

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



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL  
ON THE FINANCIAL STATEMENTS OF THE LAW REFORM COMMISSION  
VOTE 59**

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

The Controller and Auditor General  
National Audit Office  
Samora Avenue/Ohio Street  
P.O. Box 9080  
Tel: 255 (022) 2115157/8  
Fax: 255 (022) 2117527  
E-mail [ocag@nao.or.tz](mailto: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.
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**Definition of terms and Abbreviations:**

Financial Statements means the following statements, notes and supporting schedules of the Law Reform Commission for the year ended 30<sup>th</sup> June 2005.

- Responsibility for the Financial Statements
- Statement of Vote Account - Recurrent
- Cash flow statement for Recurrent Account
- Statement of Revenue
- Statement of Arrears of Revenue
- Statement of Losses
- 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.

Act	- Public Finance Act No. 6 of 2001 as amended in 2004
GN	- General Notice
INTOSAI	- International Organisation of Supreme Audit Institution
ISA	- International Standard on Auditing
PFA	- Public Finance Act
P.P.A	- Public Procurement Act
OC	- Other charges

## **1.0: BACKGROUND INFORMATION TO THE AUDIT**

### **1.1. Introduction**

We have completed the audit of the Accounts and related records of Law Reform Commission Vote 59 for the year ended 30<sup>th</sup> June 2005. Detailed audit findings arising from examination of accounting records and appraisal of the organizations activities that require management attention and action are set out in part 3 of this report.

### **1.2. Brief history of the client establishment**

The Law Reform Commission was established as per Government Note No.467 published on 1/12/2000 under the Ministry of Justice and Constitutional Affairs.

#### **Vision**

To create legal frameworks to support policies that target the promotion and attainment of high quality livelihood, peace, stability and unity, good governance, a well educated society and a strong and competitive economy.

#### **Mission**

To undertake on going review of the legislation of Tanzania with a review to their systematic development and reform. In particular the Commission is to review any law or branch of the law and propose measures necessary for bringing that law into line with the current circumstances of Tanzania.

### **1.3 Operational objectives**

The Commission has the following objectives to meet.

- To review any law or branch of law and proposed measures
- To research and/or review particular laws or branches of law at the request of the Attorney General and undertake the preparation of any draft bills pursuant to amendment proposals made there from.
- To consider and advice on proposals for the adoption of new or more effective methods for the administration of law and the dispensation of justice.
- To offer legal education to the public by conducting legal awareness programmes
- To ensure that the Commission plays a major role in the eradication of poverty, promotion of consumer welfare, and the protection of natural resources.

#### 1.4. Financing

The total net approved budget of the Supply vote account of the Law Reform Commission in the year under review was Shs.514,000,774 financed by the government of the United Republic of Tanzania through exchequer issues. The total exchequer issues received by the Commission for the financial year ended 30<sup>th</sup> June 2005 was Shs.513,409,789 or 99.9% as against the estimated budget.

#### 1.5 Management Structure

The Law Reform Commission is headed by a Chairman who is assisted by two full time Commissioners, there is a Secretary to Commission who is dealing with all Legal matters concern the Commission. The Commission has four heads under the following departments, Finance and accounting, Administration and Human Resources, Legal Awareness & Education, and Review Department.

#### 1.6 Brief description of Internal Controls

- **Internal Audit Unit**

The internal audit unit helps to evaluate the adequacy and effectiveness of internal control in the organization. It also reviews and conduct operational/value for money audits throughout the office.

During the year under audit the Commission operates without the services of the Internal Audit Unit because the Internal Auditor was appointed by the Treasury on 24<sup>th</sup> September 2005.

- **Procurement system**

The Public Procurement Act No 21 of 2004 section 33 and 34 requires the Commission to form a Tender Board and Procurement 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 Law Reform Commission complied with the Act by establishing the Tender Board Committee which comprises of 6 members, the Chairman to the Committee, the Secretary and other four members.

- **Audit Committee**

The Commission has formed an Audit Committee comprising of the following 3 members and other invited members:

Head of Research	- Member
Ag. Head of Administration Unit	- Member
Internal Auditor	- Member
Senior Accountant	- Invitee
Head of Accounts Unit	- Invitee
External Auditor	- Invitee

- **Tender Board**

The Law Reform Commission has a Tender Board which, until the end of June 2005, was dealing with all procurements up to the maximum value of Shs.30,000,000. Any procurement beyond Shs.30,000,000 the ministerial tender board of the Ministry of Justice and Constitutional Affairs was responsible. The Commission Tender Board consisted of six members, and one member is a procurement officer who is also the secretary to the Tender Board. "As the Commission Tender Board procurement limit was only Shs.30,000,000 up to 30<sup>th</sup> June 2005 the tender for the purchase of two vehicles (during the year 2004/05) was issued by the ministerial Tender Board of the Ministry of Justice and Constitutional Affairs.

## **1.7 Financial Performance**

### **Supply Vote - Net Expenditure Shs.513,409,789.89**

The Statement of Supply Vote Account for the year under review closed with net expenditure of Shs.513,409,789.89 against approved estimates of Shs.514,000,800 resulting in an apparent saving of Shs.591,010.11. However, exchequer issues received during the year totaled Shs.513,620,634 resulting in a closing cash balance with the Paymaster General's Account of shs.210,844.11 as at 30<sup>th</sup> June 2005.

## **1.8 Audit Mandate**

By virtue of the provisions of Article 143 of the Constitution of the United Republic of Tanzania the Controller and Auditor General is the statutory auditor of all government revenue and expenditure including the Law Reform Commission.

## **1.9 Audit objectives**

The objective of conducting the audit is to enable me to express an opinion on the Accounts and related financial statements of the Law Reform Commission for the period ended on 30<sup>th</sup> 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 Generally Accepted Accounting Standards.
- To ascertain whether all necessary supporting documents, records and accounts have been kept in respect of all Law Reform Commission activities.
- To verify whether goods and services bought were acquired through laid down procurement procedures.

- To evaluate whether the internal control procedures instituted are effective to provide relevant and reasonable information to the management for implementing and monitoring its activities and that the assets of the Commission are safeguarded against loss from unauthorized use or disposition.

#### **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 Law Reform Commission, examination and verification of the accompanying financial statements 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 Commission 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 out:-

- Review of legal documents
- Examination of receipts and disbursements and payment records
- A review of the internal control structure to assess main control policies and procedures
- Review of commission financial statements and progress reports
- Compliance tests
- Interviews and discussions
- Site visits
- 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 for Law Reform Commission no significant matters were observed.

## 2.0. AUDIT REPORT ON FINANCIAL STATEMENTS

To: Mr. Michael J. Kamba,  
Ag. Accounting Officer of Vote 59,  
Law Reform Commission.

Re: **Audit Report on the Financial Statements of the Law Reform  
Commission for the year ended 30<sup>th</sup> June 2005**

I have audited the financial statements and notes of the Law Reform Commission as shown as Annexure I for the period ended 30<sup>th</sup> June 2005.

### **Responsibilities 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 Law Reform Commission.

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

My responsibility is to express an independent opinion on the financial statements, and on procurement procedures adopted by the Law Reform Commission 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 Law Reform Commission.

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 Law Reform Commission 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 Law Reform Commission (Vote 59) 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 recognised when they are received and cash payments are recognised when they are paid.

### **Opinion**

In my opinion, the financial statements of the Law Reform Commission have been prepared based on generally accepted accounting standards and that they fairly reflect, in all material respects, the results of its operations and cash flows for the year ended on 30<sup>th</sup> June 2005 and the financial position as at that date.

Further to my opinion, the procurement of vehicles and other services were generally done in accordance with the requirements of the Public Procurement Act No. 21 of 2004 and the related Regulations.

### **Matters of Emphasis:**

Without qualifying further the audit opinion expressed above, attention is drawn to the following matters:

- (1) The Audit Committee of the Commission has not been effective during the year under audit.
- (2) During the year the Commission had no internal audit services as required by the Regulations.

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

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Office of the Controller and Auditor General  
National Audit Office,  
Dar es Salaam  
February 2006

### **3.0 AUDIT FINDINGS AND RECOMMENDATIONS**

#### **3.1 Follow up of Previous year Audit Findings**

There is no outstanding matter from previous year audit report.

#### **3.2 Current year's audit findings**

##### **3.2.1 Effectiveness of Audit Committee**

Audit noted that during the financial year under review (2004/2005) no single meeting was held by the Audit Committee contrary to the requirement of Regulation 32(1)(a) which require the Committee to meet at least quarterly.

##### **Implication**

Unsatisfactory follow-up of internal and external audit reports

##### **Recommendation**

The Commission management should ensure that in future Audit Committee meet at least quarterly and perform its functions as required by Finance Regulations.

##### **3.2.2 Internal Audit Unit Services**

Regulation 28 of the Public Finance Regulations of 2001 requires the Accounting Officer to establish an effective Internal Audit Unit Services. However, it was observed that during the financial year ended 30<sup>th</sup> June 2005, the Commission operates without the services of Internal Audit.

##### **Implication**

Weaknesses in the system of internal control may not be detected and rectified promptly.

##### **Recommendation**

The Commission should have the Internal Audit Unit to independently review and assess management control in financial administrative and operating areas and make recommendations for improvements.

##### **3.2.3 Fixed Assets Management**

##### **Location of Fixed Assets not indicated Shs.487,500**

Three office tables worth Shs.487,500 were recorded in the Register for Movable Fixed Assets without indicating their locations.

##### **Implication**

Loss of assets through theft may to undetected by the management.

**Recommendation**

The commission should put in place adequate system and procedures concerning the recognition, recording location and safeguarding of its fixed assets.

**Management response**

Management agrees with observation and regret for omission. However, the tables are located in the office of the Commission's Executive Secretary.

**4.0 CONCLUSION**

The audit findings presented above have been communicated to the management of the Commission 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.

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 Mhlu**  
**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.