

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF THE INDUSTRIAL COURT OF TANZANIA
(VOTE 60)**

FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2005

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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 Industrial Court of Tanzania for the year ended 30th June 2005.

- Responsibility for the Financial statement
- Statement of vote Account - Recurrent
- Cash flow statement for Recurrent Account
- Cash flow statement for Development Account
- Cash flow statement for Deposit Account
- Statement of Areas of Revenue
- Statement of Losses
- Statement of Revenue

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
INTOSAI	- International Organization of Supreme Audit Institutions
ISA	- International Standards on Auditing
PFR	- Public Finance Regulations

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

We have completed the audit of the Accounts Industrial Court of Tanzania for the year ended 30th 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 Industrial Court of Tanzania was established under Section 15 of Act No.3 of 1990. The Section repealed the Permanent Labour Tribunal established under Act No.41 of 1967 and established the Industrial Court in its place. The Court is presided over by a High Court Judge as the Chairperson of the court assisted by Deputy Chairpersons all appointed by the President.

Responsibilities

The Department has the following responsibilities:

- (i) Adjudication of trade disputes between employee(s) and employer(s).
- (ii) Enquiry of apprehended trade disputes and giving binding Decisions/Awards.
- (iii) Registration of voluntary agreements.
- (iv) Registration of negotiated agreements.
- (v) Registration and issuing of award under civil service negotiation machinery on minimum wages presented by Joint Staff Council to advise the president on minimum wages.
- (vi) Registration of production targets and issuing bonuses as part of collective bargaining.
- (vii) Identification of Revision in an appellate capacity when sitting as a full bench court.
- (viii) Execution of its own award.
- (ix) Preparation of reports on its functioning for presentation of the same to the relevant Government Ministries etc.
- (x) Dealing with administrative, financial, personnel, corporate and incorporate matters pertaining to the court.

Vision

Is the end state that Industrial Court of Tanzania aspires to reach i.e. to be an institution of Excellency in dispensing industrial justice.

Mission

The Mission Statement of the Industrial Court of Tanzania is to deliver quality services to the people with efficiency, effectiveness and the highest standard of courtesy and integrity.

1.3 Operational objectives

- To improve efficiency in handling all matters brought to the Court.
- To make its services accessible and the process speedy.
- To create enabling environment to enhance productivity.

1.4 Financing

The Industrial Court of Tanzania receives funds from Treasury. During the financial year 2004/2005 the court received a total Shs.487,234,491 to meet current expenditure and donor funds from DANIDA amounting to Shs.80,823,578 for development purposes.

1.5. Management Structure

The Industrial Court of Tanzania is headed by Chairperson who is assisted by the Deputy Chairperson. Under the Deputy Chairperson management structure also includes Administration Personnel, Registrar, Chief Accountant, Internal Auditor, Deputy Registrar (Economic Analyst) and Deputy Registrar (Legal Analyst).

1.6 Brief description of Internal Control System.

The following is the brief description of internal control system of Industrial Court of Tanzania for the following aspects:-

- **Accounting system**

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

- **Internal Audit Unit**

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

The Industrial Court of Tanzania since its establishment has not formed internal audit unit as a result the financial statements of the year 2004/2005 were not signed by the Chief Internal Auditor.

- **Audit committee**

Regulation 28 requires the accounting officers to establish an audit committee to strengthen internal control system. The management of Industrial Court of Tanzania formed the Audit Committee of four members. The Committee was required to conduct the meetings quarterly but it has not conducted a meeting to date.

- **Procurement system**

The Public Procurement Act No 21 of 2004 section 33 and 34 requires the Department to form Tender Boards, 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 industrial court of Tanzania, complied by the Act by forming the Tender Boards and Procurement Management Unit which are full functional.

1.7 Financial Performance

Supply Vote

The Supply Vote Account closed with a net expenditure of Shs.485,985,594 against the approved estimates of Shs.488,150,600 resulting in a difference of Shs.2,165,006.

However, the amount of exchequer issues received during the year totaled Shs.487,234,491 leaving a cash balance of Shs.1,248,897 with the Paymaster General's account.

Development Vote

The years out turn on the Development Vote account showed expenditure of Shs.80,823,578 against the reported net approved estimates of Shs.251,815,000 resulting in an apparent saving of Shs.170,991,422. However, as the exchequer issues received during the year totalled Shs.80,823,578, there was a nil cash balance with the Paymaster General's account.

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 Industrial Court of Tanzania.

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 Court for the period ended on 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 Generally Accepted Accounting Standards.
- To ascertain whether all necessary supporting documents, records and accounts have been kept in respect of all Industrial Court of Tanzania 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 Department 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 Industrial Court of Tanzania, 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. 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 Department 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 procedures were followed:-

- Review of legal documents
- Examination of receipts and payments to confirm compliance with existing legislations, financial regulations and other instructions or directives.
- Review of the internal control system by assessing significant policies and procedures and determine its adequacy.
- Conducting Compliance tests on the system of procurement contracts and their execution as well as stores management.
- Appraisal of the previous audit recommendations to determine whether the Court has taken adequate corrective action.
- Hold entrance, exit and clearance meetings with the auditee to discuss the audit objectives and results of the audit exercise.

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 AND FINANCIAL STATEMENTS

To the Registrar,
Accounting Officer of Vote 60,
Industrial Court of Tanzania,

Re: **Audit Report on the Financial Statements of the Industrial Court of Tanzania for the year ended 30th June, 2005.**

I have audited the financial statements of the Industrial Court of Tanzania shown as Annexure 1 for the year ended 30th 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 Industrial Court of Tanzania.

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 Industrial Court of Tanzania 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 Industrial Court of Tanzania.

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 Industrial Court of Tanzania 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 Industrial Court

of Tanzania (Vote 60) 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.

Qualification

In my opinion, except for the matters specified below, the financial statements of Industrial Court of Tanzania 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 2005, and the financial position as at that date.

Material disagreement on correctness of records

- Fixed assets value Shs.45,393,432 purchased during the year under review were not reflected in the statement of Immovable Assets.
- There was outstanding house rents amounting Shs.379,037,015 not reported in the statement of commitment outstanding.

Further to my opinion, the procurement of office equipment, motor cycles and Supplies were generally done in accordance with the Public Procurement Act No. 21 of 2004.

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. Status of Outstanding Matters in the Previous Audit Report

Para	Audit Observation	Amount Reported Shs.	Amount Outstanding Shs.	Audit Comments
430.1	<p>Understated value of fixed assets</p> <p>It was noted that the actual amount spent for purchases of fixed assets (furniture) during the year totaled Shs. 73,166,834 but the department reported Shs. 37,630,000 leaving Shs. 35,486,834 not reported</p>	35,486,834	35,486,834	The management did not reconcile its books of account to date hence the reconciliation is called for.
431	<p>Improperly vouched expenditure</p> <p>A test check of payment vouchers and related records for the year under review, revealed improperly vouched expenditure amounting to Shs. 37,874,699</p>	37,874,699	9,964,629	More efforts are required to clear the outstanding balance of Shs. 9,964,629
432	<p>Outstanding debts</p> <p>A Cumulative debt during the year 2003/2004 amounted to Shs. 233,375,802. However the outstanding debt was a result of non payment of house rent charges.</p>	233,375,802	233,375,802	Funds are being sought from the Treasury to the debts.

3.2. Current year's audit findings

3.2.1 Unreported Fixed Assets Shs.45,393,432

In the year under review the Department purchased fixed assets valued Shs.45,393,432. However, it was noted that the fixed assets were not reported in the financial Statements in spite of a similar observation having been included in my previous years audit report.

Implication

- In absence of proper records, code numbers the assets might be misappropriated without management knowledge.

- Value of fixed assets was understated.

Audit Recommendation

The management should update the financial statements and the assets be coded for easy of identification.

3.2.2 Outstanding house rents Shs.379,037,015

In my previous audit report I made mention of long outstanding house rents to the tune of Shs.233,375,802. However, in the year under review it was observed that the figure of outstanding house rents increased to Shs.379,037,015 and was not reported in the financial statements.

Implication

The increase of rent indicates that the department is unable to pay and non disclosure of the debt distorts the true and fair view of the financial statements.

Audit Recommendation

The management should adjust the books of account and include the debts in the next annual budget.

3.2.3 Unsupported expenditure Shs.2,205,467

A test check of the payment vouchers revealed unsupported payments worth Shs.2,205,467 (appendix II refers).

In the absence of supporting documents, it was not possible to verify the authenticity of the expenditure made. Further, expenditure of this nature implies non adherence to financial regulations.

Implication

The genuineness of the expenditure could not be ascertained and implies unadherence to financial regulations.

Recommendation

All supporting documents should be traced and furnished to audit for verification.

3.2.4 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 organization. The Industrial Court of Tanzania since its establishment had not formed internal audit unit.

Implication

Assurance that funds were properly managed, assets were safeguarded and risks of fraud were minimized could not be ascertained.

Recommendation

The internal audit unit should be expeditiously formed to strengthen internal controls over the Industrial Court funds and assets.

3.2.5 Audit committee

Regulation 28 requires the accounting officers to establish audit committees to strengthen internal control system.

The management of Industrial Court formed the audit committee of four members headed by the Deputy Chairperson. The Committee was required to conduct the meetings quarterly but it has not conducted a single meeting to date.

Implication

The management has not complied with the Act.

Audit recommendation

The Industrial Court management should comply with the Act and conduct the meetings as per the financial regulations.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Industrial Court of Tanzania during exit meeting held on 22nd November 2005. The management of the Industrial Court of Tanzania 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.

Management Structure

