

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



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL  
STATEMENTS OF THE REGIONAL SECRETARIAT TANGA**

**VOTE 86**

**FOR THE FINANCIAL YEAR ENDED 30<sup>TH</sup> 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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## CONTENTS

|   | Page  |
|---|-------|
| 1.0 Background information to the audit                       | 5     |
| 1.1 Introduction  | 5     |
| 1.2 Brief history of the client establishment                 | 5     |
| 1.3 Operational objectives                                    | 5     |
| 1.4 Financing   | 6     |
| 1.5 Management structure                                      | 6     |
| 1.6 Brief description of Internal Control System              | 7     |
| 1.7 Financial Performance                                     | 7     |
| 1.8 Audit Mandate   | 7     |
| 1.9 Audit Objectives  | 8     |
| 1.10 Scope of Audit   | 9     |
| 1.11 Audit methodology  | 9     |
| 1.12 Presentation of audit findings                           | 10    |
| 2.0 Audit report on financial statements                      | 11    |
| Audit report  | 11-12 |
| 3.0 Audit Findings and Recommendations                        | 13    |
| 3.1 Status of the previous year findings and recommendations  | 13    |
| 3.2 Current year's audit findings                             | 13-17 |
| 4.0 Conclusion  | 17    |
| 5.0 Annexures   | 18    |
| 1. Financial Statements and Notes to the Financial Statements |       |
| 2. Organization structure                                     |       |

## Definition of terms and Abbreviations

Financial statements means the following statements, notes and supporting schedules of the Regional Administration Secretary for the year ended 30<sup>th</sup> June, 2005.

- Notes to the Financial Statements
- Statement of Vote Account - Supply
- Statement of Vote Account - Development
- Cash Flow Statement for Recurrent Account
- Cash flow statement for Deposit Account
- Cash flow statement development
- Summary Statement of Revenue
- Summary - Development Appropriation Account
- Summary - Recurrent Appropriation Account
- Statement of Arrears of Revenue
- Summary Statement of Losses
- Statement of composition of Fund

These Statements and notes form part of this report.

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

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

|         |  |
|---------|--|
| AU      | African Union  |
| AR      | Audit Report   |
| BOT     | Bank of Tanzania   |
| IAS     | International Accounting Standards                       |
| INTOSAI | International Organisation of Supreme Audit Institutions |
| IPSAS   | International Public Sector Standards                    |
| ISA     | International Standards on Auditing                      |
| NAO     | National Audit Office                                    |
| NMB     | National Microfinance Bank                               |
| PAC     | Public Accounts Committee                                |
| PMS     | Performance Management System                            |
| PPA     | Public Procurement Act No. 21 of 2004                    |
| PPR     | Public Procurement Regulation of 2005                    |
| RDD     | Regional Development Director                            |
| RAS     | Regional Administrative Secretary                        |
| MDAs    | Ministries, Departments and Agencies                     |
| LGAs    | Local Government Authorities                             |
| PFR     | Public Finance Regulations                               |
| PFA     | Public Finance Act                                       |

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

### **1.1 Introduction**

We have completed the audit of the Regional Secretariat Tanga Vote 86 for the year ended 30<sup>th</sup> June 2005. Audit findings arising from the examination of accounting records, appraisal of the RAS activities as well as an evaluation of the internal control system which require management attention and action are set out under Part 3 of this report.

### **1.2 Brief History of the client Establishment**

In 1972 Tanzania embarked on decentralization by de-concentration where by the regional administration was established. The development directorates at the District and Region were formed the directorates were led by District and Regional Development Directors respectively. The Decision to form Regional Administration resulted into the abolition of Local Government Authorities which were inherited during the independence era.

In 1984 the Tanzania Government revisited its decision on the decentralization by de-concentration and hence reinstated the Local Government Authorities because it was realized that there was lack of community involvement in decision making. The decision was made vide Act No. 7 of 1984 as a result the District Development Directorates were abolished.

Again in 1996 the government decided to further the performs through stream living of its factions. It decided to abolish the Regional Secretariat to be led by Regional Administrative Secretary (RAS). The Regional Secretariat composes of sector Technical Advisors. In line with the abolition of Regional Administration the Regional Department heads little were also abolished vide prime minister's Circular No.1 of 1996. The establishment of Regional Secretariat changed the roles of the region from service provision to advisory role (Act 19 of 1997 section 12) regional Secretariat as other MDA's Operates its mandate functions in fiscal year basis from 1<sup>st</sup> July to 30<sup>th</sup> June each year.

### **1.3 Operational objectives**

The Regional Secretarial was established under the Regional Administrative Act No.19 of 1997 to perform Development and Administrative Functions.

The Development role centres on building capacity within and supporting Local Government Authorities (LGAs) for them to be able to deliver the following:

- Management development services, which focus on local authorities putting together expertise in the area of local Government Administration and finance, training planning and economic analysis, community Development, legal, labour affair's and Auditing.
- Economic Development services which focus on support for production related actives in the region provided through experts in Agriculture. Trade and Nature Resources.
- Physical Planning and Engineering services which foods on support to in fracture and land management activity. This includes support for an regulation of technical designs. Contracting and tendering in the sections of physical planning engineering and land development.
- Social development services which focus on support services and regulation of services development activities related to health, education, water services and local welfare activities (both public and private) in the region.

**The administrative role includes:**

- To ensure peace and tranquility for all regional inhabitants so as to enable them to pursue their goals.
- To facilitate and assist LGAs in the region to undertake and delivery their responsibilities by providing and recurring the enabling environment for the successful performance of their duties and functions.
- To be the representative of the central government within the region. These roles and functions have been assigned in five clusters.

**1.4 Financing of the Regional Secretariat**

RAS office like any other government Office receives funds from Treasury in the form of exchequer issues. During the year under review, a total sum of Shs.5,305,074,000 was released for the operations of the RAS Office as follows:-

| Description      | Amount (Shs.)               |
|------------------|-----------------------------|
| Supply vote      | 1,877,429,800               |
| Development Vote | <u>3,427,644,200</u>        |
| <b>Total</b>     | <b><u>5,305,074,000</u></b> |

**1.5 Management Structure**

The Regional Administration is headed by a Regional Commissioner and the day to day activities are managed by the Regional Administrative Secretary who is also the Accounting Officer for Vote 86. Organization Structure of the Regional Secretariat Tanga is shown at annexure II of this report.

## **1.6 Brief description of Internal Control System**

The internal control system is in place. The Internal Auditor was employed to check and report shortcomings in connection with the accounts, finances and related operations of the Secretariat. The accounting system in place is adequate. There is job description in order to ensure that, any activity is done by the appropriate officer. The procurement system is also in place and is headed by a Supplies Officer. Tender Board and Audit Committees are in place and they are functioning effectively according to the requirements of Public Finance Act No. 6 of 2001 and Public Procurement Act No. 21 of 2004.

## **1.7 Financial Performance**

### **Supply (Recurrent) Vote**

Examination of the Statement of Vote Account (Recurrent) disclosed the following:

Exchequer issues entered twice in cash book Shs.12,200,053  
A sum of Shs.12,200,053 received vide Exchequer Issue Ref. NO. 86/EB/AG/159/3/364 of 14<sup>th</sup> April 2005 (RAS ERV No. 23262227 of 26<sup>th</sup> May 2005 was noted to have been posted twice in Cash Book by the Sub Treasury, Tanga (Ref. TRX 4000009 JRNL 40000682)

### **Development vote**

The year's out turn on the Development Vote was Shs.3,000,051,167 (Local Shs.509,581,886 and foreign funds Shs.2,490,469,281) against net approved estimates of Shs.3,427,644,200 comprising local funds Shs.509,582,000 and foreign funds Shs.2,918,062,200 an apparent saving of Shs.427,593,033 while the exchequer issues received during the year amounted to Shs.3,000,051,281 resulting in a cash balance of Shs.114 with the PMG's Account.

### **Statement of Revenue**

The Statement of Revenue as at 30<sup>th</sup> June 2005 disclosed actual collection of Shs.1,748,795 as against the approved estimates of Shs.1,970,000 resulting in an under collection of Shs.221,205 or 11% of the total revenue estimates.

## **1.8 Audit Mandate**

The Controller and Auditor General is the statutory auditor of all Public Revenues and Expenditure which include this Secretariat's accounts by virtue of the provisions of Article 143 of the Constitution of the United Republic of Tanzania, and Section 30(1)(d) of the Public Finance Act No. 6 of 2001.

## 1.9 Audit Objectives

- To enable the Controller and Auditor General to express a professional opinion on the financial Statements of the Regional Secretariat for the year ended 30<sup>th</sup> June, 2005.
- To ensure that receipts and revenue due are properly assessed, and collected.
- To determine whether the Appropriation Accounts and other financial statements are prepared in accordance with Instructions/Guidelines and International Public Sector accounting standards (IPSAS).
- To ascertain whether all necessary documents, books, register, accounts and information have been kept in respect of all transactions.
- To ensure adequate disclosure of assets and liabilities in the appropriation accounts/statements of Assets and Liabilities.
- To verify that payments for goods and services have been made in accordance to the financial regulations.
- To determine whether the Internal Audit Section properly performs its duties with absolute independence and whether the Secretariat Audit Committee effectively performs its duties to ensure that the system of internal control is adequate and reliable.
- To determine whether the Internal control structure provides management with a reasonable assurance in regard to the procurement of goods and services to ensure that it is being done in accordance with prescribed procedures and that quality, right quantity and economy, efficiency and effectiveness are being considered in the procurement process.
- To verify whether the Regional Secretariat Tender Board effectively performs its prescribed duties and that proper procurement procedures are being followed in the execution of its duties.
- To determine whether the Regional Secretariat is managing or utilizing its resources in an economical and efficient manner and that the causes of any inefficiencies or uneconomical practices are promptly identified reported and corrected.
- To determine whether the desired results or benefits are being achieved, whether the objectives established by the parliament or other authorizing bodies are being met, and whether the Secretariat has considered alternative ways to ensure the desired results are attained at lower costs.
- To determine whether the Regional Secretariat has taken corrective actions on all matters raised in previous years management audit reports.
- To closely follow-up on the previous year audit findings and recommendations and instructions/directives issued by the Public

Accounts Committee (PAC) and to ensure that proper actions have been taken in respect of all matters being raised.

- To ensure that good governance has been enforced in the day-to-day operations of the Secretariat and in carrying out the overall strategy of the Region.
- To determine whether the Regional Secretariat has properly addressed key social problem areas such as HIV AIDS, gender balance, environmental issues etc.

#### **1.10 Scope of Audit**

The audit of the Tanga Regional Secretariat for the period ended 30<sup>th</sup> June 2005 was carried in accordance with International Standards on Auditing (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 control over the activities of the Regional Secretariat, examination and verification of the accompanying financial statements and other auditing procedures as was considered necessary under the circumstances for the purpose of forming an opinion on the financial statements.

The audit was carried out on a test check 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 specifically required to search for fraud, therefore, our audit cannot be relied 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 Regional Secretariat. Our audit, however, was planned and carried out 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, site visits 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 Regional Secretariat, its activities and operations and assessment of the major risk areas.
- Carrying out substantive test of the balances reported by the Regional Administrative Secretary in order to obtain reasonable assurance regarding the amounts and disclosures included in the financial statements.

- Review the adequacy of the Internal Control System in place, testing whether it is in compliance with laid down rules, policies, procedures and regulations.
- Conducting Interviews and discussions with some of the employees of the Secretariat.
- Site visits to selected areas or districts.

#### **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 Regional Administrative Secretary,  
Accounting Officer of Vote 86,  
Tanga Region**

**Re: Audit Report on the Financial Statements of the Regional  
Secretariat Tanga for the year ended 30<sup>th</sup> June, 2005.**

I have audited the financial statements of Regional Secretariat Tanga shown as Annexure I to this report for the year ended 30<sup>th</sup> June 2005.

### **Responsibilities of the Accounting Officer**

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

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

### **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 Regional Secretariat.

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; 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 have been properly authorized; and to satisfy myself whether the funds appropriated to the Secretariat, 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 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 the Regional Secretariat Tanga (Vote 86) 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 recognised when they are received and cash payments are recognised when they are paid.

### **Opinion**

In my opinion, the financial statements of the Regional Secretariat Tanga have been prepared based on 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 30<sup>th</sup> June 2005, and the financial position as at that date.

Without qualifying my opinion, I wish to point the following matters for the attention of Regional Secretariat:

- (1) Statement of Arrear of Revenue was still not prepared and submitted
- (2) Expenditure totalling Shs.11,244,240 still not supported by relevant documents schedule of Fixed Assets not prepared
- (3) Shs.638,000 in respect of audit query No. 17 of 2003/2004 is still outstanding
- (4) Shs.409,166 is still outstanding

**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 Status of the previous year findings and recommendations

The following observations raised in my previous year's management letter and the statutory report are still outstanding:

| Para | Audit Recommendation   | Status on implementation   |
|------|--|--|
| 4    | Statement of Arrears of Revenue not prepared and submitted to audit as required by financial regulations | Statement of Arrear of Revenue was still not prepared and submitted            |
| 6.   | Improperly Vouched Expenditure Shs.99,816,340  | Expenditure totaling Shs.11,244,240 still not supported by relevant documents  |
| 7    | Schedule of the fixed Assets not prepared and disclosed  | Schedule of Fixed not prepared   |
| 11   | Special imprest not accounted for Shs.1,226,671  | Shs.638,000 in respect of audit query No. 17 of 2003/2004 is still outstanding |
| 12   | Stores not taken on ledger charge Shs.11,955,766   | Shs.409,166 is still outstanding   |

#### Recommendation

The management should ensure the implementation of the recommendations made.

#### 3.2 Current year's audit findings

##### 3.2.1 Expenditure made out of dummy code Shs.83,339,541

A dummy code was created in the computer systems for accommodating adjustments relating to deductions made by Treasury. The exchequer issues posted under this code had therefore, no corresponding funds in the bank account but to the contrary payments amounting to Shs.83,339,541 were posted and paid by cheques against this code and drew funds at the bank meant for other votes as follows:

|                                    |                           |
|------------------------------------|---------------------------|
| Various deductions                 | <u>Shs.</u><br>61,910,987 |
| Night allowance and other expenses | 21,428,554                |
| <b>Total</b>                       | <b><u>83,339,541</u></b>  |

Payments for lunch and subsistence allowances charged to Personal Emolument code Shs.46,684,321

Payments totalling Shs.46,684,321 not relating to Personal Emolument were posted and paid out of Personal emolument code.

### Implication

- The sum of Shs.83339,541 drawn from the bank was for other Votes funds as the Exchequer Issues (dummy) were for adjustments only in the books)
- Cheques drawn and presented to the bank by other votes under Sub-Treasury were dishonored as a result of the above.
- Payments for other expenses Shs.68,112,875 (Shs.21,428,554 + Shs.46,684,321) were made in excess of funds released by the Treasury.
- Net Expenditure Shs.25,148,961,264 disclosed understated by Shs.83,339,541 (omitted)

### Recommendation

The management should make thorough investigation of payments made and seek retrospective approval of the Treasury.

### 3.2.2 Net expenditure (Supply Vote) understated by Shs.83,339,541

In view of the said anomalies in paragraph 3.2.2 (ii) (a) the Net Expenditure would stand at Shs.25,232,300,805 and the overdraft at Shs.94,545,484 instead of Shs.25,148,961,264 and Shs.11,205,943 respectively as disclosed in the statement of Vote Account as at 30<sup>th</sup> June 2005.

However, the Supply Vote closed with an apparent saving of Shs.1,105,339,495 arising from Net Expenditure of Shs.25,232,300,805 (audit figure) against approved estimates of Shs.26,337,640,300. The exchequer issues received amounted to Shs.25,137,755,321 hence resulting in an overdraft of Shs.94,545,484 (audit figure) as stated above.

Nevertheless, the Cash book Balance (Shs.11,205,943 overdraft) disclosed in the Statement of Vote Account (Supply) as at 30<sup>th</sup> June 2005 differed from that reflected in the Sub-Treasury cash book:

| Balance as per RAS Account | Balance as per Sub-Treasury Cash book | Variance    |
|----------------------------|---------------------------------------|-------------|
| (11,205,943)               | 951,091,379                           | 939,885,436 |

**Recommendation**

The management should reconcile the abnormal variance observed.

**3.3 Deposits cash book not maintained**

Although the cash flow statement disclosed a closing balance of Shs.18,140,865 there was no separate cash book maintained by the Sub-Treasury in respect of funds deposited by RAS hence the correctness of the balance reflected in the Deposit Account could not be ascertained.

**Recommendation**

It is recommended that a manual cash book tracking the movement of deposited funds be maintained.

**3.4 Statement of losses of cash**

The statement of losses of cash attached to the Appropriation Accounts disclosed a cash loss of Shs.1,842,750 written off during the year under review.

The Judgment under civil case No. 15/95 of 1995 and authority to write off were not produced for audit scrutiny.

**Recommendation**

The management should forward the Judgment and authority given

**3.5 Fixed Assets**

The schedules of Assets owned by the Secretariat showing the value and location of the same were not disclosed in the footnotes to the Appropriation Accounts for the year under review.

**Recommendation**

The schedules with values and location should be prepared and submitted for audit scrutiny.

**3.6 Unvouched expenditure Shs.136,156,524**

Contrary to Regulations 95(4) of the Public Finance Regulations 2001 the Secretariat made payments amounting to Shs.136,156,524 without proper supporting documents.

|                                  | <u>Shs.</u>               |
|----------------------------------|---------------------------|
| Missing Payment Vouchers         | 36,031,000                |
| Inadequately supported payments  | 28,399,900                |
| Missing acknowledgement receipts | <u>71,725,624</u>         |
| <b>Total</b>                     | <b><u>136,156,524</u></b> |

**3.7 Questionable purchases of laptop Shs.4,496,000**

A payment of shs.4,496,000 was made for the supply of one piece laptop, which appeared to be doubtful:

**Implication**

The price appears to have been highly inflated and the laptop has either not been supplied or issued for private use.

**Recommendation**

The management should comment on the above observations

**3.8 Stores purchase at uncompetitive prices Shs.5,709,400**

Public Procurement Regulations (revised November, 2004) requires that all purchases be supported by at least 3 quotations (mostly 5) for the purposes of obtaining economic prices in the market.

During the year purchases of goods worth Shs.5,709,400 were made without competitive bidding from the market.

**Implication**

The amounts involved may have been misappropriated.

**Recommendation**

The management should ensure that stores items are accounted for in ledgers.

**3.9 Stores not taken on ledger charge Shs.12,370,430**

A test check of payment vouchers for the year under review revealed stores purchases worth Shs.12,370,430 that were not recorded in the store ledgers.

**Implication**

Lack of internal check encourage ghost purchases

**Recommendation**

The management should provide evidence of delivery and utilization of goods, also controls should be strengthened.

**3.10 Short delivery of stores Shs.7,412,330**

An audit verification observed that goods with Shs.7,412,330 were short supplied to the stores.

### **3.11 Questionable utilization of fuel Shs.19,765,750**

Purchases of fuel worth Shs.19,765,750 were made during the year under review. However, the evidence of utilization of fuel was not provided i.e. motor vehicles log sheets in respect of the vehicles which received the fuel.

#### **Implication**

Inadequate controls encourage misuse of fuel

#### **Recommendation**

The respective log books should be produced for audit verification.

## **4.0 CONCLUSION**

The detailed audit findings presented above have been communicated to management of the Regional Secretariat Tanga during exit meeting. The management of the Regional Secretariat 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**

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## 5.0 ANNEXURES

Financial statements, accounting policies and notes to the financial statements.