **Production costs**  
We observed that TATC produced 7 trucks during the 2003/04 and 14 trucks during the year under review. However, we were not provided with the production costs.
- (d) **Objectives/targets not implemented**
  - (i) Encourage the Ministry of Defence and National Service and other Ministries to use TATC capabilities to test, certify and commission their newly procured equipment and machinery.
  - (ii) Extended the inspection commissioning, testing and certification exercise to other customers.
  - (iv) Change the existing corporate, structure, so as to separate R and D activities from commercial production activities.

#### **Recommendation**

Management should liaise with the Ministry to seek more funds to enable TATC accomplish its intended objectives. In addition the management should ensure that costs involved are maintained for audit verification.

#### **3.4.13 Unretired Imprest Shs. 18,080,621.**

Mr. Sullus Cheyo was given an imprest of Shs.132,820,263 being the cost of construction and Rehabilitation of Mzinga Hospital fence. The agreed contract price was TShs.168,769,242 and the job was expected to take 16 weeks from the signed date of contract 25/06/2004. In examination of books of accounts and related documents, the audit revealed that only Shs.111,581,310 was retired from the total amount of imprest issued i.e Shs.132,820,263, and leaving un retired imprest of 18,080,621 by the imprest holder.

#### **Implication**

The situation suggests for gaps in controls.

#### **Recommendation**

The corporation management make follow up to clear the un retired amount of TShs.180,080,621. Also the corporation management should explain why the construction work was done through issuing imprests to the individual person.

**3.4.14 Goods supplied but not entered in the ledger books TShs.146,028,164**

During the year under review goods worth Shs.146,028,164 were supplied to the cooperation by various suppliers but there were no records in ledger books.

**Implication**

Audit doubt whether the goods was received or not by the corporation.

**Recommendation**

All goods paid for should be accounted for in the ledger books and submitted for audit verification.

The Management is responsible to ensure accuracy and completeness of records keeping.

**3.4.15. Deductions not acknowledged by the payee Shs.510,732,313**

The above sum was paid to various organizations as deductions from corporation staff salaries up to the time of audit no acknowledgement receipts was received from the payees to confirm the receipt of the funds.

**Recommendation**

The corporation management should make follow up to the organisations listed to receive the acknowledgement receipts.

**4.0 CONCLUSION**

The detailed audit findings presented above have been communicated to the management of the Ministry during exit meeting. Management of the Ministry of Defence and National Service has promised to take appropriate action with a view to rectify the situation. I shall appreciate to receive formally the actions taken in this respect.

Lastly, I would like to express my appreciation for the co-operation given to the audit team. It is my hope that such good working relations 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.

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

**5.0 ANNEXURE I**  
Financial Statements and notes to the financial statements.

**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 Defence and National Service 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 Defence and National Service 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 Defence and National Service.

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**