



# *The* **AUDITOR GENERAL**

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# THE UNITED REPUBLIC OF TANZANIA

## National Audit Office

### **Vision**

To be a centre of excellence in public sector auditing

### **Mission**

To provide efficient audit services in order to enhance accountability and value for money in the collection and use of public resources

### **Core Values**

#### **Objectivity**

We are an impartial organisation, offering services to our clients in an objective and unbiased manner

#### **Excellence**

We are professionals providing high quality service based on standards and best practices

#### **Integrity**

We observe and maintain high standards of ethical behaviour and the rule of law

#### **People focus**

We value each other by building a culture of equity and caring

#### **Innovation**

We are a learning and creative organisation that constantly promotes a culture of developing and accepting value added ideas from inside and outside the organisation

#### **Best Resource Utilisation**

We are an organisation that values and uses public resources in an efficient, economic and effective manner

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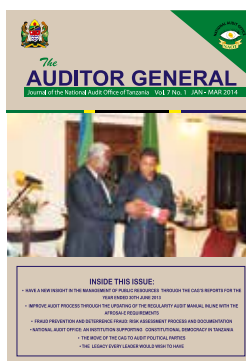
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*The Controller and Auditor General, Mr. Ludovick Utouh (left), submits the Annual Audit Reports for the year 2012/2013 to the President of the United Republic of Tanzania, H.E. Dr. Jakaya Mrisho Kikwete at State House on March 28, 2014*

### CONTACT

The Controller and Auditor General,  
National Audit Office, Samora Avenue/Ohio Street, P.O. Box 9080, Dar es Salaam - Tanzania.  
Tel: + 255 22 2115157 / 8 • Fax: + 255 22 2117527 • Email: ocag@nao.go.tz • Website: www.nao.go.tz

## FROM THE CHIEF EDITOR'S DESK

Dear Reader,

Welcome to the edition of the Auditor General Journal for the first quarter of January – March 2014. The National Audit Office of Tanzania (NAOT) is proud to continue to provide timely and efficient communication avenue with its stakeholders through the publication of this journal. In the spirit of becoming a centre of excellence in public sector auditing through the provision of efficient audit services, I would like to share with you some news and relevant professional articles of interest.



The National Audit Office has met its statutory submission date of the Controller and Auditor's General reports to H.E. the President of the United Republic of Tanzania Dr. Jakaya Kikwete for the year ended 30th June 2013, an event which took place on 28th March 2014 at the Statehouse in Dar es Salaam. The reports will be public documents after being tabled in the Parliament of the URT sometime in May 2014, for more information about this read the news inside this journal.

How do you do with your New Year's resolutions? Were there New Year resolutions to promote better health outcomes among employees? This issue of the journal provides clear answers to those questions through an article with the heading "Make a Healthy Lifestyle Change to Avoid Cancer Development". Evidence from lifestyle change programmes indicates that having clear goals for healthy outcomes is more than just implementing one aspect of wellbeing, but rather should be a combination of lifestyle factors that affects positive changes without any risk factor. To gain an in-depth understanding and appreciation please read the full article in this publication. Good Health First!

This issue also provides new insight on the field of forensic auditing. Fraud prevention and deterrence is noteworthy in growth of any institution. Fraud in professional definition is regarded as any intentional deceit meant to deprive another person or party of their property rights. In the context of auditing financial statements, fraud is defined as an intentional misstatement of financial statements. However, there are many things that organisations can and should do to minimize the risk that fraud can occur and go undetected. Read the full article in the journal to enhance the understanding on fraud prevention.

We have also outlined qualities that give today's best leaders which includes the resilience to cope with many challenges coming their way and the resolve to sustain long term success. Leaders should have vision that focuses on the most important opportunities and commitment to creativity. To get honest feedback, they need to listen and learn from the people who they are leading. Our readers are encouraged to open this page and gain contemporary understanding regarding administration and human resource management through Mr. Utouh's legacy.

I would like to take this opportunity to thank all the contributors and writers of articles published in this edition. I would like to encourage them to continue writing articles for future editions of the journal and at the same time invite others to create an interest in writing articles for the journal. I would also like to thank the editorial board and invited editors for a job very well done in bringing out this journal.

On behalf of the editorial board, I welcome feedback, comments and suggestions on how to further improve our journal. I wish you a very happy New Year and enjoyable reading.

A handwritten signature in black ink, appearing to read 'Sarah Reuben'.

Sarah Reuben  
**Chief Editor**



# HAVE A NEW INSIGHT IN THE MANAGEMENT OF PUBLIC RESOURCES THROUGH THE CAG'S REPORTS FOR THE YEAR 2012/13



*The Controller and Auditor General, Mr. Ludovick Utouh (left), submits the Annual Audit Reports for the year 2012/2013 to the President of the United Republic of Tanzania, H.E. Dr. Jakaya Mrisho Kikwete at State House on 28<sup>th</sup> March, 2014*

**By Technical Support Services Unit, (TSSU)**  
**National Audit Office of Tanzania**

The Controller and Auditor General (CAG) of the United Republic of Tanzania (URT) Mr. Ludovick Utouh has timely submitted his statutory reports for the financial year ended 30th June 2013 to the President of the URT, H. E. Dr. Jakaya Mrisho Kikwete on the 28th March 2014 at the State House in Dar es Salaam. The reports will be released as public documents once they have been tabled in Parliament by appropriate Ministers in line with the requirements of the Constitution of the United Republic of Tanzania of 1977 (as amended from time to time).

Referring to Article 143 (2) and (4) of the Constitution, the reports in respect of the accounts of the Government of the United Republic, the accounts managed by all officers of the Government of the United Republic and the accounts of all Courts of the United Republic and the accounts managed by the Clerk of the National Assembly to be submitted by the CAG to the President, who shall direct the persons concerned to submit the reports before the first sitting of the National Assembly.

## **Tabling of the CAG's Reports in Compliance with the Law**

The annual audit reports of the Controller and Auditor General after being submitted to the President within the statutory submission due date of 31st March in compliance with the law of the country, he shall through the appropriate Ministers ensure that the reports are tabled in the National Assembly before the expiration of seven days from the day the sitting of the National Assembly began.

## **The submission of the CAG's Reports for the Year ended 30th June 2013**

The submitted CAG's general reports for the year ended 30th June 2013 to the President included financial as well as performance audit reports. The financial audit reports included 103 reports for Ministries, independent Departments which includes the Judiciary and the National Assembly and Executive Agencies; 140 reports of Local Government Authorities; 177 reports for Public Authorities and Other Bodies and 611 reports for Donor funded projects. On the other hand, the CAG also submitted 6 performance reports and 16 special audit reports. The CAG reports over the past recent years have brought about major

impacts on the improvement of transparency and accountability in the collection and use of public resources in the country. This achievement has been contributed by a number of factors, the predominant one being the enhancement of the independence of the Controller and Auditor General.

### Users of the Audit Reports

The main focus of the CAG reports is to draw the attention of the Executive, Legislature, Judiciary, Development Partners and the general public about the main findings, conclusions and recommendations drawn thereof from the concluded audits. In this era of increased need for accountability, transparency and good governance, informed decisions are very vital. To this effect therefore, the CAG reports will help to ensure that decision makers are served with relevant, up-to-date information with technical recommendations on the financial reporting and public resources management in the country.

### The CAG reports and Value Adding

In ensuring that the work of the CAG adds value in the economic development of the country, the National Audit Office of Tanzania has continuously been reviewing its audit approaches and methods to ensure that the reported findings meet the expectations of the stakeholders it serves and that the audits are conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). To achieve its objectives, the Office clearly understands that capacity building of its employees is paramount in order to increase their understanding of relevant laws, regulations, circulars, directives and various emerging issues both locally and globally.

In this endeavor, NAOT employees have been subjected to numerous trainings so as to enhance their work performance with due diligence and expected professionalism. In this regard,

NAOT has plans underway to construct an Audit Training Centre at Gezaule Kigamboni Dar es Salaam in order to facilitate sufficient and effective capacity building of the NAOT staff, accounting/auditing personnel from the public sector and auditors from the AFROSAI – E membership countries.

It is imperative to note that while there is a key role for oversight organs to play in overseeing compliance with laws, regulations and procedures in public entities, ultimately, the responsibility for the maintenance of a compliant financial reporting framework lies with the Accounting Officer within the Executive branch of leadership.

### Conclusion

In conclusion, the Office acknowledges and appreciates the role played by H. E. President of the United Republic of Tanzania Dr. Jakaya Mrisho Kikwete and his fourth phase government, the Honourable Speaker and the whole Parliament through its Oversight Committees, the Chief Justice and the whole Judiciary and the Development Partners for the much appreciated support extended to the Office in ensuring the existence of enhanced transparency, accountability which has ultimately led to improved governance in the collection and use of public resources in the country. Therefore NAOT pledges to continue providing efficient and value adding auditing services in order to enhance transparency, accountability and creation of value in collection and use of public resources in the public sector.

**Note:** The CAG reports will be available at the NAOT website [www.nao.go.tz](http://www.nao.go.tz) immediately after being tabled in the National Assembly. The tabling will be followed by a press conference where the CAG will highlight on the salient issues emanating from the reports.



*The Controller and Auditor General, Mr. Ludovick Utouh signs the Annual Audit Reports for the year 2012/2013 before submitting them to the President of the URT on March 28, 2014.*

# IMPROVE AUDIT PROCESS THROUGH THE UPDATING OF THE REGULARITY AUDIT MANUAL INLINE WITH THE AFROSAI-E REQUIREMENTS

*Mr. Abdallah Rashid Migila*  
*CPA-T, BA-AF (MUCCoBs)*  
*Auditor - Technical Support Service Unit*  
*National Audit Office of Tanzania*



*A photo of Management Meeting discussing the updated RAM and Teammate. The facilitation was done by Mr. Abdallah Migila. The meeting was held at Giraffe Hotel in February, 2014*

*The National Audit Office of Tanzania as a member of International Organisation of Supreme Audit Institutions (INTOSAI) is obliged to adhere to the International Standards of Supreme Audit Institutions (ISSAIs).*

“The National Audit Office of Tanzania (NAOT) is the Supreme Audit Institution (SAI) of the United Republic of Tanzania (URT) and is a member of the African Organization of Supreme Audit Institutions for English speaking countries (AFROSAI-E) which has developed a Regularity Audit Manual (RAM) as a working tool to be used by its members. Since member SAIs are required to use audit methodology described in the AFROSAI-E RAM, there was need therefore for AFROSAI-E member SAIs to customize and update their RAMs to be inline with the AFROSAI-E requirements”, said Mr. Ludovick Utouh.

## **Introduction of two modules in the Regularity Audit Manual**

The previous Regularity Audit Manual of the National Audit Office had no modules. It contained only two sections. Following the technical updates issue, the Regularity Audit Manual has now been divided into two modules. Module one deals with the institutional level of covering the following: ISSAI framework, Institutional Capacity Building Framework, Annual Overall Audit Plan of the SAI and Evaluating the Financial Reporting Framework. Module two is about carrying out of the regularity audit itself, which covers the following: overall considerations in performing a regularity audit, pre engagement activities, strategic



audit plan, detailed audit plan and field work, audit summary, audit conclusion and reporting, audit of consolidated financial statements and aggregation and audit of small entities.

## Risk matrix

A risk matrix is a tool used for risk assessment. It is a generic risk assessment. This has been designed to help in ranking auditees in terms of risk score (e.g. 50 points and above is high risk; 30 points to 49 is medium risk; below 30 points is low risk). This will also help in resources allocation (time and personnel with regards to the complexities of the entity operations). There are four indicators to consider for each government entity:

**Indicator 1:** The size of the auditee's total expenditure (carries 40 weights). There is a higher risk for auditees with higher expenditure. In circumstances where it is more appropriate, revenue figures may be used.

**Indicator 2:** The seriousness of reported items in the prior year's auditor's reports (carries 20 weights). The most serious reported issues are given higher rating. Qualifications / adverse or disclaimer opinions should carry the maximum weight. When the auditee was not audited in prior year(s), the rating should also be identified as high (5).

**Indicator 3:** Stakeholders' interest in the auditee (carries 20 weights). When there is more perceived interest, the higher the rating should be.

**Indicator 4:** Risk of fraud and adverse publicity (carries 20 weights). When the entity receives negative publicity or officers

have been implicated in fraud charges in the past, the entity would receive a higher rating. Other aspects such as non-compliance with laws and regulations can also be considered.

When completing the spreadsheet, the first column should include a listing of government entities considered for audit. It is important to include all the potential audited entities here. The risk ratings can be used to identify which ones to audit – if not all of them are audited in the year. Each entity should be given a rating for each indicator. The ratings should be given between 1 (for low risk) and 5 (for high risk). This is always to an extent based on subjective judgements, but SAls may identify some additional criteria for each indicator.

Consistent planning may be assisted by setting limits, for example a lower limit over which budget expenditure should have a high score of 5, and lower levels for scoring 4, 3, 2 and 1. This may be easier when quantitative aspects such as budgeted expenditure is scored.

### Customising the risk matrix

NAOT may decide to use its indicators or amend the above information to suit own circumstances. For example, when NAOT performs preliminary evaluations for the audited entities, results of these evaluations may be considered in calculating the rating of the entity. As such another indicator may be identified when preliminary evaluations indicate that an entity did not submit acceptable financial statements on the statutory deadline. The illustrated risk matrix is as follows:

	AUDITEES	Indicator 1			Indicator 2			Indicator 3			Indicator 4			Total score
		Fiscal budget			Prior year's auditor's reports reflect serious issues			Stakeholders' interest in the auditee			Risk of fraud and adverse publicity			
		Rating	Weight	Score	Rating	Weight	Score	Rating	Weight	Score	Rating	Weight	Score	
	MINIS-TRIES													
1			40	0		20	0		20	0		20	0	0
2			40	0		20	0		20	0		20	0	0
3			40	0		20	0		20	0		20	0	0
4			40	0		20	0		20	0		20	0	0
5			40	0		20	0		20	0		20	0	0
			40	0		20	0		20	0		20	0	0



	LOCAL AUTHORITIES													
1			40	0		20	0		20	0		20	0	0
2			40	0		20	0		20	0		20	0	0
3			40	0		20	0		20	0		20	0	0
4			40	0		20	0		20	0		20	0	0
			40	0		20	0		20	0		20	0	0
	PARA- STATALS													
1			40	0		20	0		20	0		20	0	0
2			40	0		20	0		20	0		20	0	0
3			40	0		20	0		20	0		20	0	0
			40	0		20	0		20	0		20	0	0
	OTHER ENTITIES													
			40	0		20	0		20	0		20	0	0
			40	0		20	0		20	0		20	0	0

## Further alignments with ISSAIs

More clarifications and references to ISSAIs have been considered. The following have been covered:

- Par. 1.5.1, ISSAI 1220 – includes more clarification on the role of the person responsible for the audit
- Par. 1.5.3, additional text on the engagement quality control review
- Par. 1.6, ISSAI 1260 – more details on communicating with those charged with governance now also including communication on deficiencies in internal controls.
- Par. 2.1.1, ISSAI 1220 – Documenting code of ethics considerations
- Par. 2.2.5, ISSAI 1300.6 – Considering risks identified during pre-engagement when the auditor has no option to withdraw from the engagement.
- PE 4. Competency Matrix – includes considering previous quality control findings
- Par. 3.3.2, transversal audit issues included in the text for Lead schedule
- Par. 3.3.3, including guidance on prior year's audit matters and communication with the predecessor auditor.
- Par. 3.3.10, ISSAI 1240, including par on management override and additional points added on the auditor's responses to the risks, when the misstatements are identified and on management representations.
- Par. 3.3.12, ISSAI 1550 to identify significant undisclosed related party transactions as significant risks and additional procedures for significant related party transactions
- Par. 3.3.13, ISSAI 1570 additional paragraphs relating to risks assessment on going concern and additional procedures when risks are identified. More information on disclosures by management.
- Par. 3.3.14, Identifying significant risks in relation to recent economic, accounting or other developments; additional examples of risks for which substantive procedures alone do not provide sufficient appropriate audit evidence
- SP 2. Lead schedule includes references to Transversal issues
- SP 8. Internal control checklist, combined question 10 into 11.
- SP 9. IT Internal control checklist included consideration for the centralised audit of application systems.
- Par 4.3.1, ISSAI 1500 – the objective of the auditor is clarified in relation to obtaining audit evidence
- Par 4.3.2, ISSAI 1330 – re-assessing preliminary control reliance
- Par 4.5, ISSAI 1540 – additional audit procedures on accounting estimates
- DPF 11 on Substantive analytical procedures – included the audit programme
- Par 5.1.1, ISSAI 1700 – clarification on considering disclosures in the Financial statement
- Par 5.1.2, ISSAI 1560 – detailing the procedures to be performed to audit subsequent events
- Par 5.1.3, ISSAI 1580; - clarification on actions when management's integrity is questioned and when management representations are given
- Par 5.1.5, ISSAI 1450; - considerations on evaluating the effect of misstatement
- AS 2. Management representation letter point 3 added
- Par 6.2.1, ISSAI 1700; explaining general purpose framework, fair presentation and compliance frameworks
- Par 6.2.2, ISSAI 1706 additional information on 'Other

matters' paragraphs; ISSAI 1705 clarification on disclaimer of opinions

- Par 6.2.3, ISSAI 1700 – disclosure when the report refers to both the national auditing standards and the ISSAIs; reporting considerations for fair presentation framework, and additions under the 'opinion' paragraph
- Par 6.2.4 Added guidance on working paper R 2. on Representation by audit management.
- Par 7.1 changed wording of the box on the applicability of the guidance on auditing consolidated financial statements
- Small entities guidance – changed the references to working papers and added the quality control questionnaires, review sheet and audit query.

## Materiality

The concept of materiality has been covered in detail. It includes explanations on overall performance, specific materiality and calculating amounts which are clearly trivial. This section also includes explanations on performance materiality (Par 3.2.3) and calculating amounts which are clearly trivial. In working paper SP 1, materiality was changed to include these additional calculations. In working paper DPF 4, sampling is updated to include reference to the performance materiality. The concept of materiality is more elaborated as follows:

### Overall Materiality (ISSAI 1320.10)

**Purpose:** Is used to identify what is significant in terms of the audit considering:

- **Quantitative factors** (materiality amount, size) and
- **Qualitative factors** (non-compliances, material control failures, fraud etc).

Materiality is identified based on the auditor's perception of the financial-information needs of users of the financial statements. At this stage there are no links to risk of material misstatement (RMM).

### Specific materiality for audited component ISSAI 1320 P7; 1320.10

Specific materiality may be computed, when:

- Requirements and key Legislative disclosures (related party transactions, remuneration of key management, research and consultancy costs etc.)
- Attention is focused on a particular aspect of operations (new hospital, census conducted etc)

- Calculating clearly trivial amounts ISSAI 1450.5.
- Calculating Performance Materiality ISSAI 1320.11
- Performance Materiality: Is a percentage of the overall materiality, which assists to determine the nature, timing and extent of audit procedures to be performed

### Clearly Trivial amounts:

Auditor has to accumulate misstatements other than clearly trivial. ISSAI 1450.5. The auditor may identify an amount below which misstatements would be clearly trivial. Their accumulation would not have material effect on the financial statements. ISSAI 1450.A2.

### Uses of materiality

As a guide in the course of audit in these areas (ISSAI 1320.5 and 6)

- Planning: Directing attention and audit work to significant, uncertain or error-prone components
- Fieldwork: Guiding in evaluating errors and misstatements,
- Reporting: Guiding in making decisions on the contents and classification of findings in the audit report.
- Detailed planning: Guiding in determining the nature, timing and extent of audit procedures.

### Documentation in relation to materiality:

- Basis of calculating Overall Materiality e.g. gross expenditure, net income, net assets
- Basis of selection and reasons
- Justification for percentage used
- Calculating Performance Materiality
- Calculating Clearly Trivial amounts
- Quantitative Materiality amount
- Qualitative factors
- Specific materiality for audited component ISSAI 1320 P7; 1320.10
- Revised materiality levels (overall and specific)

Table 2. SP 1 MATERIALITY COMPUTATION

[Note: the excel Lead schedule spreadsheets contain two separate sheets which should be completed during the interim audit and subsequently when the final financial statements are received

#### Basis for overall materiality

**For example 1% of gross expenditure is used for calculating overall materiality after transfer payments are deducted in line with NAOT Policy. Transfer payments are deducted when calculating materiality as these amounts will be audited separately as part of the receiving entity.**

#### Calculation of overall materiality

Guideline on percentages used for different benchmarks

Gross revenue / receipts	1-3
Gross expenditure	1-3
Total assets	1-3
Equity	3-5

#### Reconciliation to the Lead schedule (where necessary)

			Shs'000'
Basis used for overall materiality - Gross expenditure			
Adjustments ; Less Transfer payments			
<b>Amount used for calculating overall materiality</b>			

Selected overall materiality basis	% used as per benchmark above	Amount from financial statements (amount used for calculating overall materiality) Shs '000'	Overall materiality Shs '000'
Gross expenditure	I.e 1%		

Clearly trivial misstatement			
<i>[calculate the amount under which errors and misstatements are deemed to be clearly trivial]</i>			
Overall materiality Shs '000'	% used as per benchmark above	Clearly trivial cut-off	Clearly trivial cut-off
Shs '000'			
	<i>i.e 1%</i>		

Performance materiality		
Risk of material misstatements on a FS level	% used	Performance materiality Shs '000'
RMM is low	75%	
RMM is medium	50%	
RMM is high	25%	

Financial statement items which require smaller overall materiality than identified above:	Provide reasons for the specific materiality	Specific Overall materiality (60% of the overall materiality) Shs '000'	Specific performance materiality ( % used for calculating performance materiality * Specific Overall materiality) Shs '000'
<i>i.e Expenses related to National Census</i>	<i>i.e Interest from the public, donors and CSOs over fraud in census expenses</i>		

*i.e Matters of public interest  
Fraud indicators  
Issues of non compliance with laws and regulations*

## Financial reporting framework

Public sector auditors entities should identify and evaluate the relevant financial reporting framework the auditee used to prepare the financial statements. The evaluation should conclude whether the financial reporting framework is acceptable to prepare the financial statements and include considerations on:

- The purpose of the financial statements, for example, whether they are prepared to meet the common financial information needs of a wide range of users (general purpose financial statements) or the financial information needs of specific users (special purpose financial statements);
- The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement); and
- Whether law or regulation prescribes the applicable financial reporting framework.

### Evaluating the Financial Reporting Framework of Auditees

The technical updates have included guidance on evaluating the financial reporting framework in Module 1 of part 3 of the manual. The evaluation checklist is included as a working paper FRF 1. The annual overall audit plan includes reference to document the evaluation. par. 2.2.3 and 2.2.4 includes guidance on the pre-conditions for the audit and the financial reporting framework. AS 1. Disclosure checklist was extended by adding questions 1-3.

The financial reporting framework for auditees should be evaluated and there should be a confirmation whether it is acceptable. The acceptability of a financial reporting framework is decided based on the nature of the entity and the objective of its financial statements. Reference can be made to working paper financial reporting framework 1. Evaluating the financial reporting framework of the auditee.

### NAOT evaluation of the financial reporting framework

As the same financial reporting framework is normally applicable for a group of government entities, it should be cost effective for NAOT to evaluate the acceptability of the financial reporting framework centrally at the beginning of the annual audit cycle. This approach also assists in avoiding duplication of work and possible conflicting conclusions by different auditors.

The central evaluation may be done for all government ministries preparing financial statements by using IPSAS accrual basis. In addition, there may also be some additional requirements issued by the Accountant General. In this case NAOT may centrally conclude that the financial reporting framework is acceptable including the evaluation on whether the additional requirements are consistent with the requirements of the financial reporting framework prescribed by legislation. While some or all aspects may be considered centrally it still remains the responsibility of the auditor to evaluate the acceptability of the financial reporting framework.

The results of this central evaluation may be documented in the Annual Overall Audit Plan document of NAOT.

### General Issues

In this Regularity Audit Manual its working papers were re-numbered as per the audit process. In this RAM Para 1.5.3 includes extended explanations on engagement quality control reviews, specifically the fact that people assigned to do engagement quality control reviews cannot be the same as those doing monitoring reviews. Furthermore, specific reference was included to prompt auditors to also look at environmental regulations during the audit.

### Compliance with laws and regulations

References to ISSAI 1250 are included in the RAM with only references to ISSAI 4000-4200 to prompt auditors when they perform compliance audits. Objectives of regularity audit were amended to include more clarification on the scope of compliance audit within the manual in line with ISSAI 1250 par. 1.3.3.

### Conclusion

The NAOT with the support of AFROSAI-E, has been able to update the RAM which describes the NAOT regularity audit methodology. Since auditors are required to use the audit methodology described in the RAM, then teammate software has been customised with the changes incorporated in the RAM. By doing so, auditors will be able to document their audit work and review the audit work electronically using Teammate software.



# NATIONAL AUDIT OFFICE: AN INSTITUTION SUPPORTING CONSTITUTIONAL DEMOCRACY IN TANZANIA

*Mr. Henry Kitambwa*  
*LLB (Hons), LLM*  
*Head of Legal Unit*  
*National Audit Office of Tanzania*



*Parliament building of the United Republic of Tanzania*

When I was asked to write a brief article about the proposed Constitution in relation to the Office of Controller and Auditor General i.e. the National Audit Office, it took me three days to mind map what this brief article should be. I thought, should it be about what kind of independence this office must be guaranteed by the Constitution for it to discharge its function properly? I realized that this is well known and has been written by so many people including myself. So writing it would be like repeating what I had written. Or should I write about the yawn holes which the draft constitution has which would make this office fall short of the independence required? I realized that this is more or less like the first thought although it is in another angle that suits current atmosphere as Tanzania is now in the process of writing a new constitution. I was impressed by this thought, however, I decided to flush it because Mexico and Lima declarations articulate very well how nations' constitutions should be tailored to guarantee the independence of these type of offices. These declarations which are part of international laws through adoption by United Nations General Assembly Resolution A/66/209 of 22nd

December, 2011 further articulates very well the importance of independence for these type of offices for the enhancement of effectiveness, efficiency, transparency and accountability systems in any nation. Therefore these declarations should be made as a base and consulted so as to fill those yawn holes that are present in the draft constitution.

I mind mapped further and came up with the last thought, I asked myself, why this office was created in the first place, what was the mischief this creation tried to address and what is its importance to the Tanzanian public? Then I realized that if I write in line with this last thought I would address all my three thoughts. Then I ended my mind mapping and wrote this article in one hour.

The National Audit Office of Tanzania is a very important office; its main duty is to support constitutional democracy in this country. It was created only for such purpose and where in any nation there is absence or malfunction of this type of office such nation is devoid of constitutional democracy.

Constitutional democracy is a system of government whose governance mode is based on the consent of the people. The government operates in accordance with the majority rule. The people elect their representatives. These representatives make laws according to majority rule; however, their power to make these laws is limited to the supreme law of the land. This supreme law of the land is the constitution.

The constitution provides legal limitations to these representatives not to make laws that alienate the rights of the minority. It prohibits unlimited democracy and paves way to constitutional democracy by limiting the function of every one 'from the highest state authority to citizens and is superior to all decisions'. By so doing, the constitution secures 'the unalienable rights of every person'.

The National Audit Office of Tanzania supports constitutional democracy through auditing. Authorities/executives are required to comply with laws governing revenue collection and expenditure. Public Sector auditing is the source of government's effectiveness, efficiency, transparency and accountability. Through audit, the Tanzanian public is able to know how its resources were collected and spent. The outcome of the audit would show if the revenue collection and spending was in accordance with the law and value for money was realised. Through these Accounting Officers are made accountable for their actions. Auditing also guarantees public participation through representatives

(members of parliament) who use the audit reports to oversee the Accounting Officers and make them accountable to the public. This guarantees the public its social, political and economic rights which the supreme law of the land (the constitution) provides. In this way, the National Audit Office supports and enhances constitutional democracy which guarantees the rule of law.

In order for the National Audit Office to discharge this noble function perfectly, the supreme law of the land (the constitution) must guarantee its functional independence. This independence ranges from fixed, reasonable and uninterrupted tenure, prohibition against unjustified and unreasonable removal of the head of the office, financial and human capital independence to the presence of single independent legislation governing audit functions.

Through this functional independence, the National Audit Office would be able to discharge its audit function without fear or favour. Much as Tanzania is in the process of writing a new constitution, it is the duty of members of the Constitutional Assembly to make use of stipulations of the Mexico and Lima declarations as adopted by the United Nations General Assembly so that the National Audit Office is constitutionally capable of supporting constitutional democracy in Tanzania. Short of that, Tanzania's political, social and economic governance will be devoid of constitutional democracy.



## CONGRATULATIONS

Mr. Alcard Mumwi  
**Head of Information and  
Communication Technology  
National Audit Office of Tanzania**

Mr. Sigismund Kisunga  
**Resident Auditor - TREASURY  
National Audit Office of Tanzania**



*The Permanent Secretary of the Prime Ministers Office dealing with Regional Administration and Local Government, TAMISEMI has once again nominated Mr. Alcard Mumwi and Mr. Sigismund Kisunga as members of the Steering Committee for rolling out the Integrated Financial Management Information System (EPICOR 9.05) to Local Authorities with effect from January 1, 2014 for a period of two years. The Epicor System and its related ICT infrastructure were successfully installed and commissioned in the FY 2011/2012. Epicor has been in use in 133 LGAs effectively from July 1st 2012. Currently the Steering Committee realises the need for installation and commissioning of the Epicor System and ICT infrastructure in the new 35 LGAs.*

*Mr Alcard Mumwi is the Head of Information, Communication and Technology Unit (ICTU) and Mr. Sigismund Kisunga is a Resident Auditor (Treasury) in National Audit Office. Both were active members of this Steering Committee for two (2) years whose period ended on December 31, 2013. Because of their competence and commitment during their membership, the Permanent Secretary of TAMISEMI has nominated them to continue being members of the Steering Committee and the Controller and Auditor General has allowed them as per the Permanent Secretary's request.*

*The NAOT congratulates Mr. Alcard Mumwi and Mr. Sigismund Kisunga for the trust and confidence bestowed upon them and we wish them success in their responsibilities.*

# THE MOVE OF THE CAG TO AUDIT POLITICAL PARTIES



*The Secretary General of the Civil United Front (CUF), Hon. Seif Shariff Hamad (seated centre), poses for a group photo with the Controller and Auditor General, Mr. Ludovick Utouh (3<sup>rd</sup> seated from the left), during the exit meeting held after the completion of the audit of the party at the CUF Head Office in March, 2014.*

## **By Special Correspondent**

Historically, all over the world Supreme Audit Institutions (SAIs) like National Audit Office of Tanzania (NAOT) were established to undertake financial auditing function. Ultimately providing assurance that a government's financial statements present fairly in all material respects the financial position as at a specified date. Also, giving assurance on financial performance for the specified period according to the selected reporting framework. This assurance also covered the auditors' assessment as to whether the organisation audited had appropriate authority for all transactions undertaken and acted in accordance with relevant legislations.

Taking into consideration the changes in social demand; the demands on National Audit Offices' responsibilities have expanded to include considerations of how well organisations perform their work, typically looking at the economy, efficiency, and effectiveness (3Es) of service delivery. The stakeholders' demand did not end up in 3Es, rather kept on expanding to the extent of requiring auditors to take into consideration other aspects such as environmental issues, equity in service delivery and ethics parameters.

These changes have gone far to the extent of coming up with new legislations requiring NAOT to audit not only Government undertakings, but also operations of political parties. The spirit of the new legislations can be explained in a simplified version that it is important to have a regulated mechanism to oversee political parties financing. Without these mechanisms there is a high risk

of some political parties and potential candidates wholly and exclusively owning by unethical financiers who are dangerous to the survival of the society because of their personal interests.

## **Legislations guiding audit of political parties in Tanzania**

The statutory duties and responsibilities of the Controller and Auditor General (CAG) are given under Article 143 of the Constitution of the URT of 1977 (revised 2005), the Public Audit Act No 11 of 2008 together with other Acts. The specific responsibilities on the audit of political parties have been amplified in the Political Parties Act, 1992. Connected to the audit of political parties is an elections expenses audit which is governed by Election Expenses Act, 2010.

- **The Political Parties Act, 1992**

Section 4 of the Political Parties Act of 1992 establishes and gives statutory duties and responsibilities of the Office of the Registrar of Political Parties. The Registrar of Political Parties is the Chief Executive Officer of the Office. It is the statute that brings existence of political parties and gives elaborate general conduct throughout the lifetime of a political party. Section 13 of the same Act requires the CAG to undertake audit of political parties.

- **Election Expenses Act, 2010**

The Act gives provisions aimed at controlling the use of funds and illegal practices from the nomination process candidates, ought to be sponsored by political parties



throughout a general election or makes provisions to control use of funds during election campaigns by requiring each candidate and political party participating in the election to disclose the amount and sources of funds intended to be used as election expenses. The Act also has provisions for prohibited practices in the election process and the penalties thereof and restriction of foreign funding for election expenses. Section 19(4) of the Election Expenses Act, 2010, requires audits of election expenses to be undertaken by the CAG.

### Noted Challenges in the Audit of Political Parties

According to the provisions of the Political Parties Act, 1992, the CAG is required to audit all political parties with full registration. Again, according to the register of political parties maintained by the Registrar of Political Parties, there are 21 political parties with full registration.

There have been a number of common challenges noted during the audit of political parties. They can be grouped into legal and operational challenges.

### Legal Challenges

These are some of the challenges which were noted to have a root cause in the existing legislations. They include the following:

- Sect. 14 of the Political Parties Act, 1992, (revised 2009) requires the CAG to audit all political parties with full registration. This section did not take into consideration the traditional role of the CAG to audit public funds. This comes from the fact that some political parties which are fully registered do not use public funds because of not meeting the set criteria to access public funds.
- The Political Parties Act, 1992, requires the political parties to submit audited financial statements to the Registrar of Political Parties for publication not later than October 31 each year. This section did not consider the existence of other laws like the Public Audit Act, 2008, which has provisions for submission of audit reports. Also, this section did not take into consideration that political parties have different financial year end.
- Section 18 and 19 of the Election Expenses Act, 2010, does not provide the exact timing for submission of accounts to the CAG in connection with election expenses.

### Operational Challenges

- Operating without having a bank account

Section 15(1) of the Political Parties Act, 1992, requires every political party which has been fully registered, through its trustees, to maintain its bank account in which all the money received by the party shall be deposited. The funds expected to be deposited in this bank account include membership fees, voluntary contributions, proceeds from

investments, subventions from Government, donations and other sources. Contrary to the requirements of the law, four political parties out of nine sampled do not have bank accounts.

- Inadequate Maintenance of proper accounts:

It is the requirement of Section 14(1) of the Political Parties Act, 1992, that every political party, which has been fully registered, should maintain proper accounts. Out of the nine sampled political parties, seven did not maintain proper books of account as required by law.

- Accounts not prepared:

Section 14(1) of the Political Parties Act, 1992, apart from requiring proper maintenance of accounts, also requires political parties to prepare annual financial statements which are supposed to be audited by the CAG. 11 out of 21 fully registered political parties did not prepare financial statements.

- Challenges in Internal Controls:

Existence of effective internal controls within the administration of political parties is one of the key elements of good governance within the party. Essentially, internal control is a process effected by the political party's management, those charged with governance and other personnel tasked to provide reasonable assurance regarding the achievements of objectives in the reliability of financial reporting.

Generally, satisfactory internal controls are characterised by existence of policies and procedures that provide for appropriate separation of duties, existence of personnel qualified to perform their assigned responsibilities, sound practices to be followed by personnel in performing their duties and functions. These factors need to be supported by existence of strong governance tools which include internal audit function and strong audit committee. The sampled audited political parties have not established the strong internal audit functions and audit committees do not exist.

### CONCLUSION

While audit of political parties and election expenses is fundamentally understood to be very essential, it is an ambiguous concept among many key stakeholders. The success of this agenda will squarely depend on the cooperation the CAG will receive from political parties themselves.

As noted above, financial information about political parties are incomplete across parties and it is challenging to confidently give audit assurance on the fair presentation of the parties' financial statements.



# THE AUDIT REPORT OF THE FUTURE



*A section of NAOT staff during quality review session of MDA reports held at the National Audit Office Boardroom at the Head Office in February, 2014.*

The June 2013 meeting of the International Auditing and Assurance Standards Board (IAASB) was almost entirely devoted to the finalisation of the exposure draft package on auditor reporting. This critical consultation is the latest stage in the IAASB's response to the global financial crisis and specifically to requests from investors for more informative audit reports. Given many regulators that are also examining auditor reporting, it is vital that the IAASB exerts leadership in this area to maintain global comparability of reports – one of the key investor's objectives.

The exposure draft draws from the work undertaken in the 2012 invitation to comment, and the extensive feedback and outreach. It is fair to say that there were mixed views expressed on some of the proposals – especially in the area of auditor commentary, where there was a real concern from business that auditors should not be providing original information about the company within the auditor report.

This latest stage looks to reconcile some of the views expressed and really moves into 'operationalising' the concepts. The concept of commentary by the auditor, one of the key user requests, remains, but is rebadged 'key audit matters' to emphasise that the areas discussed relate to the audit (i.e. firmly within the remit of the auditor), rather than the broader business (where management will provide commentary). This does not mean that the new section of the report will be simply 'auditor-

***ACCA's Sue Almond reports on current moves to make auditor reporting more informative, relevant and transparent for investors***

speak' – far from it. The areas of the audit that are judged to be of most significance are quite likely to be the risk or judgmental areas where users have been asking for more information.

## **DEVELOPING A 'FILTER'**

One of the big challenges when developing the rules on key audit matters has been the 'filtering' process – how to really highlight the key matters without overburdening the report with detail or boilerplate language. It is easy in concept to refer to 'risk areas', but there may be many where in fact both the company and the auditor's processes have adequately covered them. Is a 'shopping list' of risks really what users want – and how can the auditor then avoid something that is really significant getting lost?

It is likely that the examples of key audit matters in the exposure draft will draw much attention and comment. They have been deliberately drafted to illustrate some of the different potential approaches, so the feedback on the relative value will be helpful. It will also be interesting to see the outcome of any pilot activity, whether public, as in the case of Vodafone's new UK-style auditor's report, or private, as envisaged in IAASB's planned pilot project.

## CONCERN ABOUT 'GOING CONCERN'

Another area where more reporting is proposed is 'going concern'. There was much criticism of the lack of 'going concern' reporting in the financial crisis, and the IAASB has looked to be more transparent in this area.

What is interesting, though, is that to a large extent, auditors are limited in what they can actually say because of the way that accounting standards are drafted. The 'going concern' basis of accounting would only not be used where management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. This is a high bar – sometimes described as 'the liquidator is already in the taxi'. And it is really management that should identify and disclose any material uncertainties over the business's future, rather than this being initiated in the auditors' report.

The 'going concern' discussion also raises an issue that is not within the IAASB's remit – the question of liability. In many countries there is a natural tension between the more subjective, forward-looking information and the auditor liability regime. This is something that respondents will need to bear in mind when considering what will really be achievable.

This is a great step forward for the auditing profession. The 2012 invitation to comment drew broad feedback, and this exposure draft will need similar input from a broad range of stakeholders if it is to progress to a package of standards that result in auditors providing more transparent and relevant information.

### ACCA debate on audit changes

*Sajjad Karim, member of the European Parliament for North West England and rapporteur for the JURI (legal affairs) committee on the European Union (EU) audit proposals, was in New York in April on a fact-finding visit to understand more about the US and the global audit market, to consider the broader impact of the proposals. ACCA hosted a roundtable during this visit, which attracted a wide range of attendees. Not surprisingly, much of the debate focused on critical EU proposals such as mandatory auditor rotation, tendering and non-audit services.*

*There was very strong disagreement with mandatory audit rotation across almost all sectors. In fact, the day before the roundtable the Audit Integrity and Job Protection Act, which would prohibit any proposed rules on this, was introduced in the US Congress, making this a most topical debate for all involved. The practical impacts on global businesses of potentially different mandatory rotation requirements in different jurisdictions was also highlighted.*

*The roundtable participants expressed strong support for the adoption of global standards where they exist, such as ISAs (International Standards on Auditing) and the International Ethics Standards Board for Accountants (IESBA) Code of Ethics.*

*MEP Karim published his final proposed amendments for the EU Audit proposals for vote just after the roundtable. These are very much in line with the position ACCA took on the original proposals almost two years ago, supporting the adoption of global standards and strengthening the role of the audit committee on the appointment of auditors and approval of non-audit services, as well as recognising the critical role of professional bodies in maintaining audit quality, particularly in the unlisted arena.*

### Arnold Schilder CHAIRMAN, IAASB

'The IAASB has taken a leadership role in developing the auditor reporting proposals, and now everyone has a role to play in making the changes to auditor reporting a reality. We have listened to the feedback from the previous consultation and believe that we have a proposal that is responsive to user needs, while taking account of some of the very real challenges. We will be talking about auditor reporting everywhere, and seeking as much feedback as possible to allow us to finalise these proposals as soon as possible.'

### CHAIRMAN, IAASB Brendan Murtagh FCCA

IAASB BOARD MEMBER AND ACCA PAST PRESIDENT

'While it was some of the very high-profile failures that prompted the initial questions around auditor reporting, this development will enhance auditor reporting for all businesses. In my view, we are likely to see many progressive private entities seeing the value in a more transparent report – so while the key audit matters disclosure is only mandated for listed entities, it is likely that in some sectors it will gain traction. The real practical challenge in all cases will be concise and relevant discussion of what are often very complex areas.'

### Paul Lee DIRECTOR, HERMES EQUITY OWNERSHIP SERVICES

'Investors welcome the prospect of audit reports that are actually worth reading – reports that deliver something of substance more than simply a tick or cross. But in order for the new proposals actually to deliver, the profession needs to rise to the challenge; they need to produce reporting that is not boilerplate but which reflects the specific circumstances of the audited company and the issues in delivering an effective audit of that specific entity. Investors look forward to seeing the profession rising to this challenge.'

**Source:** This article was written by Sue Almond, the Technical Advisor to IAASB, Board Member, Brendan Murtagh in Accountancy Future Critical Issues for Tomorrow's Profession Edition 7 of 2013



# THE LEGACY EVERY LEADER WOULD WISH TO HAVE

Tanzania Union of Government and Health Employees (TUGHE) - NAOT branch, expresses its sincere gratitude to the Controller and Auditor-General (CAG) of the United Republic of Tanzania, Mr Ludovick Utouh, for his honorary and exemplary public service. His ability to demonstrate self-commitment, professionalism and integrity has been a stepping-stone towards the overall enhancement of accountability in the country and hence restructuring the conduct of the majority of public servants.

Mr Utouh has set highest accountability standards for central and local government authorities and specifically among the employees of the National Audit Office of Tanzania (NAOT).

Identifying Mr Utouh's legacy will give us courage to reflect on his performance of over seven (7) years tenure at the NAOT. Almost all employees of NAOT agree that during Mr Utouh's tenure, the focus has been on realising the vision.

Mr Utouh often puts himself in the shoes of his employees, he is a good listener and learner, he wants to understand employees and learn from them as he provides support and guidance in realising NAOT vision. He interacts with his colleagues in a unique way.

Mr Utouh has managed to create a conducive working environment which not only benefits the government, but also individual employees. During the restructuring of the office, Mr. Utouh established a new organisation setup and promoted several employees to fill senior managerial posts. He has also transformed the NAOT auditors from their traditional vouching audit approach to modern risk-based audit approach. This transformation has empowered employees and improved their output.

Moreover, the NAOT Workers Council has been able to conduct statutory meetings as per agreed schedules during his tenure. The meetings deliberated on issues affecting employees' welfare and accorded employees an opportunity to air their views. And the management considered and promptly work on the workers challenges. These meetings brought about solidarity between the staff and management.

To assist staff to meet their financial obligation, Mr. Utouh came up with an idea of creating the NAOT Revolving Fund and a Staff Welfare Fund.

Another area of credit to Mr Utouh is his tireless commitment to capacity building initiatives. It's NAOT's priority every year to ensure its employees are up-to-date in all professional and technological advancements. This is done by providing them with appropriate training and workshops as per needs and gaps identified. To make this sustainable, Mr Utouh has introduced an idea of building an audit training centre at Gezaulole, Kigamboni Dar es Salaam. These innovations have greatly contributed much in improvement to NAOT's performance and meeting stakeholders' expectations. He championed the enactment of the Public Audit Act (PAA), construction of the regional offices and massive shift of auditors from auditees' premises.

He is also enhancing NAOT's independence. Today NAOT boasts having its own office building in more than ten (10) regions which are all equipped with modern equipment.

Mr Utouh has made it possible for the office to join the UN board of auditors. This assignment is expected to take six years effective from July 1, 2012.

We at TUGHE-NAOT Branch wish you all the best in your endeavours.

**TUGHE: "Solidarity, Forever"**



**OFISI YA TAIFA YA UKAGUZI  
WA HESABU ZA SERIKALI**

**Mr. Ludovick S. L. Utouh  
CONTROLLER AND AUDITOR GENERAL  
2006 - CURRENT**



## Dynamic Legacy

## Leadership

- Dynamic and Visionary
- National and International Recognition
- Staff Growth, Development and Motivation
- Enhance Accountability and Good Governance



## EVENTS IN PHOTO



*H.E. Dr. Jakaya Mrisho Kikwete, the President of URT, poses for a group photo with the NAOT Management Team after the submission of the CAG Reports on 20 March, 2014*

*British High Commissioner in Tanzania, Ms. Dianna Melrose (seated 1<sup>st</sup> from left) poses for a group photo with NAOT management members during an official meeting. Others seated are the Contoller and Audit General, Mr. Ludovick Utouh (centre) and Mr. Marshall Elliot from DFID - Tanzania (first right). The meeting was held at the National Audit Office Head Quarter on May 2, 2014.*



*A section of NAOT staff during the UN PKO training held at Kunduchi Beach Hotel and Resort in March, 2014. The training was facilitated by two experts from China National Audit Office (SNAO)*



## EVENTS IN PHOTO

*A group photo of NAOT staff during a training on fundamental of Performance Audit held at JB Belmonte Hotel in March, 2014. The training was facilitated by Canadian Comprehensive Audit Foundation (CCAF)*



*NAOT women staff pose for a group photo during the Women Day Celebrations held at Mwembe Yanga Grounds, Dar es Salaam on March 8, 2014*

*The CAG, Mr. Ludovick Utouh (4th seated from right) poses for a group photo with other heads of oversight institutions. On his right is Ernest Mangi, IGP and on his left is Dr. Elieza Feleshi, DPP. Seated, 2nd from right is Mr. Edward Hosea, Director General of PCCB.*



# DRIVING AUDIT QUALITY



*A section of NAOT staff during Quality Review session of the CAG Annual General Reports for the year 2012/2013 held at the Giraffe Hotel in February, 2014. On the left is John Sabuni (RA) and on the right is Josiah Kuruchumila (RA).*

The reputation of the audit profession has suffered over the past decade. Maintaining audit quality and restoring trust after the global financial crisis and corporate collapses has thus become a priority, with regulators introducing reforms aimed at re-establishing confidence in the financial reporting system.

Policy makers have sought to improve the effectiveness – and perceived effectiveness – of audit (and auditors) with the introduction of regulatory changes such as the Sarbanes-Oxley Act (SOX) in the US, the UK Corporate Governance Code and CLERP 9 in Australia, as well as reports such as the International Auditing and Assurance Standards Board's (IAASB). A Framework for Audit Quality (2013); the Financial Reporting Council's (FRC); The Audit Quality Framework (2008) in the UK; and Audit Quality in Australia – A Strategic Review (2010) from the Australian treasury.

Research has shown that stakeholders' perceptions of audit quality are critical to maintaining effective and efficient capital markets, and to building confidence and trust in financial reports which, in turn, is crucial for the economic success of

**Professor Nonna Martinov-Bennie and associate Professor Alan Kilgore of Macquarie University describe Australian CFOs' perceptions of audit quality**

both established and emerging companies. It is also important for firms to deliver high-quality audit; it protects brand's name, reputation and, importantly, the ability to attract new clients and retain existing ones.

CFOs' perceptions of audit quality are particularly important as recent research suggests that management continues to be the driving force behind auditor appointments and terminations. This makes the views of key members of the management team, particularly CFOs' perceptions, very important.

## PURPOSE AND METHODOLOGY

To examine what drives audit quality from the perspective of CFOs we conducted an online survey focusing on 10 audit quality attributes identified in prior research. These are summarised overleaf.



The survey was conducted between May and June 2013 with Australian CFOs sourced from ACCA's database. This interactive survey was designed to elicit CFOs' ranking of the relative importance of each attribute in their assessment of audit quality.

The relative importance of each audit quality attribute is measured by a relative importance score (RIS). RIS is a ratio indicating that an attribute with a score of 10 is twice as important as an attribute with a score of 5, so the higher the RIS, the more influential, or 'valued', the attribute.

The results are shown graphically in Figure 1 below.

## KEY FINDINGS

### Audit firm size

This attribute is perceived by CFOs to be the most important driver of audit quality (RIS 15.13). A number of different explanations have been offered for the strong association between audit firm size and audit quality, namely that large firms:

- \* have a greater reputation at stake, which gives them an incentive to be more independent
- \* are able to give their clients' financial statements a higher degree of credibility
- \* have greater resources at their disposal and so can attract employees with superior skills and experience, hence are better able to detect errors and generally provide a better service.

### Partner/manager attention to audit

This attribute (RIS 12.50) concerns the level of control exercised over the audit process by the responsible partner. It was perceived by CFOs to be second only to firm size regarding its importance as a driver of audit quality. These results demonstrate that the majority of CFOs believe that close monitoring of the audit process by the audit partner has a beneficial effect on the audit team and hence on the quality it delivers.

### Provision of non-audit services (NAS)

NAS is commonly regarded, at least by regulators, as a potential threat to audit quality because of its perceived effect on auditor independence. This attribute scored the third highest RIS (12.19), indicating that CFOs regard it as having the potential to influence audit quality significantly, and believe that when a higher percentage of fees are derived from non-audit services, a threat is posed to audit quality.

### Audit partner knowledge about client industry

CFOs also attached importance to this attribute (RIS 10.21), ranking it fourth among the 10 attributes investigated. The positive association between this attribute and audit quality is consistent with the FRC's Audit Quality Framework, which identifies the skills and personal qualities of audit partners as an important driver of audit quality.

### Communication between audit team and client management

CFOs ranked this attribute fifth in importance (RIS 10.03) suggesting that CFOs perceive it to be of some significance for audit quality. Since the audit process frequently involves negotiation between auditor and client it is not surprising to find communication between audit team and client management being accorded some significance by CFOs as a driver of audit quality.

### Audit firm industry experience

With an RIS of 9.98, this attribute received a middle-order ranking of its perceived importance. This result, to some extent, reinforces the results of prior research that industry experience enhances audit quality. The proposition here is that industry experience gives an auditor a better knowledge of the relevant industry, with consequent beneficial effects on their judgment and hence on the audit quality that they are able to provide.

### Audit manager knowledgeable about client industry

This attribute (RIS 9.64) was perceived by CFOs to be less important for audit quality than the attribute 'Audit partner knowledgeable about client industry' (RIS 10.21). An explanation may derive from CFOs' greater proximity to, and awareness of, the audit process, and the fact that they have direct dealings with both the audit manager and the audit partner.

### Very knowledgeable audit team

CFOs ranked this attribute only eighth (RIS 9.13) among the 10 attributes investigated. These results indicate that CFOs in general attach only modest importance to this attribute and again reinforces the notion that this may be because of CFOs' greater proximity to, and awareness of, the audit process and more direct dealings with the senior members of the audit team, namely the manager and the partner.

### Audit partner tenure

This attribute has the second-lowest RIS (5.96) – a clear indication that this is perceived by CFOs as relatively less important for audit quality. This is an interesting and significant result given the recent changes introduced by regulators and standard-setters in numerous jurisdictions. For example, the International Ethics Standards Board for Accountants Code requires that audit partners be rotated after a prescribed number of years, usually restricting a partner's association with a particular client to seven years. This is an important finding, since CFOs are close and astute observers of their firms' audit arrangements.

### Audit quality assurance review

This refers to the perceived effect on audit quality of mandatory regular inspections by bodies such as the Australian Securities and Investments Commission and the Public Company Accounting Oversight Board in the US. The intent behind these external inspections is to reinforce public confidence in audit

quality. Since these inspections are costly to audit firms, it is important to establish whether they are effective. This attribute received the lowest RIS, which suggests that initiatives of this kind are perceived by CFOs to be of relatively limited value.

IMPLICATIONS

The CFOs’ perceptions of the importance of the surveyed attributes have significant implications for regulatory and professional bodies engaged in policy making and should prove useful in informing regulatory and professional bodies when formulating future policies for promoting audit quality.

First, audit quality assurance reviews are generally emphasised in regulatory frameworks as an attribute with significant consequences for audit quality. However, the CFOs surveyed perceived ‘Audit quality assurance review’ as the least important of the 10 attributes examined. The emphasis on this attribute by regulatory bodies may be misplaced, and should be reconsidered given the associated significant cost to audit firms.

Second, regulators usually place the length of the audit partner’s tenure high on the list of attributes with a significant impact on independence and audit quality, but ‘Audit partner tenure’ received the second lowest RIS score, suggesting that

CFOs perceive restricting tenure length to have relatively little importance.

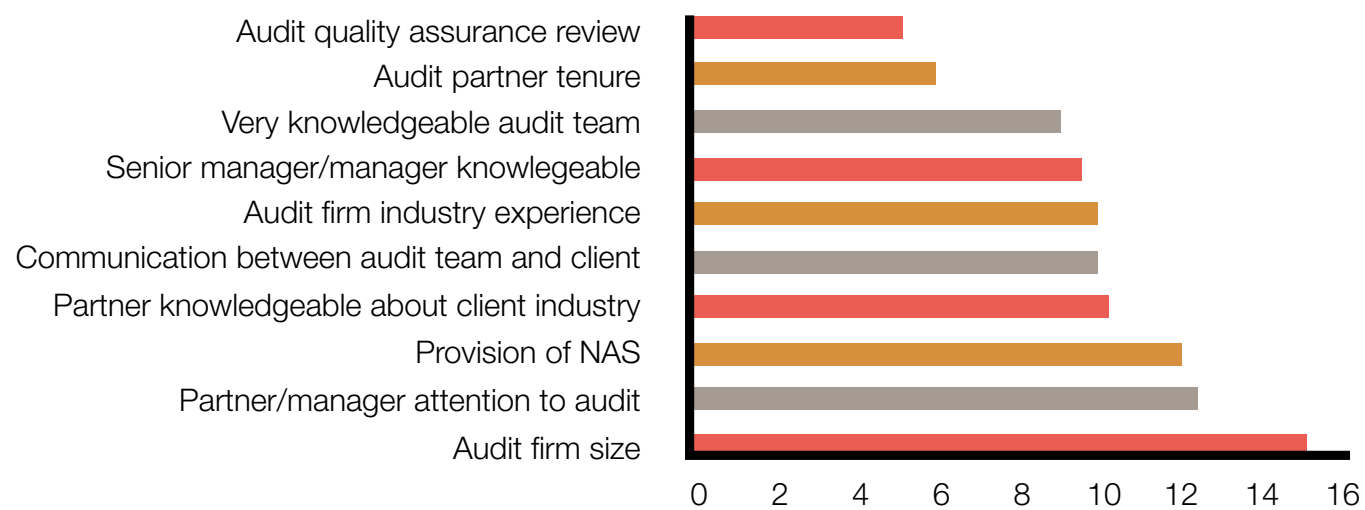
Third, while the surveyed CFOs perceive both firm and team attributes to be significant drivers of audit quality, they place more importance on team attributes than firm attributes. The team attributes ranked in the top five are ‘Partner/manager attention to audit’, ‘Partner knowledgeable about client industry’ and ‘Communication between audit team and client management’.

Finally, the findings of this study may also be of interest to firms wishing to promote themselves to potential clients. Despite the fact that audit market participants tend to rely on their assessment of quality attributes they can observe (for example, firm size), this.

The emphasis on ‘audit quality assurance review’ by regulatory bodies may be misplaced and should be reconsidered.

study suggests that making other attributes, and especially audit partner attributes, more publicly visible to existing and prospective clients may be a highly effective means of demonstrating and signalling audit quality. By emphasising these attributes, audit firms may be better able to differentiate themselves in the eyes of audit market participants.

FIGURE 1: AUDIT QUALITY ATTRIBUTE RELATIVE IMPORTANCE SCORES (RIS)



**Source:** This article was written by Professor Monna Martinor - Bennie and Associate Professor, Alan Kilgore of Macquarie University in Accountancy Critical Issues for Tomorrow’s Profession Edition 8 of 2014.





# FRAUD PREVENTION AND DETERRENCE

## Fraud Risk Assessment Process and Documentation

*Mr. Karim Selemani*  
*ADA, CPA, CFE*  
*Auditor – Forensic Audit Unit*  
*National Audit Office of Tanzania*



*The Controller and Auditor General (CAG), Mr. Ludovick Utouh (seated centre), poses for a group photo with facilitators and participants during the Forensic Audit Training held at Ubungo Plaza in January, 2014. This training was facilitated through STACA project*

### Definition and Categories of Fraud

Before discussing deeply on the conduct of fraud risk assessment it is worth recalling the definition and categories of fraud.

“As a broad legal concept, fraud describes any intentional deceit meant to deprive another person or party of their property rights. In the context of auditing financial statements, fraud is defined as an intentional misstatement of financial statements (Elder J Randal et al).

Fraudulent Financial Reporting and Asset Misappropriation are two main categories of fraud. Corruption adds to these two categories as a third type of fraud. Fraudulent Financial Reporting is an intentional misstatement or omission of amounts or disclosures with the intent of deceiving users. Misappropriation of assets is fraud that involves theft of an entity’s assets; which normally involves employees and others in an organisation. Corruption is a misuse of entrusted power for private gain.

Fraud has been a persistent problem that results into severe financial losses globally. Responsibility of preventing and detecting fraud as per ISA 240 lies with the management and

those charged with governance. However, the public links the accounting and auditing profession with fraud deterrence, fraud detection, and fraud investigation. In reality oversight bodies, management, internal auditors, employees, external auditors, and forensic investigators have a distinct role in fraud deterrence, fraud detection, and fraud investigation.

“Fraud prevention requires a system of rules, which in their aggregate, minimises the likelihood of fraud occurring while maximising the possibility of detecting any fraudulent activity that may transpire. The potential for being caught often persuades likely perpetrators not to commit fraud. Because of this principle, the existence of thorough control system is essential to fraud prevention” (2010 Fraud Examiners Manual International Ed).

There are many things that organisations can and should do to minimise the risk that fraud can occur and go undetected. A fraud risk assessment can be a powerful proactive tool to both management (fraud risk assessment team) and external auditors in the fight against fraud for any organisation.

## Fraud Risk Assessment

Fraud risk assessment is a process aimed at proactively identifying and addressing an organisation's vulnerabilities to internal and external fraud. Through a fraud risk assessment, the organisation is able to identify where fraud is most likely to occur and considers proactive measures to reduce chances for its occurrence. This assessment can help the organisation improve communication and awareness about fraud, identify activities that are most vulnerable to fraud, pin-point who puts the organisation at the greatest risk, develop plans to mitigate fraud risk and develop techniques to determine if fraud has occurred in high risk areas.

## Fraud Risk Assessment and the Audit Process

Fraud risk assessment can be used in the annual audit planning process. This tool should drive thinking and awareness in the

development of audit programs for areas that have been identified as having a moderate to high risk of fraud.

The result of fraud risk assessment can help auditors to design audit procedures in a way that enables them to look for fraud in known areas of high risk.

## Conditions for Fraud and Risk Assessment Process

Auditors are responsible for assessing the risk of fraud and detecting material misstatement when auditing by considering fraud risk factors. According to ISA 240, Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. In his research Donald Cressey identified three conditions for fraud as Incentives or Pressure, Opportunities and Attitude or Rationalisation.

Table 1. Examples of Risk Factors for Financial Reporting

Three Conditions of Fraud		
Incentives/Pressure	Opportunities	Attitudes/Rationalisation
Management or other employees have incentives or pressure to materially misstate financial statements	Circumstances provide an opportunity for management or other employees to misstate financial statements	An attitude, character, or set of ethical values that allow managers or other employees to intentionally commit a dishonest act, or they are in an environment that imposes sufficient pressure that causes them to rationalise the committing of a dishonest act
Examples of Risk Factors		
Financial stability or profitability is threatened by economic, industrial, or entity operating conditions	Significant accounting estimates involve subjective judgements or uncertainties that are difficult to verify.	Inappropriate or ineffective communication and support of the entity's values.
Excessive pressure for management to meet certain requirements.	Ineffective board of directors or audit committee oversight over financial reporting.	Known history of violations of securities' laws or other laws and regulations.
Management or the board of directors' personal net worth is materially threatened by the entity's financial performance.	High turnover or ineffective accounting, internal audit, or information technology staff.	Management's practice of making overly aggressive or unrealistic forecasts to analysts, creditors, and other third parties.

## B. Risk Factors for Misappropriation of Assets

### i. Incentives or Pressure

Employees with excessive financial obligations or who live beyond their means may steal to meet their personal needs. Likewise, dissatisfied employees may formulate revenge by attacking their employers through stealing.

### ii. Opportunities

Weak internal controls create opportunities for theft. Valuable assets, including cash, easily accessed without proper controls may create greater opportunities for misappropriation. Lenient checks and balances create misuse of organisation's assets such as usage for personal benefits.

### iii. Attitudes or Rationalization

Management's attitude towards controls and ethical conduct may allow employees and managers to rationalise theft of assets. Fraudsters may steal to compensate what they think they deserve and others may convince themselves that they will repay.

### Dear Readers

The Editorial Board of the Auditor General Journal invites comments, articles, news and feedback from our esteemed readers to enable us to enrich and improve the quality and content of the journal. Such information will be published at the discretion of the Chief Editor.

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Website: www.nao.go.tz



**Table 2. Examples for Misappropriation of Assets**

Three Conditions of Fraud		
Incentives/Pressure	Opportunities	Attitudes/Rationalization
Management or other employees have incentives or pressure to materially misstate financial statements	Circumstances provide an opportunity for management or other employees to misstate financial statements	An attitude, character, or set of ethical value allow management or other employees to intentionally commit a dishonest act, or they are in an environment that imposes sufficient pressure that causes them to rationalise the committing of a dishonest act
Examples of Risk Factors		
<p>Personal financial obligations create pressure for those with access to cash or other assets susceptible to theft to misappropriate those assets</p> <p>Adverse relationship between management and employees with access to assets susceptible to theft motivate employees to misappropriate those assets. Examples:</p> <ul style="list-style-type: none"> <li>- Known or expected employee layoffs</li> <li>- Promotions, compensation, or other rewards inconsistent with expectations</li> </ul>	<p>Presence of large amounts of cash on hand or inventory items that are small or high value, or are in high demand.</p> <p>Inadequate internal control over assets due to lack of:</p> <ul style="list-style-type: none"> <li>- Appropriate separation of duties or independent checks</li> <li>- Job applicants screening for employees</li> <li>- Mandatory vacations for employees with access to assets</li> </ul>	<p>Disregard for the need to monitor or reduce risk of misappropriating assets. Disregard for internal controls by overriding existing controls or failing to correct known internal control weaknesses.</p>

### Reporting the Results of Fraud Risk Assessment

There is no accepted method of reporting fraud risk assessment. Each organisation has its own environment; hence the report can be tailored to suit a particular organisation. However it is recommended to use a framework for performing, evaluating,

and reporting on the results of fraud risk assessment within an organisation. The table below provides one of the reporting frameworks fraud risk assessment team which auditors can use for reporting the result of fraud risk assessment process.

Identified Fraud Risks and Schemes	Likelihood	Significance	People and / Or Departments	Existing Anti-fraud Controls	Controls Effectiveness Assessment	Residual Risks	Fraud Risk Response
Financial Reporting:							
Misappropriation of Assets:							
Corruption:							

### Conclusion

Every organisation is vulnerable to fraud; there is no organisation that has immunity to such risk. Given that fraud risks continually change, it is, therefore, important to think about a fraud risk assessment as an ongoing and continuous process.

# MAKE A HEALTHY LIFESTYLE CHANGE TO AVOID CATCHING CANCER

*Ms. Sarah Reuben  
MBA-CM, B.A PRA  
Information Officer  
National Audit Office of Tanzania*

Incidences of cancer have increased dramatically in the past two decades and mostly is diagnosed in its late stages of development. Despite recent advances, a large number of people identified suffering from cancer or die from the disease primarily because of limited knowledge and information on prevention and also lack of effective early detection, diagnosis and treatment strategies.

The National Audit Office of Tanzania (NAOT) has more than 800 employees, therefore the promotion of good health, provision of health education, assistance in the prevention of diseases particularly dangerous diseases such as cancer should be the management's priority.

It is believed that more than four in every ten (10) cases of cancer could be prevented by changes to lifestyle while thousands more lives could be saved every year if the disease was detected and treated at an earlier stage. But of course it's not that simple. There are many reasons why people might not make a healthy lifestyle change or go to the doctor to get regular check, one of the main reason is lack of awareness, not knowing where to seek support and fatalistic attitudes towards cancer.

However, it is significant to remember that NAOT employees are coming from different cultural and socio-economic backgrounds, therefore possibly they will have very different knowledge and attitudes about cancer and what a healthy lifestyle means.

To make the greatest possible impact in defeating cancer at the NAOT, we need to ensure that every employee gets the right information and support he need to help make positive changes for the sake of their better health. That's why we're going to use the Auditor General Journal as one of the initiative to create basic knowledge awareness and through it to raise cancer awareness among NAOT employees and our stakeholders. Below is a list of foods which have scientifically been proved reduce cancer development.

- **Fiber containing foods**

These are vegetables, fruits, whole grains, legumes (such as beans, chickpeas, peas and lentils) and herbs. These foods prevent colon and rectal cancer. There are two types of fibers that is soluble and insoluble. Insoluble fiber helps reduce the transit time of food in the digestive system, and

reduces ones exposure to toxic and carcinogenic factors. Soluble fibers are fermented by bacteria in the colon and become short chain fatty acids, which have a positive effect on the colon cells.

- **Fruit and vegetables**

Fruits and vegetables apparently prevent cancer of the mouth, pharynx, larynx, esophagus and stomach.



Fruits most likely also protect against lung cancer. Fruits and vegetables contain plenty of components that help prevent cancer such as vitamin C and beta-carotene, which help fight free radicals that cause damage to the DNA of the cell. This can lead to cancerous transformation, the process by which normal cells becomes a cancer cell. Moreover, fruits are relatively low in calories, so they help to maintain a healthy body weight, a factor which by itself was found to have great importance in cancer prevention.

- **Vegetables and fruits that contain beta-carotene**

These are carrots, squash, sweet potatoes, mangoes, loquats, peaches, apricots, cantaloupe melon and more. These apparently prevent esophageal cancer. Beta-carotene is a natural pigment found in food. It plays a significant role in communication between cells that can help prevent cancer, as well as significant antioxidant. Additionally, this component is called pro-vitamin A, because it is converted by the body to vitamin A, which is important to normal function of the immune system and the operation of enzymes that work to delay cancer.

- **Vegetables, fruits rich in vitamin C and Cabbage family vegetables**



These are turnips, roquette, radishes, peppers, cabbage, cauliflower, brussels sprouts, mustard greens, broccoli, spinach, tomatoes, citrus fruits, kiwi fruit, guava and strawberry. These types of foods prevent esophageal cancer and also prevent various cancers and contain anti cancer components that remove pollutants and carcinogens and thus effectively protect against many types of cancer.

- **Onion family vegetables**

This group of food stuffs includes onion, spring onions, scallions, chives and leeks. They apparently prevent stomach cancer and lung cancer. Vegetables from this family contain sulphur compounds that encourage creation of protective enzymes that neutralise carcinogens and thereby protecting against stomach cancer. They also contain quercetin which is especially protective against lung cancer.

- **Garlic**

This food stuff apparently prevents colon and rectal cancer. Garlic contains a unique sulphur compound called allicin. This compound protects colon cells from the toxic effects of cancer-causing chemicals, and even works to stop growth of cancer cells that have already begun to develop. In addition, it has been found that garlic works to reduce inflammation in the body that is linked to the development of cancerous processes.

- **Vegetables and fruits rich in lycopene**

This list of food stuff includes tomatoes (tomato paste as well), watermelon, cantaloupe melon, guava, pink grapefruit and blood orange. Apparently they prevent prostate cancer which is a main threat to most grown-up men. Lycopene

is considered to have powerful antioxidant capabilities. It also inhibits the proliferation of cancer cells, enhances the immune system, and like garlic, reduces inflammatory processes in the body.

- **Selenium rich foods**

This list of food stuff includes tuna fish, egg yolk, chicken liver and Brazil nuts. These also prevent prostate cancer. One possible explanation relates to the involvement of selenium in the creation of a certain antioxidant enzyme which is naturally created in our bodies. Thanks to this enzyme, there is a decrease in the activity of free radicals that damage the DNA of the cells.

- **Foods that contain folic acid**

These are whole grains, green leafy vegetables (spinach, parsley, dill, cabbage, lettuce, broccoli) and beetroot. They prevent pancreatic cancer. It is believed that the mechanism of the folic acid, which belongs to the group of B vitamins, based on delaying cancer-causing genes. In addition, folic acid plays an important role in the production of DNA, as well as preventing cell changes that turn it from normal cell to a cancer cell.

- **Foods that contain calcium**

This group of foods includes milk and milk products, cabbage, broccoli, almonds, sesame seeds and tahini. They prevent colon cancer and rectal cancer. Milk and dairy products contain calcium in addition to vitamin D. These two components are interrelated closely, since both help to normalise division of cells, delay activity of cancer cells and accelerate destruction of colon cancer cells. Another theory for calcium is that this mineral prevents intestinal irritation, which is probably one of the causes of these cancers. However, it is noteworthy to understand that a high consumption of calcium such as 1,500 milligrams or more per day is associated with an increased risk of prostate cancer in men. Therefore, be careful on the amount of calcium consumed daily since its over consumption is detrimental to ones health. .

- **Legumes**

According to studies, it appears that a higher intake of legumes such as beans, lentils, peas and chickpeas reduces the risk of cancer of various types such as stomach, colon, rectum, prostate and lung cancer. Legumes contain a variety of health promoting components such as water-soluble fiber that have anti-cancer effect. In addition, plant components also found in legumes such as red beans, peas, lentils and soybeans, have been found to have anti-cancer effects.



- **Olive oil**



High consumption of olive oil is associated with a lower incidence of cancer, including colon and rectum cancer.

- **Turmeric**

Various studies have shown that turmeric and its extracts inhibit cancer processes and the development of various tumours such as skin, stomach, duodenum, tongue, colon, breast and prostate cancer.

However, it is important to note that it is not only nutrition that has proven to reduce cancer development but there is more proven factors that reduce or increases the risk of cancer which include;

- Exercise: there is convincing evidence that exercises reduce the risk of colon , rectal , breast and endometrial cancers.
- Breastfeeding: there is convincing evidence that breastfeeding reduces the risk of breast cancer.
- Body weight and fat: excess body weight and a high percentage of body fat encourage the development of esophageal, pancreatic, colon, rectal, breast, endometrial and kidney cancers.

On the other side, there are a number of foods that promote cancer development and below are a brief summary of the type of foods that promote cancer:

- Red meat and processed meats

This includes sausages and frozen meat. Red meat mostly increases the chances of one suffering from colon and rectal cancers. Red meat contains substances that

create processes suspected to be carcinogens. Therefore, when frying or barbecuing on a high flame the damage is even greater. Also, processed and frozen meat contain suppliments inserted to preserve it and prevent bacterial growth, as well as for other purposes, such as improving the colour of the meat to look “fresh” and shining.

- **Alcohol**

It has been proven that alcohol increases oral cancer, pharynx and larynx, esophagus, colon, rectum and breast cancer. There are several theories that refer to the fact that alcohol in our bodies turns into acetaldehyde, a substance that causes irreparable damage to the DNA of the cells. In relation to breast cancer, studies have found that alcohol increases the level of estrogen in the body. Therefore, when drinking alcohol on a daily basis, each unit of alcohol increases the risk of breast cancer by 7% -11%.

- **Salt, soup powders, soy sauce, ketchup and processed foods**

This group of food increases the risk of stomach cancer. Diets based on foods high in sodium increase risk of stomach cancer. An epidemiological study published in June 2010 in the American Journal of Clinical Nutrition found that a diet high in salt can increase by 10% the risk of stomach cancer.

## CONCLUSION

To conclude I would like to strongly encourage my fellow NAOT employees and all our stakeholders to be aware of things which can increase chances of one suffering from cancer as well as those factors which have the effect of minimising the risk of cancer attack. The state of our health is of paramount importance for us to be productive and useful to society. It is important therefore that we do all we can to better our health and the health of those surrounding us. It is to the advantage of NAOT management to have a healthy workforce. Therefore, it should be NAOT’s management priority to enlighten workers on factors that causes cancer and how to mitigate cancer attacks including changing life lifestyle.

Mind you, prevention is always better than cure.

For more information on how to prevent cancer visit:

**[www.healthyandnaturalworld.com/cancer-causing-foods-to-avoid/](http://www.healthyandnaturalworld.com/cancer-causing-foods-to-avoid/)**



**[www.nao.go.tz](http://www.nao.go.tz)**



# US DONATES 8 UNITS OF VEHICLES TO NATIONAL AUDIT OFFICE

*Mr. Malima M. Nkiliwando*

*BA Econ, MBA (Fin)*

*Head of Planning Unit and Coordinator of the USAID Project*

*National Audit Office of Tanzania*



*Vehicles donated by the Government of the United States of America through the USAID support to National Audit Office of Tanzania.*

The Government of the United States of America is assisting the National Audit Office (NAOT) through its department for foreign aid (USAID). This assistance is implemented through a four-year project named **“Strengthening the Role of National Audit Office as Supplier of Accountability”**

The project was established in April 2013 through an agreement signed in March 2013 by the Governments of the United States of America (USA) and The United Republic of Tanzania (URT). According to the agreement, the project will end on September 30, 2017. The total estimated cost of the project is **US \$2,400,000**.

The overall objective of the project is to support the NAOT to effectively carry out its statutory responsibilities of conducting audits in the Ministries, Departments and Agencies (MDAs), Local Government Authorities (LGAs), Public Authorities & Other Bodies (PA&OB), and Donor funded projects.

NAO intends to achieve under this project the following specific objectives:

**Objective 1:** Improve the quality of audit services and reporting

**Objective 2:** Improve communication and transparency in NAOT operations

**Objective 3:** Improve the performance management systems at NAOT

**Objective 4:** Strengthen follow-up mechanisms for the implementation of audit recommendations

The leadership at NAOT is committed to work with USAID around strengthening citizen oversight of government performance and procurements. This assistance programme will strengthen NAOT’s ability to carry out its mandate and to respond as a supplier of accountability. It is also intended to assist NAOT in bridging some gaps it has already identified, such as low level of public awareness on the roles and functions of NAOT, gaps in ethical conduct of employees, and inadequate communication with stakeholders. The envisioned support will combine direct funding to NAOT along with technical assistance.

## **Main activities**

The main activities under this project include: capacity building on various fields, establishment of a two way-communication between NAOT and stakeholders, enhancing collaboration between NAOT and the public, simplification of CAG audit reports and purchase of working tools and equipment (vehicles and computers).

During the first year of implementation of the project, among other activities, the US Government purchased eight Land cruisers for the NAOT (four standard and four hardtop) at a cost of Tshs 757,241,239.

These vehicles will help our audit teams to access projects which are implemented in rural areas. Also, they will help supervisors to reach as many audit teams as possible during the audit process. Six vehicles were distributed to regional offices while two others are serving at NAOT headquarters.

NAOT's requirement is to have atleast three vehicles at each region. Currently, there is only one vehicle in each region serving

an average of four audit teams. This ends up slowing the audit execution process. During audit periods, the auditors are forced to share one vehicle, which ultimately delays the whole audit process. In some situations, auditors have no option except to request transport from auditees, especially when time is not on the auditors' side and where projects are scattered. The dependency on auditees' vehicles compromises the independence of the auditors.

The NAOT and the government of URT wishes to extend their appreciation to the US government for this contribution which aims at enhancing transparency and accountability in the country resulting into improved governancy.

## STANDARDS AND THE CONSUMER

**Mr. Bryson Kiyonga**

**Adv. Dip (Logistics & Transport), Dip (Int. Relations & Diplomacy)  
Protocol and Logistics Practitioner  
National Audit Office of Tanzania**



*The Member of Parliament Hon. Mussa Azzan Zungu (MP) poses for a group photo with customers of QFL Magodoro Dodoma.*

Most of us have always thought standards are a technical phenomenon that is reserved for a certain class of people, who will then utilise them. It has also always been thought, mostly in our developing world, that standards are a foreign concept that are used in the developed world and if ever they find themselves in the developing world, they are reserved for the technocrats, not the general public. The Tanzania Bureau of Standards (TBS) must help people to understand that standards are for all of us in the country.

Standards are the concern of all of us, because we are all ultimately beneficiaries. The more we, as beneficiaries, know about them, the more we will be able to reap the benefits. Standards make our lives easier, more comfortable, efficient and safe. A critical point to take into consideration about standards is that they will work only when they are used. So, it is good and best to start learning and knowing about standards now, because the more we will know about them, the more demanding you would be about getting them implemented, and this will increase the incentive to comply with those standards.

It is interesting to note that it is easier for us not to worry about the decisions we make in trying to get the best goods and services in the market place. We always assume, especially health equipment and products, are of good quality, yet quality comes with standards to be met. The reality is that most of the products on the shelves, and in refrigerators, wardrobes, offices and garages are produced through standards for them to perform as required, making you confident in using them. Standards support us at work, home and abroad. They ensure the products are human friendly and that appliances and equipment connect and work together for better experience.

Have you ever wondered on why your DSTV, Toshiba LCD Television and your Sony Home Theatre give you the entertainment experience they do, yet they are manufactured by different companies and in different regions. It is all about standards.

These appliances work in harmony because of Electronic Appliances standards applicable when they are produced to enable a unison performance when interconnected. Standards also make us understand important information on road safety. Food standards mean that all we worry about is the menu, not what makes up the menu. Standards are also responsible for the protection of your personal data, through IT security standards.

I think you have realised how standards have become part of your daily life. It is therefore important to also realise that standards development is not reserved for TBS or any organisation, but is also your obligation. It is you the consumer who will help TBS in the improvement of standards and in proposing areas of standard development. The fact is that it is only when a standard is lacking that we realise its importance because things do not work as they should.

# GIVING THE MAJORITY ACCESS TO FINANCIAL FACILITIES:

## Land Ownership Controversy in Tanzania

*Mr. Sina is a former Public Interest Fellow at the World Bank Integrity Vice presidency (INT), Washington DC and graduate of an LL.M. in Democratic Governance and Rule of Law (with highest distinction); from Ohio Northern University,(US) 2013. Prior to that he graduated with Honors Bachelor of Laws (2008) and a Masters of Law (2011) both from the University of Dar es Salaam. He currently serves in the National Audit Office of Tanzania as a legal officer.*

*By Frank Sina*

Although I had written this paper in a different perspective as part of my postgraduate studies research, I was forced to rethink and rewrite it following a call from a friend of mine. My friend was seeking a legal guidance on getting his sibling on bail following a remand in prison for more than 5 days pending institution of a criminal case. This friend of mine's relative owns properties in unregistered pieces of land in Kimara Dar es Salaam worth approximately Tsh. 300 Million, but could not use his estate as bail for an offence which required a bail guarantee of just a title to a land worth Tsh. 3 Million.

This made me think, seriously! How can we have so much but we cannot use what we so far have to acquire more, as the natural principal of worth detects more to those who already have (See for example Matthew 25:14-30 New Living Translation (NLT). Thinking around, I realized that this dear friend of mine could not use his property to secure even small loan from a simple financial institution such as SACCOS leave alone well-established financial institutions and Banks which are naturally risk averse and therefore the property could not be used as the basis for bail.

This dear friend of mine is reflective of more than 70% of ourselves (Adult Tanzanians) who own so much properties but cannot use any portion there from not only to secure loans but also as guarantee for other predicaments. Land is a major means through which the majority of Tanzanian over 80% of the Tanzania Population: 45 million (2012 national censuses) earn their living through agriculture as their main form of employment. (CIA; World Fact Book on Tanzania).

This article briefly analyses the forms of land ownership in Tanzania, highlights the practical implication of the law, impact of the land ownership to land owners in terms of value attached to the mode of ownership, reasons for limited bestowment of granted right of occupancy. It further presents creative recommendations on how the current situation could be improved.

In Tanzania land is owned by the President of United Republic of Tanzania as a trustee of the public. All land is still considered as belonging to the public ( Peter, Chris Maina,2007. PP. 455-487). What the individual user of the land gets is the right to use that land which essentially belongs to the public as a whole. A user gets a title called right of occupancy and individuals occupy land through customary right of occupancy, deemed right of occupancy and granted right of occupancy (Issa G. Shivji,1999 ). The two modes of occupancy are legally said to be equal in every aspect as per Section 18(1) of the Village Land Act.

As indicated, the majority of Tanzanian occupy land through either customary right of occupancy or deemed right of occupancy compared to ones that occupy the same through granted right of occupancy. The former group basically have no any registered title to the land while the later possess a registered title to the land.

The former mode of occupancy is easily transferable and unreliable in terms of its security and it has in most of the times communal ties attached to it. This makes it cumbersome difficult to attach its ownership to one person who can use it effectively and in high risk ventures. The latter is more secure and its transfer is highly regulated.

The impact of the first group of occupancy to the economy and to individual owners is to make the same not friendly for capital accumulation through loan/credit facilities due to high risks attached to the same. Due to uneasy manageability of the same, the government cannot collect capital gains tax during transfer of such property, which otherwise would have been a substantial amount of revenue. Further this mode of occupancy does not contribute in capital formation and is disadvantageous in the sense that it attract very poor housing construction. In most of unplanned areas it is more likely to have poor basic human services such as water and sewage system, electricity and in worst scenario, access to rescue services during times of calamities such as fire or flood is almost an impossibility. Hygiene



in such suburbs is terribly poor making them prone to pandemic diseases such as Malaria, typhoid, diarrhoea and dysentery.

What impedes the government from surveying all the land and registering occupiers thereto? Varied responses have been advanced including vastness of the country making it a huge undertaking beyond the country's economy muscles. Where initiatives have been undertaken lack of local occupants of the land have not been promisingly cooperatives especially on reaching the consensus on the market value of land (for purposes of compensation) to be acquired for planning purposes. Poor planning and non-prioritization of surveying and registering titles to land is also a factor cited alongside with bureaucratic system that exists in the entire process. The process is said to be time consuming, draggy and stressful, (writers interview with residents in similar projects at Tabata Kinyerezi and Dodoma; see also CAG's special Audit Reports for Tanzania Airport Authority (2011) and Dodoma Municipality (2012).

Pending land disputes that takes too long to be adjudicated in areas intended to be surveyed and tendency of rushing for injunction orders to restrain continuance of the exercise are also a major factors hindering the process. Corrupt and irresponsible officers in some land authorities is a fact not to be left out of the picture.

According to one prominent economics expert; "What the poor lack is easy access to the property mechanisms that could legally fix the economic potential of their assets so they could be used to produce, secure or guarantee greater value in the extended market". (Hernando De Soto, 2000, P. 48). Inspired by the need to have the access to property mechanism that could fix our Tanzanian economy, the following legal and administrative initiatives are recommended.

Firstly, prioritization of land surveying and registering of titles thereto in our national strategic development plan, policy and budgets. We need to plan to have all our land registered and occupiers issued with title deeds no matter how long it is going to take to have the same implemented, planning is the key to success and failure to plan now is planning to fail later. This planning and setting of targets should start from the grass root at village level and progressively move to municipality and later on at ministerial level.

To implement the above recommendations, it is suggested as rightly pointed out in a report entitled "The One Billion Dollar Question: How Can Tanzania Stop Losing So Much Tax Revenue", this could be achieved through strategic planning and prioritization of spending. Government can save funds by cutting allocations for non-basic spending and non-mandatory expenditures and it can also widen its legitimate revenue bases so as to have sufficient funds to cater for its citizen's services among others, land related issues and judicial needs.

Secondly, sensitization of members of the public on the value, significance of having title deeds to the land; why they need to cooperate with the government when it is undertaking the exercise (Rachel Kleinfeld, 2012, P. 115-125.). When people are aware of the law and their legal rights as well as that of others, they are more likely to comply with requirements of the law as they will in most cases fear to be in trouble by being involved with legal disputes. (American Bar Association's Rule of Law Initiative, 2012, p 11-14.)

Public awareness programs on support of formalization of land ownership conducted in a simple and easily understood language by majority of people in communities through public seminars, conferences, rallies and special radio and television programs as well as publications in Newspapers and brochures are suggested as appropriate ways to send the message to many people in the country (Rachel Kleinfeld, id)

Thirdly, there is a need to review and improve the legal framework governing surveying and issuance of title deeds in the country. The current setting is not only cumbersome and too technical to comply with the latter but also ridiculously bureaucratic. This coupled with the existence of some irresponsible and corrupt land officers who implement the same, makes the surveying and issuance of title deeds to land an extraneous assignment. The survey and issuance of title only in exceptional cases can take less than a year. Officers alleged of misbehaving and corruption need to be investigated, prosecuted and tougher sanctions decisions against the culprits accordingly.

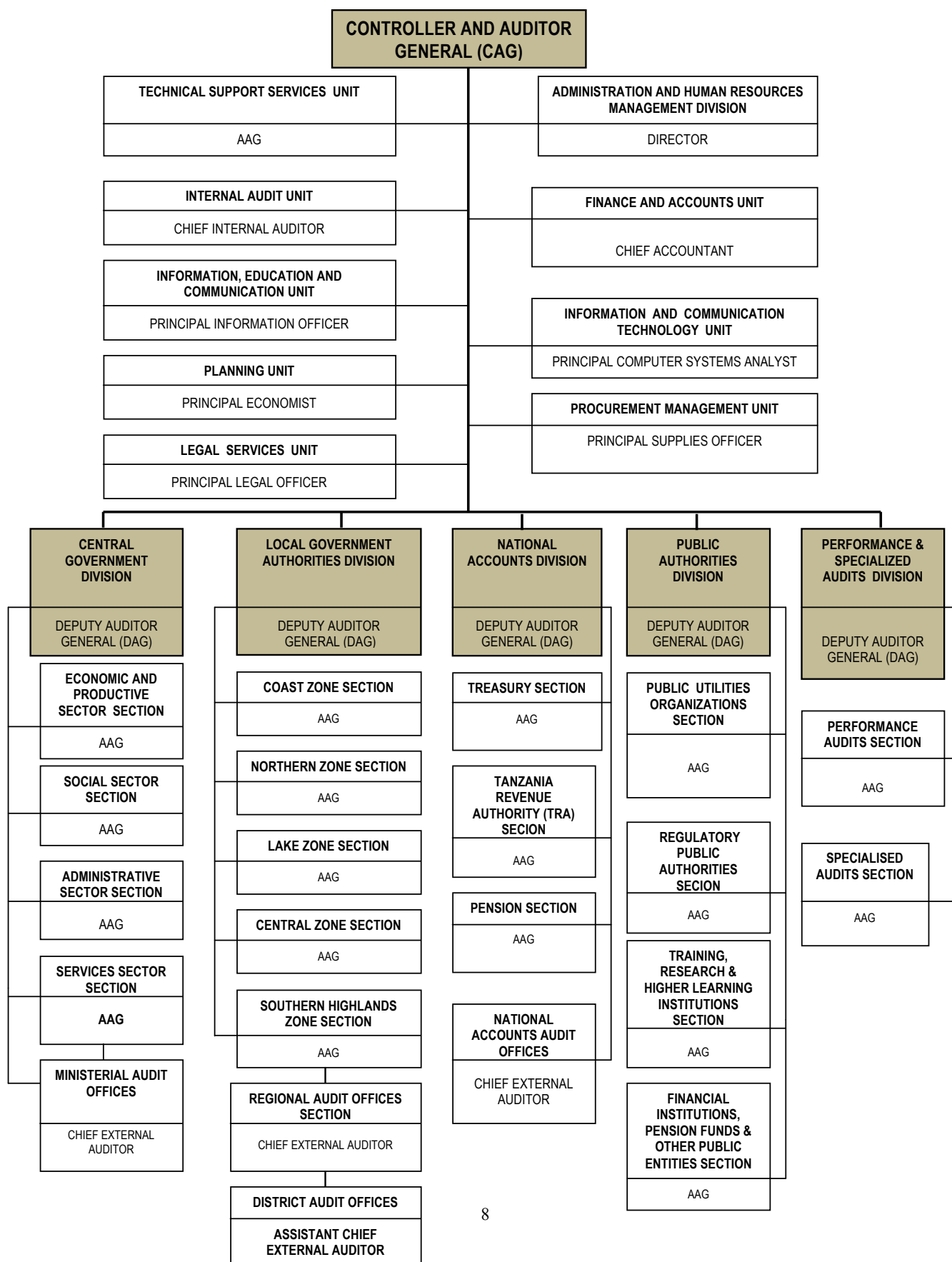
It is appreciated that this is not an easy undertaking given the vastness of the country and the limited available financial resources; However effective public participation and public-private partnership initiatives could help to come up with a model on how to achieve this goal. This process will take some times but with determination it could be achieved within reasonable few years.

This paper has highlighted the mode of land occupancy in Tanzania, limitations posed by the customary and deemed rights of occupancy i.e lack of access to financial resources and loss of revenue to the government as well as problems of planning of human settlement. It has described poor planning and lack of priorities, cumbersome legal and administrative structures as among the causes of limited progress in surveying and issuance of titles. It has been recommended that effective planning, public participation and improvement of the legal and administrative structures as solutions to the above challenge.

If other countries have done it, why not Tanzania? Tanzania should be able to do even better since we clearly know the benefits which will account to the citizens of the country through the successful implementation of the above challenges.

# ORGANISATION STRUCTURE OF NATIONAL AUDIT OFFICE OF TANZANIA (NAOT)

(Approved by the President on February 26, 2010)







**NATIONAL AUDIT OFFICE OF TANZANIA**