

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE
FINANCIAL STATEMENTS OF THE NATIONAL ELECTORAL COMMISSION
VOTE 61**

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 National Electoral Commission for the year ended 30th June 2005

- Responsibility for the Financial Statements
- Notes to Financial Statements
- Statement of Vote Account - Recurrent Supply (Balance Sheet)
- Statement of Vote Account - Development (Balance Sheet)
- Cash Flow Statement for recurrent Account
- Cash Flow Statement for Development Account
- Cash Flow Statement for Deposit Account
- Summary Statement of Revenue
- Statement of Arrears of Revenue
- Summary Statement of Losses
- Statement of Commitment outstanding
- Notes to the financial statements

These financial statement and notes are attached to this report as annexure I

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. No. 259 of 2003

Commission means the National Electoral Commission

AR	Audit Report
IAS	International Accounting Standards
IFMS	Integrated Financial Management System
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
NAO	National Audit Office
NEC	National Electoral Commission
PFA	Public Finance Act
PFR	Public Finance Regulations
UNDP	United Nations Development Programme

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

We have completed the audit of the Accounts and related records of the National Electoral Commission for the year ended 30th June 2005. Audit findings arising from examination of accounting records, appraisal of the NEC activities as well as evaluation of Internal Control System which require management attention are set out in part 3 of this report.

1.2 Brief history of client establishment

The National Electoral Commission was established in accordance with Article 74 (1) of the Constitution of the United Republic of Tanzania 1977. The main responsibility of the Commission is to conduct Presidential and Parliamentary Elections in the United Republic of Tanzania as well as Councilors' elections in Mainland Tanzania.

Vision of the Commission

The Vision of the Commission is to be a leading organization that strengthens democracy through the delivery of free and fair Presidential, Parliamentary and Councilors Elections.

Mission Statement

To safeguard democracy and maintain integrity of the Electoral system in the country by coordinating and supervising voter registration, constituency demarcation and election organization related activities that are supported by partnership with all stakeholders.

1.3 Operational Objectives

The operational objectives of the commission are to ensure that:

- Election processes and Resource utilization for all Elections at the National and Council levels are optimal, free and fair.
- Processing & disseminating information and best practices to all the stakeholders.
- All legal issues pertaining to election activity are addressed in time.
- Laws related to electoral activity support a conducive environment for the conduct of free and fair elections.
- Funds for the Commission are utilized optimally and processes of the Commission are cost effective.
- Funds are effectively allocated to the various activities of the Commission and are reported on time.
- Financial Management is efficient and transparent at all levels.

1.4 Financing

The Electoral Commission like any government entity receives funds from Treasury in the form of exchequer issues. During the year under review a total sum of Shs.36,445,554,310 was released for the operation of the Commission as follows:

Supply Vote	30,127,854,310
Development Vote	<u>6,317,700,000</u>
Total	<u>36,445,554,310</u>

1.5 Management Structure

The National Electoral Commission is Composed of Seven Commissioners headed by a Chairman who is assisted by the Vice Chairman while the Director of Elections is the Secretary to the Chief Executive of the Commission. The Secretariat is composed of two sections and four Units in accordance with its approved Organization Structure as shown below:-

- Election Management Section
- Information, Research and Statistics Section
- Administration and Personnel Unit
- Legal Unit
- Finance and Accounts Unit
- Internal Audit Unit

1.6 Brief description of the internal control system

Accounting system

The Commission operates the usual government accounting system using integrated financial management system and epicor accounting packages. The financial statements are being prepared and presented based on the cash basis of accounting pursuant to Public Finance Act No. 6 of 2001 Regulation 53.

Internal Audit

The commission has an Internal Audit Unit with two staff headed by a Chief Internal Auditor.

Audit committee

Para 28 of Public Finance Regulations of 2001 require the Accounting Officer to Establish an effective Audit Committee. However, it was noted that the Commission has not established this unit.

Commission Tender Board

The Commission has established a Tender Board comprising of six members. The Commission also has a Procurement Management Unit.

1.7 Financial Performance Issues

(a) Supply vote

The Supply Vote closed with a saving of Shs.4,308,790 arising from net expenditure of Shs.30,123,954,810 against Net Approved Estimates of Shs.30,128,263,600. However, exchequer issues received during the year totalled Shs.30,127,854,310 leaving a cash balance of Shs.3,899,500 with the Paymaster General.

(b) Development Vote

The year's out-turn on the Development Vote was Shs.6,317,700,000 which equaled the net exchequer issues received during the year. Thus leaving a NIL cash balance with the Paymaster General.

1.8 Audit mandate

Under the provision of Article 143 of the Constitution of the United Republic of Tanzania, read with section 30(i) and 37 of the Public Finance Act No. 6 of 2001, the Controller and Auditor General is the statutory auditor of all Public Revenues and Expenditure including this Commission.

1.9 Audit objectives

The main objective of conducting the audit was to enable the Controller and Auditor General to express a Professional opinion on the financial statements of the National Electoral Commission for the year 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 preparation of the financial statements in accordance with the Generally Accepted Accounting Practices and the requirements of the Public Finance Act No. 6 of 2001.
- To determine whether funds received have been used exclusively and judiciously to meet eligible expenses, as per regulations governing the Commission.
- To ascertain whether all relevant supporting documents, records and accounts have been kept in respect of all transactions of the Commission
- To perform compliance tests to determine whether the Commission 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 Commission are adequately safeguarded against losses from unauthorized uses or disposition.

- To determine whether the management of the Commission has taken adequate corrective actions on the previous years audit recommendations.

1.10 Audit scope

The audit of the National Electoral Commission for the period ended 30th June 2005 was carried out in accordance with ISA and 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 controls over the activities of the commission, examination and verification of the accompanying financial statements and other auditing procedures as was considered necessary under the circumstances for the purposes of forming an opinion on the financial statements. The audit was carried out on test basis, therefore, the audit findings are confined to the extent that records, documents and information requested for the purpose of audit were made available to us.

As Auditors we are not required to specifically search for fraud therefore, our audit cannot be retied upon to disclose all such matters'. The responsibility for setting up and maintaining an adequate and reliable system of Internal Control rests with the management of the Commission. Our audit, however, was planned in such a way that we would have a reasonable expectation of detecting any material misstatement in the financial Statements.

1.11 Audit methodology

Our audit included such tests of the accounting records and other procedures in order to satisfy the objective of the audit. Our audit procedures included the following steps:

- Planning the audit to obtain an adequate understanding of the Commission's activities and operations and an assessment of the major risk areas.
- Carrying out substantive tests of the balances reported by the Commission in order to obtain reasonable assurance regarding the amounts and disclosures included in he financial statements.
- Review the adequacy of the internal control system in place, testing whether it is in compliance with the laid down rules, policies, procedure and regulations.
- Conduct interviews and discussions with some of the employees of the Commission.

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: Dr. Rajab Kiravu,
Accounting Officer of Vote 61,
National Electoral Commission

Re: **Audit Report on the financial statements of the National Electoral Commission for the year ended 30th June 2005**

I have audited the financial statements of the National Electoral Commission shown as Annexure I to this report 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 National Electoral Commission.

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 National Electoral 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 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 practices; 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 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 misstatement. 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 Department consistently applied and adequately disclosed, evaluating the overall financial statements presentation, and assessing the extent of compliance with the relevant statutory requirements. I believe the audit provides a reasonable basis for my opinion.

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

Adverse opinion

Due to the fundamental financial implication of the matters stated below, the financial statements of the National Electoral Commission do not present fairly the financial position of Vote 61 as at 30th June 2005.

Further to my opinion, the procurement of computers, motor vehicles, technical materials, specialized supplies and stationery have not been done in accordance with the Public Procurement Act of November, 2004 and related Regulations.

Fundamental disagreements and uncertainty if information:

1. There are outstanding matters relating to audit findings in previous years amounting to Shs.10,742,433,046
2. A total sum of Shs.6,317,200,000 received as “D” Funds in the form of goods could not be substantiated.
3. There was an overpayment of allowances amounting to Shs.61,080,000 paid to computer programmers.
4. There were goods, worth Shs.1,266,949,203 not recorded in the stores ledgers.
5. There were goods paid for but not delivered amounting Shs.1,387,087,638.

The details of these matters are given in part 3 of this Report.

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 on previous audit findings

The following matters relating to previous year's audit findings have not been finalized as shown below:

Financial year and Para	Description	Amount Queried Shs.	Amount Cleared Shs.	Amount Outstanding Shs.
2002/03 419	Improperly Vouched Expenditure	701,825,719	682,230,552	19,595,167
437	New additional Fixed Assets	10,557,236,554	-	10,557,236,554
438	Unvouched and improperly vouched expenditure	707,044,006	57,820,548	649,224,006
440.3	Procurement computers	68,667,873	NIL	68,667,873
441	Stores not taken on ledger charge	67,708,272	NIL	67,708,272
440.4	Double payments	3,792,280	NIL	3,792,280
436	Variance on office supplier & services	25,432,900	NIL	25,432,900
			Total	10,742,433,046

Implication

There is apparent laxity in attending to matters raised by auditors

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 instituting financial and accounting controls as recommended by auditors.

3.2 Current year's audit findings

3.2.1 Management Letters

A test check of the accounts, statements and related records for the financial year 2004/05 resulted in the issuance of 20 management letters, the most significant of which have been referred to in the next of this report.

3.2.2 Accountability of "D" Funds Shs.6,317,700,000

A total sum of shs.6,317,700,000 was received by the Commission from various donors in the form of goods for the establishment of Permanent National Voters Register. However accountability of the goods was not substantiated.

Implication

Probable loss and misuse of the goods due to non availability of relevant accounting records.

Recommendation

Management is required to produce relevant records and information to confirm accountability of the goods received from donors.

Management response

All particulars, data and documents justifying the assistance have been collected and recorded accordingly and are ready for audit verification.

Audit comment

Verification of this information will be carried out during the next audit.

3.2.3 Outstanding Imprest balances Shs.127,729,850

A review of accounting records revealed outstanding imprest balances totalling Shs.127,729,850 including Shs.121,917,350 outstanding at the Head Office and Shs.5,812,500 issued to the District Executive Director, Sikonge District Council for the construction of a store room to accommodate election boxes and other materials.

Implication

Outstanding imprests tie up funds causing some of the activities not to be carried out as planned.

Recommendation

The management should ensure that all the outstanding imprest balances are cleared.

Management response

All imprests issued during the year have been retired and their retirement particulars are ready for your verification.

Audit comment

Further verification has indicated that imprests amounting to Shs.102,376,350 are still outstanding. More effort should be exerted to ensure this imprest balance is settled.

3.2.4 Inadequately supported expenditure Shs.432,371,205

Audit examination of the payment records for the year under review revealed that expenditure amounting to Shs.798,542,911 at NEC headquarters and Shs.307,573,117 at local authorities were made without adequate supporting documentation contrary to para 95 (4) of the Public Finance Regulations, 2001.

Implication

The authenticity of the payments could not be established.

Recommendation

Management should comply with para 95 (4) of Public Financial Regulations by producing the relevant supporting documents for audit verification.

Management response

It is true that Shs.1,106,116,028 had no proper supporting documents. All the payments have now properly been supported.

Audit comment

Out of Shs.798,542,911 originally queried at the NEC headquarters Shs.673,744,823 have been settled leaving an amount of Shs.124,798,088 not supported with relevant documents.

We have not received response from the management in respect of Shs.307,573,117 not adequately supported by local authorities

3.2.5 Questioned allowances and cost of meals Shs.61,080,000

The Commission paid a sum of Shs.315,560,000 to computer programmers during the process of establishing the Permanent Votes Register. Verification of the attendance register for the participants of the exercise indicated that the programmers were supposed to be paid a sum of Shs.254,480,000 hence they were overpaid by Shs.61,080,000.

Implication

Misappropriation of funds through manipulation of data may not be ruled out.

Recommendation

The management should account for the appropriateness of the payments which resulted in to the overpayment of Shs.61,080,000.

3.2.6 Unauthorized over expenditure Shs.97,535,222

According to the instruction issued through letter Ref. No. EC/A.20/1/Vol.V of 17th October 2005, all receivers of funds at District Councils and Local Authorities were instructed and required to spend funds within the provided budget limits. To the contrary, seven District Councils and constituencies surpassed their budgetary allocations by Shs.97,535,222 without seeking permission from the NEC Headquarters before effecting the payments.

Implication

Probable misuse of funds allocated to those District Councils.

Recommendation

The Management should regularize the overpaid amounts by the respective District Councils and constituents.

3.2.7 Cash balances with Local Authorities not surrendered to NEC Headquarters Shs.127,067,568

Audit verification of accounting records at various Local Authorities revealed that unspent cash balances amounting to Shs.127,067,568 with Local Authorities were not surrendered to NEC Headquarters after completion of the intended activities.

Implication

There is a likelihood for the unspent cash balances to be misused.

Recommendation

The management should claim refund of the unspent cash balances from the respective District Councils and constituents.

3.2.8 Procurement of Goods, Works and Services

(a) Goods not recorded in stores ledger Shs.1,266,949,203

A review of accounting and stores records revealed that goods worth Shs.1,266,949,203 bought from various sources were not recorded in the stores ledgers. We were not able to ascertain the delivery of these items.

Implication

Goods paid for may not be delivered.

There is a possibility of misappropriation and/or misplacement of the items.

Recommendation

The management should account for the purchased goods in the respective stores records.

(b) Goods and Services paid for in advance Shs.104,470,078

A sum of Shs.49,035,707 was paid in advance to the following suppliers before delivery of goods and services. Delivery and accountability of the goods and services have not been established.

51/6/05	0420973	14,632,507	DAL Forwarding (T) Ltd.
340/6	0534314	6,000,000	Diesel Generator
339/6	0534306	14,128,000	Pavisa Enterprises
54/6	0420975	<u>14,275,200</u>	DAHACO
	Total	<u>49,035,707</u>	

Implication

Goods/services paid for in advance may not be delivered/rendered.

Recommendation

Management should confirm delivery and accountability of goods and services paid for in advance.

(c) Uncompetitive purchases Shs. 127,158,078

Payments amounting to Shs.127,158,078 were made to various suppliers of goods and services on a single source procurement basis without neither calling for competitive bidding tenders/quotations nor giving justifiable reasons in favour of the purchases contrary to Public Procurement Regulations and the third schedule thereto as listed below:

PV No.	Cheque No.	Payee	Amount (Shs.)	Description of goods/services
122/2, 92/3, 355/6, 56/5	0534305 0501283	M/s Jacky's (T) Ltd	22,688,000	Service and repair of cameras
100/4		M/s Bright Technical Systems and Gen. Suppliers Ltd.	13,680,470	Supply and install split units air conditioners
101/4 209/6	0511440	-do-	11,198,400	9 units split air conditioners
396/5	0534327	M/s Computer Mert-DSM	35,049,736	Supply of disaster recovery equipment
LPO	4000523	M/s Com. Tech. International Ltd	30,745,800	Purchase of canon digital photocopier machine model 1R6570230 v/50-60/tv
211/6	0528515	M/s Bethel Enterprises	13,795,672	Purchase of 2pcs of water and fire protection equipment
		Total	127,158,078	

Implication

The Commission may not benefit from the best economical prices
The reliability of the quality of the goods/services paid for may be in question.

Recommendation

The management should account on the non compliance with the procurement Regulation.

Management response

- The cameras were purchased by UNDP who contracted M/s Jacky's limited to provide the service. The copy of the contract is available for audit verification.
- M/s Jacky's Limited is the sole provider of the services for Poralaid Cameras in East Africa.
- M/s Bethels Enterprises was obtained through Central Tender Board No.94/2003/04 and goods purchased were received in good condition, and taken on ledger folio/70E. The Stores Ledger is now ready for audit verification.

Audit comment

- Only goods worth Shs.22,688,000 have now been supported by relevant bidding documents.
- The management should account for the remaining balance of Shs.104,470,078

(d) Goods not delivered Shs.1,387,087,638

A sum of Shs.1,387,087,638 was paid to the Manager Foreign Banking operations (BoT) in favour of M/s Universal Print Group Ltd of South Africa for the supply and shipping of lamination printers, photo fix films at a total cost of USD 1,074,600 (Shs.1,387,087,638).

We noted that the payments were not supported with invoices and delivery notes, tender documents were not availed

We were unable to ascertain the delivery and accountability of the items paid for.

Implication

Goods not delivered imply nugatory payments for which the Government did not obtain value.

Recommendation

The management should account for the goods paid for.

3.2.9 Non maintenance of a Fixed Assets Register

It has been observed that the Commission does not maintain a Fixed Assets register contrary to Financial Regulations. Existence of the Fixed assets reported in the accounts totalling Shs.5,196,086,029 could not be ascertained.

Implication

- Unreliability of records regarding fixed assets
- Assets owned by the Commission could easily be misappropriated in the absence of proper records.

Recommendation

The management should maintain a Fixed Assets register and ensure that all the assets have been recorded accordingly for proper management of the assets.

3.2.10 Review of Internal Control System

Non establishment of Audit Committee

According to paragraph 28 of the Public Finance Regulations of 2001, all Accounting Officers are required to establish an effective Audit Committee. However, NEC has not established this Committee.

Implication

Inadequate accountability within the Commission due to lack of control and follow up by the audit committee.

Recommendation

The management should ensure the Audit committee is established within the commission and ensure that the Committee is effective to facilitate control over various activities and transactions being carried out by the Commission.

4.0 CONCLUSION

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

Lastly, I would like to express my appreciation for the cooperation given to the audit team. It is my hope that such good working relationships will be extended during future audits.

Dr. Frank Mosses Hiza Mhilo
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.