THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE

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In reply please quote
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H.E. Dr. John Pombe Joseph Magufuli,
The President of the United Republic of Tanzania,
State House,
P.O. Box 9120,
1 Barack Obama Road,
11400 DAR ES SALAAM.

RE: SUBMISSION OF THE ANNUAL GENERAL REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE AUDIT OF PUBLIC AUTHORITIES AND OTHER BODIES FOR THE FINANCIAL YEAR 2015/2016

In accordance with Article 143(4) of the Constitution of the United Republic of Tanzania of 1977 (revised 2005), and Section 34 of the Public Audit Act No. 11 of 2008; I am pleased to submit to you my Annual General Report on the Audit of Public Authorities and other Bodies for the financial year 2015/2016 for your kind consideration and onward submission to Parliament.

I submit,
Prof. Mussa Juma Assad
THE CONTROLLER AND AUDITOR GENERAL

The Controller and Auditor General,
National Audit Office,
United Republic of Tanzania

(Established under Article 143 of the Constitution of the URT)
The statutory duties and responsibilities of the Controller and Auditor General are given under Article 143 of the Constitution of the United Republic of Tanzania of 1977 (as amended from time to time) and amplified by the Public Audit Act, No. 11 of 2008 (as amended) and Public Audit Regulations of 2009.

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 organization, offering services to our clients in an objective and unbiased manner;
Excellence:	We are professionals providing high quality audit services based on best practices;
Integrity:	We observe and maintain highest standards of ethical behaviour and the rule of law;
People focus:	We focus on stakeholders' needs by building a culture of good customer care and having competent and a motivated work force;
Innovation:	We are a creative organization that constantly promotes a culture of developing and accepting new ideas from inside and outside the organization; and
Best resource	We are an organization that values and uses public resources
utilisation:	entrusted to it in an efficient, economic and effective manner.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

ADS-B	Automatic Dependent Surveillance – Broadcast
AMHS	Aeronautical Message Handling System
AOC	Air Operator Certificate
ATC	Air Tanzania Corporation
ATCL	Air Tanzania Company Limited
ATM	Air Traffic Management
BoT	Bank of Tanzania
CAG	Controller and Auditor General
CBE	College of Business Education
CDA	Capital Development Authority
CHC	Consolidated Holding Corporation
CMS	Customs Management System
CMSA	Capital Markets Securities Authority
COSTECH	Commission for Science and Technology
DAWASCO	Dar es Salaam Water and Sewerage Corporation
DIT	Dar es Salaam Institute of Technology
DUCE	Dar es Salaam University College of Education
EADB	East African Development Bank
EFD	Electronic Fiscal Device
EWURA	Energy and Water Utility Regulatory Authority
GmbH	Gesellschaft mit beschränkter Haftung
HESLB	Higher Education Students' Loans Board
IAS	International Accounting Standards
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
ICD	Inland Container Depot
IFAC	International Federation of Accountants
IFM	Institute of Finance Management
IFRS	International Financial Reporting Standards
IOSA	IATA Operational Safety Audit
IPSASs	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ISSAIs	International Standards of Supreme Audit Institutions
KOJ	Kurasini Oil Jet
KPI	Key Performance Indicator

LAPF	LAPF Pensions Fund
LCMS	Local Control and Monitoring System
LTD	Limited
MNH	Muhimbili National Hospital
MOI	Muhimbili Orthopaedic Institute
MoU	Memorandum of Understanding
MSD	Medical Stores Department
MUCCOBs	Moshi University College of Co-operative and Business Studies
MUST	Mbeya University of Science and Technology
MWAUWASA	Mwanza Urban Water Supply and Sanitation Authority
NACTE	National Council for Technical Education
NAOT	National Audit Office of Tanzania
NARCO	National Ranching Company Limited
NBC	National Bank of Tanzania
NCAA	Ngorongoro Conservation Area Authority
NDC	National Development Corporation
NECTA	National Examination Council Of Tanzania
NHC	National Housing Corporation
NHIF	National Health Insurance Fund
NIMR	National Institute of Medical Research
NIT	National Institute of Transport
NSSF	National Social Security Fund
OUT	Open University of Tanzania
PA & oBs'	Public Authorities and other Bodies
PAA	Public Audit Act No. 11 of 2008
PAC	Public Accounts Committee
PAYE	Pay As You Earn
PMG	Pay Master General
PPF	PPF Pensions Fund
PPL	Pension Property Limited
PPP	Public Private Partnership
PPRA	Public Procurement Regulatory Authority
PRIDE	Tanzania Promotion of Rural Initiative and Development Enterprises Limited
PSPF	Public Sector Pension Fund

PSRC	Parastatal Sector Reform Commission
RAHCO	Reli Assets Holding Company Limited
SAI	Supreme Audit Institution
SACCOS	Savings and Credits Cooperative Society
SPM	Southern Paper Mills
SSRA	Social Security Regulatory Authority
SUMATRA	Surface and Marine Transport Regulatory Authority
TAFIRI	Tanzania Fisheries Research Institute
TANAPA	Tanzania National Parks
TANCIS	Tanzania Customs Integrated System
TANESCO	Tanzania Electricity Supplies Company Ltd
TBC	Tanzania Broadcasting Corporation
TBS	Tanzania Bureau of Standards
TCAA	Tanzania Civil Aviation Authority
TCB	Tanzania Cotton Board
TCRA	Tanzania Communication Regulatory Authority
TFDA	Tanzania Food and Drugs Authority
TICTS	Tanzania International Container Terminal Services
TPA	Tanzania Ports Authority
TPDC	Tanzania Petroleum Development Corporation
TPRI	Tropical Pesticides Research Institute
TRA	Tanzania Revenue Authority
TSN	Tanzania Standard Newspaper
TTCL	Tanzania Telecommunications Company Ltd.
TTMS	Telecommunications Traffic Monitoring System
TZS	Tanzania Shillings
UCSAF	Universal Communications Service Access Fund
UDOM	University of Dodoma
URT	United Republic of Tanzania
USD	United States Dollar
UTT-AMIS	Unit Trust of Tanzania - Asset Management and Investor Service
UTT-PID	Unit Trust of Tanzania - Projects and Infrastructure Development Plc
VAT	Value Added Tax
WHC	Watumishi Housing Company

ACKNOWLEDGEMENT

I am extremely delighted that, again we have been able to meet NAOT's constitutional obligation to submit our report to the President by the end of March.

It is with great pleasure that I take this opportunity to thank His Excellency, Dr. John Pombe Joseph Magufuli, the President of the United Republic of Tanzania for his support and personal initiatives to ensure my Office accomplishes its constitutional mandate.

I convey my sincere gratitude to the Honourable Speaker and Deputy Speaker of Parliament of the United Republic of Tanzania, Chairpersons and Honourable members of Parliamentary Oversight Committees for always being supportive to my Office.

To our Development Partners, I would like to acknowledge their continued immense contribution toward the modernization of the audit functions in my Office by sponsoring training and providing various important working tools and technical assistance.

I also acknowledge with gratitude, the invaluable assistance and co-operation extended by the Boards of Directors, Accounting Officers, Senior Management and staff of all Public Entities which were subjected to our audits.

As we strive to maintain the standards and quality of our reports, I commend the contributions of private audit firms who have been working with us diligently and in a professional manner. Their contribution toward preparation of this report is essential and invaluable.

Finally, I must give credit to my entire staff who have been working tirelessly longer, even outside office hours, driven entirely by the professional call - without any financial incentive to complete assigned audit activities. It is a strong sense of purpose and dedication that has made it possible to timely deliver this report.

Prof. Mussa Juma Assad
THE CONTROLLER AND AUDITOR GENERAL

27th March, 2017

PREFACE

It is my great pleasure and honour to present my Annual General Report on the audit of Public Authorities and Other Bodies for the financial year 2015/2016 in compliance with Article 143 of the Constitution of the United Republic of Tanzania and Section 34 of the Public Audit Act No. 11 of 2008.

This report covers all significant audit matters and other key audit observations noted during the audit of Public Entities for the financial year 2015/16. The report includes audit recommendations issued to Management of these entities to ensure that all the weaknesses noted during the audit are appropriately addressed.

As it was for my previous year's report, I have reviewed the strategic and governance issues for 11 Public Entities with the aim of responding to fundamental policy questions or critical challenges and business risks affecting the mandates, strategies, business processes and productivity of these entities and the results of these reviews are included in chapter five of this report.

Following the recent discovery of oil and gas in the country and given the intention of the Government to build a strong industrial economy in the country, it is evident that the country's vision of having an Industrialized Tanzania will highly depend on the extent to which the gas sector is well managed. The oil and natural gas will help to generate sufficient, affordable and reliable electricity to run the newly established industries. In that light therefore, in chapter six of this report, I have reviewed and assessed the performance and challenges being faced in the development of the Extractive Industry in Tanzania.

This report also covers the results of Special and Forensic Audits carried out in Public entities which were requested by different Stakeholders. A summary of the findings from these audits are included in Chapter Seven of this report.

EXECUTIVE SUMMARY

i. Introduction

This executive summary highlights major issues detailed in this report which need the attention of the Government, Parliament, Boards of Directors and respective Management of Public Authorities to ensure efficiency and effectiveness in their operations.

This report includes audit findings that were considered to hamper the performance of PA&oBs' drawn from individual audit reports. Generally, it includes issues which are considered significant to be brought to the public, relevant Authorities and Management of audited entities for their immediate action. The highlighted issues are as follows:

ii. Types and Trend of Audit Opinions

During the financial year ending 2015/2016, I audited 150 among 200 Public Authorities and other Bodies that were subjected to my audit. However, I issued audit opinions to only 126 Public Authorities which includes 14 relating to the previous year. Out of the opinions issued to 112 PA&oBs in financial year 2015/2016, four (4) were qualified and 108 were unqualified. Neither adverse nor disclaimer of opinions were issued to PA&oBs during this financial year.

iii. Summary of Outstanding Audit Recommendations

Review of implementation of previous years' recommendations noted that, out of 53 outstanding recommendations, 39 (74%) have not been addressed while 14 (26%) are currently under implementation. Analysis of outstanding recommendations is detailed in chapter 3 of this report.

Some of the prior years' outstanding recommendations included: review of the privatisation process of Air Tanzania Company Limited (ATCL); Absence of airspace master plan in Tanzania Civil Aviation Authority (TCAA); Preparation and operationalization of annual action Plan of Tanzania Communication Regulatory Authority (TCRA); Deficiencies in the contract entered between TICTS and TPA; Deficiencies in acquisition of shares of General Tyre (EA) and Review of the Profitability and Operational Efficiency of Tanzania Electric Supply Company (TANESCO).

iv. **Significant Audit Matters**

Audit of Tanzania Women Bank (TWB) noted loans amounting TZS 655 million to have been disbursed without confirming existence of the borrowers while securities for the loan of TZS 200 million had not been registered with appropriate authorities.

I also noted that loans of TZS 330 million were issued to customers whose collaterals were not valued while TZS 335 million were loaned to borrowers whose business licenses had expired. Further, the bank's core capital had fallen below the minimum requirements contrary to Regulation 5 and Regulation 9 of the Banking and Financial Institutions (Capital Adequacy) Regulations.

My review noted uncertainty in the going concern of Twiga Bancorp as the Bank had as at the year-end a negative shareholder's equity of TZS 18.7 billion with a core capital being below TZS 5 billion contrary to the requirement of Section 17 of the Banking and Financial Institutions Act.

My audit noted that, Tanzania National Parks (TANAPA) has not completed its TZS 756.89 million worth projects due to land conflicts and default by contractors. Also, it was identified that TANAPA has inadequate procedures in place to confirm accuracy of revenues reported by hotels and camp-sites in our national parks.

Poor progress was noted with Tanzania Civil Aviation Authority (TCAA) regarding implementation of ADS-B Phase I project worth TZS 3.4 billion after the contractor had become bankrupt. Further, there was remarkable failure in implementing the International Civil Aviation Organization (ICAO) Comprehensive Systems Approach Audit recommendations by 57.28% since 2013, which may compromise air space security.

v. **Review of Strategic and Operational Efficiency of Public Entities**

My review on performance efficiency of public entities noted the following main issues:

Tanzania Electric Supply Company (TANESCO) has a huge accumulation of debt in form of capacity and energy charges from five Independent Power Producers (IPPs)/Emergence Power Producers (EPPs). This has been aggregated by the fact that TANESCO buys power at an average price of TZS 544.65 per unit and sells it at TZS 279.35 to customers leading to a loss of TZS 265.30 per unit. Effort is needed to rescue this entity by replacing expensive source of power with cheaper sources including hydropower and gas energy so as to do away with IPPs/EPPs.

The Ministry of Energy and Minerals owes TANESCO a sum of TZS 1.117 billion in respect of unpaid rent. Failure to pay this debt contributes in the worsening of TANESCO liquidity problems.

I noted significant decline of investment income facing NSSF, PPF, PSPF and LAPF due to low investment performance, substantial inefficiencies in management of loans issued to SACCOS, inefficient mechanism and control over long outstanding rent receivables and overdue receivables which the Government owes these Funds.

Tanzania Communication Regulatory Authority (TCRA) has inadequate moving stations for spectrum monitoring system. Also, it has no mechanism to ensure all private companies have dot (.) tz domain with no business plan to smoothen the implementation of .tz registry. Further, the Authority is unable to monitor internet data, airtime usage and unregistered operators with no valid licenses which pose risk on the accurate determination of tax on revenues generated by these telecoms operators.

I noted remarkable gaps into the contract entered between University of Dar es Salaam and Mlimani City Holding such that ten years have elapsed without implementing the agreed deliverables including constructing 3-Stars Hotel and Upgrading of University's botanical garden. Similarly, it has been noted that rent is charged at 10 percent basing on 'Base Rental Fees' (which excludes operational and utilities costs) rather than on gross rent as provided in the MoU.

I noted several inefficiencies in the performance of Tanzania Ports Authority operations where in most cases the Authority has been experiencing performance below the agreed key performance indicators. Among these indicators is the dwell time, where, most of the ports had an average dwell time ranged between 6.1 and 8.6 days which is below the agreed dwell time of 5 days. Vessels take an average of 4 days at one particular berth instead of the agreed 3 days. These inefficiencies may have negative effects on the competitiveness and future service delivery of the Authority.

TPA faces a problem of low discharge rate of oil at Kurasini Oil Jetty (KOJ) and Single Point Mooring (SPM) mainly due to distance from SPM or KOJ to the tank farm (receiving point), pump pressure and diameter of the oil pipe. Also, TPA has continued to discharge oil to storage tanks without passing through non-operating 16 flow meters at KOJ that could have a negative impact on the TPA's revenue.

vi. Review of the Performance of Extractive Industry in Tanzania

My review of the mining sector has raised the following key issues:

The entered Mining Development Agreements (MDAs) have unreasonable terms which undermine public interests such as unreasonable conditions for renew of licenses, protection against future amendments of laws, unreasonable agreements in foreign currency policies, custom arrangements and unreasonable incentives in tax and accounting treatment of capital expenditures. I also noted that most of small scale miners do not pay annual rent and royalties as required by the Mining Act, 2010.

I noted that the mandate of Geological Survey of Tanzania (GST) to prospect minerals has been restricted by section 21 of the Mining Act, 2010 undermining government potential to monitor prospecting activities conducted by private companies.

My review of the operational efficiency of STAMICO and TML Joint Venture revealed several weaknesses including non-performance of the Joint Operation Committee (JOC), delays in establishment of Joint Bank Account and Rehabilitation Fund Account, failure to conduct Graphite and Marble Business, failure to outsource value adding process on tanzanite and risks of transfer pricing due to inter-company transaction during the selling of tanzanite minerals.

My review of the operations of Buckreef Gold Mine through a Joint Venture Agreement between STAMICO and TANZAM 2000 noticed that TANZAM (2000) paid USD 3 million to STAMICO as a consideration price to acquire 55% ownership of the Mine in 2011 without justifiable basis, including valuing STAMICO assets before the joint venture was signed. Further, since commissioning of the mine in 2011 up to the time of my audit in March 2017, the mine had not started operations.

My review on the operational efficiency of Kiwira Coal Mine noted that, the mine has never resumed operation since 2004 when it was reacquired by the Government due to inadequate capital and legal obstacles caused by failure to transfer the share certificate from the previous investor Tan Power Resources Ltd to STAMICO.

My review of VAT returns and corporate tax for five mining companies namely Geita Gold Mine, Bulyanhulu Gold Mine, North Mara Gold Mine, Williamson Diamonds and Pangea Gold Mine for five years from 2012 to 2016 noted significant refunds of VAT to the tune of TZS 1,144 billion caused by zero rating of VAT when minerals are exported and non-payment of corporate tax caused by perpetual losses which can be attributed to allowing full capital expenditure to be charged against revenue and there is no adequate and reliable ways of ascertaining the validity of the related investment costs. I also noticed a loss of Government revenue caused by undercharging withholding taxes on management fee and technical services backed by existing MDAs.

Oil and Gas

My review on Oil and Gas sector noted the following key issues:

Construction of Mtwara-Dar es Salaam Natural Gas pipeline was made prior to pre-identification of gas potential customers, causing TPDC to solely depend on TANESCO to buy the available gas currently being produced by the two gas producers, as a result current sales revenue is far below projection.

It also came to my attention that there is a significant underutilization of the pipeline by 94% of its capacity with TANESCO as the only consumer utilizing approximately an average of 46.61 mmscfd (6%) which is far below the pipeline capacity by 737.39 mmscfd (94%) despite an agreement to supply gas to TANESCO'S six (6) power plants at 138.8 mmscfd.

Also, I noted TPDC charges common price of USD 5.14/mmBTU to all its customers irrespective of distance from the gas source. Moreover, there is unsettled bill of USD 61,350,651 (TZS. 133,373,032,060) by TANESCO to TPDC and no performance security bond has been deposited.

Further, review shows gas price charged by TPDC to TANESCO ($5.14/mmBTU) is more expensive than what Pan African Energy Tanzania Limited (PAET) charges to TANESCO ($3.5/mmBTU) by $1.64/mmBTU indicating that any reasonable buyer will buy from a cheaper source. This may have a negative effects on TPDC sales levels.

I also noted that, the Production Sharing Agreement (PSA) between TPDC and PAET has been structured in a reverse order with the Government share of revenue decline as production increases. I also observed that, TPDC and PAET have outstanding disputed recoverable costs amounting to USD 34 million as of 30th November, 2012.

vii. Special and Forensic Audits Carried Out During the Year

The following are brief results of special and forensic audits conducted during the year:

A Special Audit on Land & Buildings Management at Small Industries Development Organization (SIDO) aimed at establishing the validity and accuracy of the assets' values, ownership and prevailing status and condition revealed inappropriate revocation of 25 SIDO Plots by various Local Authorities namely Kinondoni, Mtwara, Mbeya and Moshi and a sale of five (5) SIDO Plots No. 09 and 10 Block "X" Mwakibete, Mbeya and Plots No.673 – 675 Block 46 Kijitonyama, Dar Es Salaam where they were later issued to individuals and the Parastatal Pension Funds (PPF) without following proper procedures.

I also conducted a Special Audit on the Joint Venture between State Mining Corporation (STAMICO) and Tanzanite One Mining Limited (TML), which focused in establishing whether or not TML Management (the Operator) had internal controls in place to implement the Joint Venture Operations revealed that the Ministry of Energy and Minerals approved the sale of 50% shares in TML (Government Co-venturer) by M/s. Richland Resources Ltd to M/s. Sky Associates Ltd without conducting any due diligence on M/s. Sky Associates financial and technical capacity for conducting mining operations.

Non Opening of the Joint Operating Account by TML hence Tanzanite sales revenue was being deposited in TML owned Bank Accounts. STAMICO which is a co-partner with Sky Associates with 50% shares has therefore no access or control over the information regarding Tanzanite sales.

A Special Audit on Collection of Wharfage Charges at Tanzania Port Authority (TPA) - Dar es Salaam Port aimed at identifying individuals and Companies involved in evasion of paying wharfage charges revealed that TZS 15,021,886,716 was not collected by TPA as wharfage charges due to fraudlent transactions carried out by various Clearing and Forwarding Agents in collusion with TPA and Bank Staff.

I also conducted a Special Audit on the Joint Venture between National Development Corporation (NDC) and ETC Holding Limited (ETC) with the main objective of determining whether or not the JVA was properly executed in accordance with the intended objectives. The following was revealed:

The special audit noted that the Joint Venture Agreement between NDC and ETC Holding Limited was signed without being vetted by the Attorney General. I also noted that, the transfer of ownership of Plot No.1-66 Block “R” to M/s. ETC Cargo Ltd had neither approval of NDC Board of Directors nor consent of the Treasury Registrar while Plot No. 101 Block “Q” was leased for 98 years to ETC Cargo Ltd by NDC Management without approval of the Board.

viii. **Other Audit Matters and General Audit Finding**

On the other hand, in some cases, my audit was limited by failure to appoint board of Directors of 18 Public Entities, causing their financial statements not be finalised due to their non-adoption.

Review of Pension Funds identified that the Funds are yet to receive the names and details of ghost workers from the Treasury and there is no independent assessment done by management of the funds to establish possible liability resulting from contributions submitted for ghost workers.

I also revealed that the Government has an outstanding overdue debts of TZS 1,596.35 billion from nineteen (19) + different Institutions. These debts have originated from direct borrowings, guarantees and contributions not remitted as per requirements of laws.

Further, review of statutory deductions noted that some Authorities had not complied with the remittance deadlines. The statutory deductions which were not remitted include VAT, SDL, PAYE, and pension contributions all amounting to TZS 26.26 billion.

It also came my knowledge that various government institutions made various payments amounting to TZS 5.61 billion without being acknowledged with EFD receipts.

I have also identified some entities with significant long outstanding accounts receivable balances accumulating to TZS 61.28 billion. The long outstanding balances have gone beyond the credit limits that is, time payment periods as indicated in their respective policies.

CHAPTER ONE

BACKGROUND INFORMATION

1.0 Legal Framework for Public Audit in Tanzania

The Office of the Controller and Auditor General of the United Republic of Tanzania is an office established in accordance with Article 143 of the Constitution of the United Republic of Tanzania of 1977 (as amended from time to time). Sub article (5) of Article 143 of the Constitution of the URT and Section 34 of the Public Audit Act No. 11 of 2008 and Section 48 (3) of Public Procurement Act No.7 of 2011, require the CAG to audit all Public Authorities and other Bodies at least once in every financial year.

The Controller and Auditor General has the mandate to conduct financial, performance, forensic or any other audit of all PA&OBs as required by Sections 26, 27, 28 and 29 of the Public Audit Act No.11 of 2008. Section 12 of the same Act empowers the CAG to make recommendations for the purpose of:-

- Preventing or minimizing unproductive expenditure of public moneys;
- Maximizing the collection of public revenues;
- Averting loss by negligence, carelessness, theft, dishonesty, fraud and corruption relating to public monies and other resources; and
- Improving economy, efficiency and effectiveness in the use of public moneys.

Public Authorities and other Bodies prepare their financial statements under accrual basis of accounting which necessitates them to be IFRS or IPSAS's compliant. The preparation and submission of PA&oBs financial statements for audit purposes is a legal requirement as per individual Public Authorities and other Bodies Acts, the Companies Act of 2002 and the Public Audit Act No. 11 of 2008.

The Treasury Registrar Ordinance Cap 418 and Sect. 6 of the Public Corporations Act No. 16 of 1992 in relation to functions of Public Corporations, state that the Treasury Registrar has the functions and responsibilities for oversight over Public Authorities and other Bodies in collaboration with the Board of Directors of the respective entities. They do so by closely monitoring, controlling and managing the PA&OBs effectively by the way of issuing oversight directives.

The Controller and Auditor General is required to submit his annual reports to the President of the URT by virtue of Article 143 (4) of the Constitution of the URT of 1977. Under Regulation 88 of the Public Audit Regulations, these reports are submitted to the President on 31st March each year. Upon receipt of such reports, the President shall direct the persons concerned to submit those reports within seven days of the first sitting of the National Assembly.

If the President does not take steps of submitting such reports to the National Assembly, then the CAG shall submit a copy of such reports to the Speaker of the National Assembly (or the Deputy Speaker if the Office of the Speaker is vacant, or if for any reasons the Speaker is unable to perform the functions of his/her Office) who shall submit the report to the National Assembly. The CAG report regarding PA&OBs is primarily discussed by the Parliamentary Accounts Committee (PAC) on behalf of the Parliament and report to that effect to Parliament.

1.1 Scope and Applicable Audit Standards

1.1.1 Audit Objectives and Scope

The main objective of conducting the audit is to enable the CAG express an independent opinion on the fairness of the financial statements of the PA&OBs and whether they have been prepared, in all material respects, in accordance with an accepted financial reporting framework. Particularly, the audits covered audited accounts for the periods ended, 31st December, 2015 and 30th June, 2016.

The scope of my audits covered the evaluation of effectiveness of financial accounting systems and internal controls over the activities, examination and verification of the accompanying financial statements, performance reports and other auditing procedures considered necessary in arriving at an audit conclusion. The audits were carried out based on risk and materiality. Therefore, the audit findings are confined to the extent that records, documents and information requested for the purpose of the audits were made available to me.

1.1.2 Applicable Auditing Standards

The National Audit Office (NAOT) is a member of the International Organisation of Supreme Audit Institutions (INTOSAI) and the African Organisation of Supreme Audit Institutions of English speaking Countries (AFROSAI-E). Therefore, the applied audit procedures were in line with the International Standards of Supreme Audit Institutions (ISSAI) issued by INTOSAI and International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC).

1.2 Responsibilities of the Board of Directors and Chief Executive Officers

The individual Boards of Directors and management of PA&oBs are responsible for the preparation and fair presentation of financial statements in accordance with International Financial Reporting Standards (IFRS) or International Public Sector Accounting Standards (IPSAS). This responsibility includes:

- Designing, implementing and maintaining internal control systems relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or errors;

- Selecting and applying appropriate accounting policies; and
- Making accounting estimates that are reasonable in the circumstances.

International Accounting Standards (IAS 1) and International Public Sector Accounting Standards (IPSAS 1) stipulate the types of financial statements to be prepared.

1.3 Organisation and Outsourcing of Audit Work

In order for my Office to effectively handle this task of auditing all the PA&OBs in the country, audits of some public entities have been contracted out to private audit firms. This is in line with Section 33 of the PAA, which empowers the CAG to authorize any person or body eligible to be appointed as an auditor under the Auditors and Accountants (Registration) Act No.33 of 1972 as amended in 1995 to conduct the audit of PA&oBs on his behalf.

The authorized auditors shall be bound by the provision of the law that they shall not disclose any information which relates to the business secrets of the auditee which comes to their knowledge in the course of the audit. The audit opinion shall remain the sole responsibility of the CAG. The outsourced audits are subjected to the quality review process carried by NAOT.

CHAPTER TWO

TYPES AND TREND OF AUDIT OPINIONS

2.0 Introduction

According to International Standards on Auditing (ISA) 200, the objectives of conducting audit of financial statements is to enable an auditor to express an independent opinion as to whether the financial statements are prepared in all material respects in accordance with the applicable financial reporting framework. This is achieved by designing the audit in such a way that, it will enable the auditor to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or errors.

2.1 Types of Audit Opinion

2.1.1 Unmodified Opinion

An unmodified opinion is expressed when the auditor concludes that the financial statements of an audited entity give a true and fair view or are presented fairly in all material respects in accordance with the applicable financial reporting framework.

2.1.2 Modified Opinions

2.1.2.1 Qualified Opinion

A qualified opinion is issued when: (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

2.1.2.2 Adverse Opinion

An adverse opinion is expressed when the effect of a disagreement is so material and pervasive to the financial statements that, the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

2.1.2.3 Disclaimer of Opinion

The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

2.1.3 Emphasis of Matter Paragraphs in the Auditor's Report

If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. Such a paragraph shall refer only to information presented or disclosed in the financial statements.

2.2 Audit Opinion Issued during the Year

In the year under review, 112 opinions were issued to Public Entities in the financial year 2015/2016, out of which 108 were unmodified opinions, four (4) were qualified opinion while no entity was issued with an adverse opinion or a disclaimer of opinion. *See Appendix I.*

2.3 Trend of Audit Opinion

Analysis of trend of audit opinions issued to Public Authorities and other Bodies for the 5 consecutive years from 2011/2012 to 2015/2016 is as follows:

Table 1: Trend of Audit Opinion

Category of Opinion	Annual General Report				
Financial Year	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
Unqualified	85	92	117	107	108
Qualified	9	1	3	5	4
Disclaimer	1	0	1	0	0
Adverse	0	0	0	0	0
Total	**95**	**93**	**121***	**112***	**112**

***including 14 reports which were not included in previous reports.**

CHAPTER THREE

SUMMARY OF OUTSTANDING RECOMMENDATIONS

3.0 Introduction

This chapter provides a summary of follow-up of key outstanding recommendations from the previous years' audit reports which were either partly implemented or not implemented at the time of preparing this report.

3.1 Structured Government Responses to the Previous Year Audit Report

In July 2016, I received the Government structured responses prepared by the Paymaster General (PMG) on the previous Annual General Report. I appreciate the effort deployed by PMG in responding to my reports and providing action plan on implementation of the recommendations. My review of the submitted structured responses indicated that most of the outstanding recommendations are in progress for implementation and therefore a great attention is required towards addressing my recommendations.

I would like to reiterate my previous recommendations on significant audit matters and review of strategic & operational efficiency which either, have partly been addressed or have not fully been addressed by the respective Public Entities as detailed in *Appendix II* and *Appendix III* to this report:

CHAPTER FOUR
SIGNIFICANT AUDIT MATTERS

4.0 Introduction

This chapter highlights the most significant audit observations noted during the audit of Public Authorities and other Bodies (PA&oBs) together with their recommendations. The matters have been divided into two, those noted from individual entities and those which cut across a number of entities.

4.1 National Health Insurance Fund (NHIF)

4.1.1 Absence of Loan Agreement and Government Guarantee Loan TZS 44.29 billion

NHIF advanced a loan of TZS 44.29 billion to the University of Dodoma (UDOM) to construct a Medical Centre.

It was, however, noted that there were neither written agreement between the two institutions nor a Government guarantee. Contract between the lender and borrower could set rights and obligations of each party to the agreement and other arrangements of interests and repayments.

In the absence of a written agreement and/or Government guarantee NHIF can sustain loss of its funds in case UDOM fails to honour its obligation to repay the loan as the unwritten arrangement may not be enforceable in a Court of Law.

Management of NHIF is advised to ensure that a written agreement is entered into with the borrower and/or obtain a government guarantee. In future, NHIF is also urged to ensure that binding written agreement is entered into prior to disbursement of any loan.

4.1.2 Non-recovery of Community Health Fund (CHF) Reimbursable Expenses of TZS 1.20 billion

NHIF entered into a Memorandum of Understanding (MoU) with the Ministry of Health and Social Welfare and Prime Minister's Office, Regional Administration and Local Government requiring the Government to provide funds for the purpose of operating Community Health Fund's objectives, including meeting recurrent costs and matching funds.

Up to 30th June, 2015, NHIF was supposed to recover from the Government TZS 1.20 billion that were incurred on CHF related projects in line with the MoU. However, the same has not been recovered.

Failure by the Government to pay NHIF increases financial burden to NHIF resulting into increase in operational costs and dismal implementation of CHF activities.

Management of NHIF is advised to take further initiatives on ensuring recovery of the funds from the government.

4.1.3 Missing Tittle Deeds for Plots Worth TZS 550.71 million

In the year 2013/14 and 2014/15 NHIF acquired seven (7) plots worth TZS 550.71 million in seven (7) different regions namely Tabora, Simiyu, Geita, Kigoma, Singida, Lindi and Kigoma.

I, however, noted that respective tittle deeds of the acquired plots were missing. Absence of tittle deeds limits the Fund's rights of ownership of the plots.

Management of NHIF is thus advised to increase more efforts in securing the missing deeds for the acquired plots.

4.2 Tanzania Women Bank (TWB)

4.2.1 Mismanagement of Loans Procedures and Incomplete Documentation

There are prerequisites which have to be satisfied by loan applicants before a loan is processed. Also, the bank has to make sure all clearances and approvals are adhered to including appraisal of the borrower's property against which he/she wishes to acquire a loan. The procedures are done in order to protect bank's interests and prevent fraud of any kind by a borrower.

My review of the bank's operations for the year 2014/15, noted the following anomalies with regard to loans management and documentation processes:

i. Loans totalling to TZS 655.00 million were issued to four (4) corporate entities without confirming their existence from Registrar of Companies contrary to the requirement of Para 3.3.3 of TWB credit manual. Alternatively, the bank was required to obtain the respective companies' annual returns as confirmation of their existence.

ii. Article 2.1.1 of the loan agreement with a customer and Para 1.1.1.4 of TWB credit manual requires certain documents such as mortgage deed, debenture and chattel mortgage to be registered with the Office of Registrar of Tittles/documents or Registrar of Companies as part of documentation.

    However, I noted loan securities for a loan of TZS 200 million advanced to one customer during the year ended 2014/15 was not registered as per the requirements of the loan issuance guidelines.

iii. Section 7.5.2 of TWB's Credit Policy 2014 (revised) requires valuation to be done to assets pledged as security against loan. I, however, did not see any evidence establishing that valuation was done for securities pledged against loans totalling TZS 330 million that were advanced to four (4) customers.

iv. Loans of TZS 355 million were issued to six (6) customers whose business licenses had expired.

v. Salary loans of TZS 134 million were advanced to five (5) customers without any guarantee from their employers contrary to the requirements of Section 8.9.7 of TWB's Credit Policy 2014 (revised). It was further revealed that out of the loaned customers, four (4) are employees of other banks namely NMB, NBC and Barclays Bank Tanzania.

Insufficient documentation can lead to failure to recover loaned funds by the bank. Also, there could be indications of fraud in the loan issuance as it is unlikely for employee of other banks to take a salary loan from another bank without guarantees from their employers.

Management of TWB is advised to strengthen controls over loan issuance by ensuring all necessary processes and documentations are done before loan approval. Also, further cautions are needed against loans issued to employees of other banks to confirm, among others, if they are really working with those banks and guarantees against the salary loan requested have been issued by their employers.

4.2.2 Non-compliance with Minimum Capital Requirement

Reg. 5 of the Banking and Financial Institution (Capital Adequacy) Regulations requires a Bank or a financial institution with limited scope of services to commence operations with and maintain at all times a minimum core capital of not less than five billion.

I noted that the Bank's month end capital of January, February, September, October, November and December 2015 went below the required minimum balance of five billion.

Regulation 9 of the Banking and Financial institution (Capital Adequacy) Regulations requires a bank or financial institution to, at all times, maintain a minimum core capital of not less than twelve and one half per cent of its total risk-weighted assets and off balance sheet exposure and total capital of not less than fourteen and one half per cent of its total risk weighted assets and off balance sheet exposure.

However, for the month of December 2015, the Bank's core and total capital adequacy ratio was 12% which is below the above minimum requirement.

Failure by the bank to adhere to the laid down regulations may lead to possible sanctions which may include revocation of Bank's license.

Management of TWB is advised to ensure compliance with capital minimum requirements by monitoring capital positions, on a daily basis, and take appropriate measures to maintain the required minimum position.

4.3 Muhimbili National Hospital (MNH)

4.3.1 Goods worth TZS 450.57 Million Not Delivered by MSD to the Hospital

Review of invoices from Medical Stores Department (MSD) showed that there were 48 invoices raised since 2010 totalling TZS 2.29 billion which MNH had paid in full. However, we noted that, out of the total invoice TZS 2.29 billion only supplies worth 1.84 billion were delivered and received by MNH by June 2016 leaving supplies worth 450.57 million not delivered. Untimely delivery of the medical supplies frustrates the medical services offered by the Hospital.

Management is advised to investigate on the matter, reconcile with MSD and make follow up on the goods which have not been delivered.

4.4 Universal Communication Service Access Fund (UCSAF)

4.4.1 Long Outstanding Uncompleted Projects - Provision of Rural Telecommunications Services

UCSAF financed 443 projects located in all regions of mainland Tanzania. These projects are carried out by telecommunications operators, namely: TTCL, Airtel, MIC (TIGO), Vodacom and Zantel.

Completion of all the projects is overdue here, out of 443 projects only 217 (equivalent to 49 Percent) had been completed as at the year-end leaving 226 projects not completed. Most of the uncompleted projects are from those executed by Vodacom and TTCL telecommunications.

Follow-up efforts of the delayed projects should be exerted to ensure the completion without further delay and enforce contractual conditions on delay of completion.

4.5 Tanzania Postal Corporation (2015)

4.5.1 Declining Trend of Tanzania Posts Corporation (TPC) Business

Review of Tanzania Postal Corporation (TPC) noted that the Corporation is faced with various challenges including Inadequate funding for operations, long outstanding debts from the Government TZS 3,869,820,730.94 with respect to payments made to EAC pensioners. Lack of strategic and business reviews, poor postal infrastructure i.e. Lack of Enterprise Resource Planning (ERP) that is compatible to TPC.

TPC business will continue declining if reforms will not be made to address the challenges faced. I am of the view that TPC needs major strategic reforms with focus on People, Processes, Technology and funding and that the Government should repay TPC TZS 3,869,820,730.94 used to pay EAC pensioners.

4.5.2 Non-remittance of Royalties and Annual Fees to TCRA TZS 1.38 Billion

TPC did not remit royalty and annual fees of TSZ 1.38 billion to TCRA which includes royalty and annual fees of TZS 1.08 billion relating to the previous year. This is contrary to Sec. 157 of the Electronic and Postal Communications Act (2010) and Reg. 28 (1) to (3) of the Electronic and Postal Communications (Licensing) Regulations (2011) which require royalties, fees and reports to be submitted to TCRA.

Non-compliance with regulatory requirements governing the industry may lead to penalties and/or suspension of business license. Management is urged to comply with the relevant legal and regulatory requirements by remitting the outstanding amount to TCRA.

4.6 Twiga Bancorp Limited

4.6.1 Going Concern Problem of the Bank

During the year ended 31st December, 2014 and 31st December, 2015 Twiga Bancorp Limited incurred a net loss of TZS 13.08 billion and 3.4 billion respectively, and having a shareholders' deficit of TZS 20.62 billion and TZS 18.7 billion for the year ended 31st December, 2014 and 31st December, 2015 respectively. This position raises doubt on the bank's ability to continue as a going concern. In addition, the core capital of the bank in two years is below the required minimum of TZS 5 billion contrary to Sec. 17 of Banking and Financial Institutions Act which also requires all banks and financial institutions to maintain at all times, core capital of not less than 10% and total capital of not less than 12% of total risk weighted assets.

Management is advised to investigate the cause of the poor financial performance of the Bank, and come up with strategies to revamp the operations of the bank.

4.7 Tanzania Education Authority (TEA)

4.7.1 Delay in Implementing Strategic Plan to Build Teachers Houses

Tanzania Education Authority planned to construct 53 multi-units teacher houses in marginalised areas with an approved budget of TZS 7.5 billion. The project was supposed to have been accomplished by 30th June, 2016. However, the Authority managed to construct only 15 houses which started in August 2016 and are expected to be completed in December 2016. The project delay was caused by delay in fund allocation and procurement of the contractors.

The Government is advised to provide adequate fund timely to the Authority for it to accomplish its projects to facilitate alleviate the problem of inadequate teachers accommodation.

4.8 Tanzania National Parks (TANAPA)

4.8.1 Delay in Completion of Projects

TANAPA has eight development projects costing TZS 756.89 million that were not completed as stipulated in the agreement. As at 31st June, 2016 no extension had been granted to these projects. We noted that, the execution of the projects stopped due to land conflicts and default of contractors. Delay in completion of the development projects may result into cost overrun.

Management is advised to ensure that all problems hindering execution of the projects are solved so that the projects can be completed within the agreed time frame.

4.8.2 Weaknesses in Management of Concession Fees

Hotels, lodges and camp-sites pay the Authority concession fees for operating within TANAPA. There were two methods of charging the concession fees i.e. 10 percent of the half board per person or using an agreed fixed rate. Currently, the Authority uses the later method.

TANAPA, however, has inadequate procedures to assess accuracy of the concession fees as it relies only on the revenue declared by hotels and lodge operators.

Management of TANAPA is advised to devise a mechanism of establishing accuracy of revenue declared by hotels and lodge operators or think of applying a fixed rate method where concession fees would be charged upfront.

4.8.3 Long Outstanding Rent from Ministry of Foreign Affairs TZS 2.4 billion

Ministry of Foreign affairs occupies TANAPA building as its office in Arusha Region. The Ministry has not paid rental fees for more than one year, whereby, a total amount of TZS. 2.4 billion has been outstanding as at 31st June, 2016.

Management of TANAPA is advised to exert more efforts and follow up so that the Ministry pays the rental fees outstanding as stipulated in the agreement.

4.9 Ngorongoro Conservation Area Authority (NCAA)

4.9.1 Sustainability of Ngorongoro Conservation Area

NCAA was established as a multiple land use area, designated to promote the conservation of natural resources, safeguarding the interests of NCAA indigenous residents and promote tourism. At the time of inception, NCAA had a population of about 20,000 comprised mainly of the indigenous groups living with their livestock, and with no permanent modern housing.

The 2012 census indicated that NCAA had a population of 80,000 with a growth rate of 4 percent. There are mushrooming registered villages with modern houses and some village settlements are of now considered as town. In 1976, the Ngorongoro Ward had only 4 villages. As in April 2016, there are 36 registered villages grouped in 13 wards. These settlements demand more social service infrastructure such as schools and health centers. Besides, given that there are no criteria for pastoral membership; other people are also migrating to NCAA. In view of this growth trend, in the near future, NCAA will experience many conflicts in the process of managing conservation and tourism.

The Authority's management is advised to undertake land use plan and measures to restrict human settlement and development in the Ngorongoro Conservation Area.

4.9.2 Anomalies noted in Sponsoring NCA Students

Ngorongoro Pastoralist Council sponsors students from poor pastoralist's communities. However the following anomalies have been noted;

a) There is no evidence of whether the ward development committee, sub education committee and executive committee discusses the names of students from the poor pastoralist families before obtaining final approval from the Pastoralist Committee as required in Para 1.9 of the Guideline for Sponsoring students. The Council budget for 2015/2016 has listed the names of students to be sponsored by NPC in various schools/colleges but there is no evidence as to how these names were obtained.

b) In the current year 1,036 students were sponsored by NPC which paid TZS 846 million for primary, secondary, VETA, middle college and higher learning without signing contracts by these students as required by the same guideline.

c) There were no proper records kept by the Council as data base for all students who were sponsored and those who continue to be sponsored by the Council to date. For instance, the list of students provided in the Council Budget did not tally with the sample of school/college visited during the audit. According to NPC budget records, number of students who have been sponsored by the Council in AIA, LITA Tengeru and Embarway Secondary School were 5, 20 and 194, while the actual number confirmed were 10, 3 and 152 students respectively.

Non-adherence to the sponsorship guidelines may deny right to students who are certainly in need of the assistance. Further, in the absence of proper data base of students sponsored by the Council, the Council may end up paying fees for non-existing students.

NCAA and NPC Management should ensure that there is compliance with the established Guidelines of Sponsoring students. Data base for all sponsored students should be maintained and accordingly updated.

4.10 Arusha International Conference Centre (AICC)

4.10.1 Losses Incurred following Breach of Agreement by LAPF TZS 473.76 Million

AICC owns 3.8 hectares of land at plot number 24 block Z – Kaloleni in Arusha which had 72 units constructed.

In 2012 these units were demolished to allow construction of ultra-modern shopping mall with initial estimated cost of TZS 40.5 billion. According to the agreement signed on 6th December, 2012, the shopping mall was to be built by AICC in a joint venture agreement with LAPF. Valuation report issued by M/s. Africa Property Limited in February 2012 shows that, the total market value of the demolished houses was TZS 1.85 billion.

However, up to the time of this audit (January, 2017), the plot has not been developed following cancellation of the project by LAPF who withdrew from the agreement on 16th July, 2014 by way of letter with Reference Number LAPF/A.26/01/30 claiming that LAPF had reached the maximum level of investments that it could get involved into.

Following the demolition, AICC, is losing about TZS 473 million every year, which would have been collected from the 72 units.

Management of AICC is advised to seek financial support from various sources to implement the project. Also, Management should liaise with LAPF on how AICC will be compensated in respect of the revenue forgone.

4.10.2 Revenue not Earned from Investment Properties TZS 1.53 Billion

Assessment of the working condition of AICC buildings revealed that some of the properties have remained vacant for more than a year. Ngorongoro, Serengeti and Kilimanjaro have 7,507 square meters that are vacant which would have generated TZS 1.513 billion yearly. Furthermore, there are two residential units around fire road which are vacant. The assessment shows that the houses would have realised TZS 15.6 million yearly if they had been let. Increase in the number of vacant offices is caused by one of the key tenants, the Mechanism of International Criminal Tribunal (MICT), [former ICTR] who reduced their space from 11,106 square meters to 3,269 square meters.

Management should therefore engage on aggressive campaigns to market the available Office spaces for letting.

4.10.3 Buildings with Multiple Ownership

Physical verification exercise revealed that, one property that was transferred to AICC on 15th April, 1983 as per GN No. 51, is currently used by Eastern and Southern Africa Management Institute (ESAMI). Though the building was earlier transferred to AICC, currently ESAMI holds legal title of ownership to the building and it is in their possession. This was caused by lack of clear procedures for transfer of ownership by the Government.

Management should continue to make close follow up on the matter and resolve the issue of ownership of the plot and the building.

4.11 Tanzania Civil Aviation Authority (TCAA)

4.11.1 Lack of Progress on Implementation of ADS-B Phase – I

TCAA contracted COMSOFT GMBH Company for installation of Navigation system and Equipment at a cost of € 1.58 million equivalent to TZS 3.4 billion in year 2013. The project aimed at improving technology for air traffic control activities.

My review of contract and implementation process noted that there has been no progress for implementation of Automatic Dependent Surveillance-Broadcast (ADS-B) Phase 1 started in May 2013. The implementation has stalled since 2014/2015 due to missing important components of navigation and related equipment to make the ADS-B operational and the supplier, **COMSOFT Gmbh,** declared himself bankrupt.

Further review found that the supplier had not submitted performance bond hence making it difficult for TCAA to recover funds paid to him.

I advise management to carry out a new detailed Company search on the current financial and operational capacity of **COMSOFT Gmbh**. This may need to involve Tanzania Embassy in Germany for reliable information.

Management is also advised to assess the challenges of implementation of the project and take appropriate decisions to improve air traffic control activities.

4.11.2 Slow Pace in Implementing ICAO Safety Recommendations

The Comprehensive Systems Approach Audit was carried out in Tanzania by International Civil Aviation Organization (ICAO) in May 2013. The Audit results indicate that the Authority is below the global average score of the Effective Implementation (EI) of a state’s safety oversight system for the eight critical elements (CEs) of the State Civil Aviation System. I further noted that, out of 529 total findings and protocol questions of the Effective implementation, the Authority completed and addressed only 226 (42.72 percent), leaving 303 (57.28 percent) of Effective Implementation yet to be completed.

Non-compliance with the Corrective Action Plan (CAP) agreed with ICAO and recommendations of ICAO Audit, may compromise air space security.

The Authority is advised to finalize implementation of the corrective action plans (CAPs) emanating from ICAO Audit and upload evidence required so as to at least maintain the global average for Effective Implementation (EI).

4.12 Institute of Rural Development and Planning (IRDP)

4.12.1 Institute Accommodation Capacity is 6% Out of all Enrolled Students

In year 2015/16 the institute had a total of 5,347 students whereby 2,755 are females and 2,592 are males in both campuses, Dodoma and Mwanza.

I noted that the institute had only single hostel in its main campus in Dodoma with a capacity of accommodating 312 while number of student were of 3,945. This accommodation capacity is only 7.9% while in Mwanza campus, there were 1,402 students but there is no any hostel, that is, there 0% accommodation capacity.

With this percentage of the available accommodation capacity, the performance of students may be affected this may be a critical problem for female students who may be susceptible to risk of sexual abuse.

Management is advised to have a plan to buid its own hostel that will be able to accommodate at least 80% of the enrolled students to enhance the academic performance of the students and reduce risks for the female students.

4.13 College of Business Education (CBE)

4.13.1 High Rate of Absenteeism 81.76 Percent

Through the 107th Governing Board's meeting, CBE management was directed to investigate the reasons for student failure as noted results at the end of 1st Semester in the academic year 2015/16. Only 1089 students out of 5009 passed the 1st Semester exams representing 21.7 percent.

The management identified absenteeism by both teachers and students to be the biggest cause of the failure and hence suggested introduction of attendance register so that teachers and students could sign in and out. Review of attendance register, however, revealed absenteeism to the maximum of 81.76 percent during the year 2015/16. The lowest absenteeism noted was 30.56 percent.

Absenteeism impacts academic performance of students and affects credibility of the college as well. This will in turn affect institutional performance as well as revenue prospective clients and stakeholders will opt out of CBE on the basis of credibility.

Management is advised to take stringent measures and be aggressive in their initiatives to resolve the problem. The absenteeism level noted indicates lack of management commitment in controlling issues adversely impacting the college.

4.14 Tanzania Electricity Supply Company Limited (TANESCO)

4.14.1 Withholding Taxes not Withheld TZS 1.36 billion

Sub-Sect. 1 of Sect. 83 of the Income Tax Act (R.E) 2008, requires a resident person to withhold tax from all service fees and contract payments. However, we revealed that TANESCO did not retain withholding taxes amounting to TZS 1.36 billion.

Failure to withhold taxes, not only denies the Government its revenues but also can lead to penalties and interests, which could significantly increase unnecessary expenses to the Company.

Management is reminded to make sure that, withholding tax from service fees and contract payments is withheld accordingly and submitted to TRA to avoid future consequences related to non-compliance.

4.14.2 Customer Portfolio Debts not Cleared TZS 24 billion

TANESCO had been transferring its customers' accounts from the old conversional meters to the new LUKU system. We revealed that, customers' portfolio with a total liability of TZS 24 billion have not paid their dues and there is no sign that the same will be recovered.

This situation denies the Company its revenue and might affect its operations. Also, there could be fraudulent acts by the customers and TANESCO's employees which may be caused by re-connecting some clients having been disconnected without paying their bills.

Management is advised to take necessary action to ensure they recover the outstanding and uncollected debts.

CHAPTER FIVE

REVIEW OF STRATEGIC AND OPERATIONAL EFFICIENCY OF PUBLIC ENTITIES

5.0 Introduction

Strategic management encompasses continuous planning, monitoring, analysis and assessment of activities necessary for an organisation to meet its goals and objectives. Strategic management typically involves: analysing internal and external strengths and weaknesses, formulating action plan, executing action plans, evaluating the achievements and making adjustments to attain the objectives.

In a business context, operational efficiency means the ratio between the input to run a business and the output gained from the business. Operational efficiency encompasses several strategies used to accomplish the basic goal of delivering quality goods or services to customers in the most cost effective and timely manner. It involves getting the most value from resources and eliminating waste in production or business operations aiming at improving productivity.

My review of strategic and operational efficiency included 11 public entities namely:

(i) Tanzania Electric Company Limited (TANESCO);
(ii) National Social Security Fund (NSSF);
(iii) Export Processing Zone Authority (EPZA);
(iv) Local Authority Pension Fund (LAPF);
(v) PPF Pension Fund;
(vi) Public Service Pensions Fund (PSPF);
(vii) Tanzania Communication Regulatory Authority (TCRA);
(viii) Tanzania Industrial Research and Development Organization (TIRDO);
(ix) University of Dar es Salaam (UDSM);
(x) Vocational Education and Training Authority (VETA);
(xi) Tanzania Ports Authority (TPA).

5.1 Tanzania Electric Supply Company Limited

5.1.1 Management of Independent and Emergency Power Plants (IPP's & EPP's), and Capacity Charges

TANESCO has engaged five Independent Power Producers (IPPs)/Emergency Power Producers (EPPs) in an effort to ensure constant power availability.

My review has indicated that, TANESCO buys power at an average price of TZS 544.65 per unit while its selling price is only TZS 279.35, which means, for every unit of power purchased, the Company sells it at a loss of TZS 265.30. Please Refer to Table 2 below:

As a result, the Company has accumulated huge debts in the form of capacity and energy charges.

Table 2: IPPs and EPPs Electricity Cost

Plant	Fuel Type	Capacity MW	Plant Avail. (%)	Energy Price (US$/kWh	Capacity Charge (US$/Mon
EPP's					
Aggreko	Gas Oil	100	75	0.38	1,806,255
Symbion 112	JET A1	112	75	0.38	2,827,283
Symbion DOM & Arusha	Gas Oil	105	75	0.39	3,779,213
IPP's					
Songas-Gas	Natural gas	189	92	0.03	5,266,169
IPTL (Interim)	HFO	100	75	0.23	2,678,233

Source: TANESCO

Before the suspension of Symbion, TANESCO was paying a total of US$ 16,357,153 as capacity charge for the above three EPPs and two IPPs power plants.

Currently, the monthly capacity charge paid by TANESCO is US$ 9,750,657 in respect of power purchased from Aggreko, Songas and IPTL plants.

In order to revive TANESCO and make the Company perform effectively, I recommend the following:

i. Energy charge tariff approved by EWURA should reflect the actual;

ii. Cost incurred by TANESCO after taking into account those costs relating to capacity and energy charges paid to IPPs and EPPs. The price also should include a margin to allow the company meet its other operational costs and additional investment costs to enhance its sustainability.

iii. The procurement of EPP and IPP projects should be made on a competitive basis in order to ensure that TANESCO gets IPPs which are cost effective.

iv. The Government should facilitate the company (TANESCO) to invest in cheaper sources of power production in order to avoid energy purchases from expensive sources.

5.1.2 Delay In Development of Hydro-Power Projects

a) Construction of Stiegler's Gorge Hydro-Power Project

Stiegler's Gorge hydropower project was earmarked in the Power Sector Master Plan (PSMP) of 2012. Before inclusion in the Power Sector Master Plan, M/s Oderbrecht Construction International Inc from Brazil, had conducted a viability assessment of this project in August, 2011 and came up with the following conclusions:

i. The project is by far very economical compared to other projects;

ii. The project is located within Selous Game Reserve which is a UNESCO heritage hence needs special permission to develop the project within the game reserve; and

iii. The total value of the project will be around USD 2.4 billion.

I have noted that, RUBADA signed an MOU with Oderbrecht Construction International Inc on 9th July, 2012. However, to date, only a scoping study has been concluded. Both Environmental Impact Assessment (EIA) and Environmental and Social Impact Assessment (ESIA) have not been conducted. On 5th December, 2016, RUBADA signed an addendum to the MOU to extend the validity of the original MOU for three years.

According to the studies, the project is expected to generate 2,100MW. An update of the Power Sector Master Plan (PSMP) of 2012 indicated that, the project is planned to be developed in 3 phases; stiegler's I 300MW in 2024, stiegler's II 600MW in 2026 and Stiegler's III 300MW in 2028.

I have noted that, RUBADA faces difficulties in getting reliable sources of funds to finance this project. In addition, since the project lies in Selous Game Reserve, it needs government efforts to seek for waivers from UNESCO to facilitate implementation of the project within this world heritage area.

I recommend that;

i. RUBADA should involve TANESCO, Ministry of Energy and Minerals and other key stake holders in all the stages of the project development.
ii. The Government should facilitate RUBADA/TANESCO in getting reliable sources of finance to enable them invest in hydropower projects which is regarded to be cheaper compared to other sources of power, Independent Power Production.
iii. Efforts should be initiated to obtain the necessary waivers from UNESCO to allow the project to be developed within Selous Game Reserve.

5.1.3 Construction of Songwe Hydropower Project

Songwe Programme is a multipurpose programme located on the border of Tanzania and Malawi; it is designed to achieve Generation of hydroelectric power, Flood protection by retaining flood waters in the reservoir and provision of irrigation water for irrigation activities in the floodplain. Construction of the Lower dam and Hydropower Plant is planned to take five years from 2017 with an estimated cost of USD 550 million.

I noted that, TANESCO has no direct control on the construction of the plant which may result to delay of implementation of the project since the hydropower Plant will be owned by the Joint Songwe River Basin Commission on behalf of the Government of Tanzania and the Government of Malawi. The Joint Commission will be responsible for the day to day supervision of the construction of the infrastructure through employed consultants and contractors therefore TANESCO will have to buy the Power from the Commission. Currently both countries are seeking ratification for the Convention for establishment of the Songwe River Basin Commission.

Further, the programme faces financial constraints since the Commission has to mobilize funds from Donors as the programme costs are estimated to be USD 829 million.

I advise the Government to ratify the Convention for establishment of the Songwe River Basin Commission to enable the project to start. Further, the Government should involve TANESCO in the processes of Construction of the Lower dam and Hydropower Plant so as to provide technical advice when needed.

5.1.4 Viability of TANESCO's Power Tariff

TANESCO's electricity tariff which is under a single buyer market with multiple energy producers, is governed by the Government through the Regulator – EWURA. This is done on a quarterly basis after a detailed survey of cost of service study undertaken by the regulator to establish applicable tariff reflecting actual cost of service for the quarter under review.

I noted that, such quarterly tariff approval does not include outstanding creditors that arose before the introduction of such system of quarterly review, hence this arrangement does not enable the Company to fully liquidate its outstanding debts.

I further noted from the analysis that, in most cases, the approval issued by the Regulator in respect of tariff requested by TANESCO does not reflect the actual cost being incurred by TANESCO which ultimately affects the ability of TANESCO to effectively carry out its daily operations including paying outstanding debts.

I also recommend that EWURA should critically review the electricity tariffs so as to include all the costs related to the power generation and a reasonable return, while allowing for prudent capital investments to improve TANESCO's service delivery and efficient financial operational performance.

5.1.5 Inadequate Efforts In Collecting Outstanding Debts From Debtors

My review has noted that, huge Company's funds are tied up in uncollected debts from customers. As of 30th June, 2016 the accumulated energy debts for the Government and its institutions amounted to TZS 144.854 billion equivalent to 67.4% of the total energy debtors. Outstanding debts from private customers amounted to TZS. 70.063 billion, equivalent to 33%.

It is evident that, non-payment of electricity bills by both public and private entities affects the company's liquidity and the ability to pay its outstanding creditors while effectively and efficiently running the Company.

I recommend:

i. TANESCO to make concerted efforts to collect the outstanding debts from its customers especially from Government and Public Institutions.

ii. The Government should facilitate TANESCO to collect the outstanding debts by instructing its institutions to timely pay its outstanding electricity bills.

5.1.6 Unpaid Lease Rent by Ministry of Energy and Minerals TZS 1.117 billion

During the audit, I noted that, MEM entered into a lease agreement for a period of 10 years with TANESCO in respect of office accommodation in TANESCO Office block along Samora Avenue, Dar es Salaam.

The effective date of the agreement was from 1st January, 2013 at a lease rent of Tshs 26,595,843.75 per month. However, the Ministry of Energy and Minerals has not paid the rent since the contract was signed. The unpaid rent has accumulated to TZS 1,117,025,501.5. Follow up efforts by Management to ensure the Ministry pays its debts have ended fruitless.

The unpaid lease rent continues to deteriorate the financial ability of TANESCO thereby aggravating the current financial distress of the Company.

Management of TANESCO is advised to put more efforts in following up with the Ministry of Energy and Minerals to ensure that MEM pays their outstanding rent. On the other hand, MEM being the Company's parent Ministry, should ensure that it does not contribute to the current financial distress facing the Company.

5.2 National Social Security Fund (NSSF)

5.2.1 Low Occupancy Rates for Invested Properties

The National Social Security Fund (NSSF) substantially invested in properties which are rented to hotels; companies, individuals while others are used by NSSF as office premises. I noted that, the occupancy rate for nine (9) Investment Properties were below the intended property market occupancy rate of 80 per cent. The occupancy rates ranged from 0 per cent to 43 per cent. These investment properties include Mwaza Hotel, Kigoma, Arusha (New Com. Building Old Moshi), Arusha (New Com. Building-Kaloleni), Kahama (New Building), Njiro Arusha, Kilimanjaro Commercial Complex, Mafao House Ilala and Morogoro Commercial Complex.

Discussion with the Fund management revealed that, the Fund is planning to slow down further investment in buildings and resolve to increase tenancy levels, and that, regional offices have been delegated the responsibility of letting out investment properties in their respective regions. It is my concern that, the value for money may not be achieved from the invested properties.

NSSF is advised to;

(i) continue promoting the available investment properties in order to increase their occupancy rate and slow down further investment in buildings

(ii) Ensure any further investment in building; plans should involve tentative research and analysis on the possibility of being fully occupied to ensure that the Fund gets positive investment returns.

5.2.2 Monitoring and Control Over SACCOS Loans

I noted that, NSSF had stopped issuing loans to members of SACCOS in June 2016 to strengthen controls and to make collections of the existing debts. As per the requirements, the loans were supposed to be issued to those SACCOS meeting necessary criteria. However, for the existing loans and those that were issued during the year prior to the decision to stop issuance of these type of loans, the following anomalies were noted:

i) Loans Disbursed to SACCOS Above the Approved Limit of TZS 1 Billion

I noted that, NSSF disbursed TZS 21.3 billion and TZS 2.2 billion to the National Assembly and Ndugumbi Community SACCOS respectively. The disbursements were above the approved limit of TZS 1 billion. NSSF Management explained that loan to Members of Parliament was a special scheme as a way of attracting new members to the Fund.

ii) Amount of Loans Disbursed Greater than 50% of a SACOSS Total Asset

I noted that Seven SACCOS were granted loans which were greater than 50 per cent of their total assets contrary to the approved limit. Table 3 shows the disbursed loans.

Table 3: Loans Greater than 50 per cent of the SACCOS Total Assets

Name	Total asset value	50% of SACCOS Asset TZS '000,000'	Loan granted TZS '000,000'
Mafanikio SACCOS	651million as at 31, 2013	325.50	490
Masoko Madogo SACCOS	assets amounting to TZS 305 million as of December 31, 2013	152.50	500
Ngima AMCOS SACCOS	assets worth TZS 163 Million as of December 31, 2014	81.50	500
UVIKASA	total assets amounting to TZS 494 Million as of 31 December 2014	247.00	500
VETA Mikumi SACCOS	total assets amounting to TZS 83 Million as at 31/12/2014	41.50	500
Total		**848.00**	**2,490**

iii) Absence of Evidence of Payments of Stamp Duties

I noted that stamp duties were not paid to four SACCOS which were given loans. This is against the requirements of Sec. 42 (2) of the Stamp Duty Act; (Cap 189) (revised 2006). These SACCOS were Masoko Madogo Madogo, Ngima SACCOS, Mafanikio SACCO and Mount Meru Hotel SACCOS with loans of TZS 500 Million, TZS 500 Million, TZS 490 Million and TZS 260 million respectively.

Non-compliance with the Stamp Duty Act by not paying stamp duties on contracts exposes NSSF to penalties.

iv) SACCOS Not Repaying their Loans

The loan agreements require that SACCOS repay their loans every year to NSSF. I noted that, 14 SACCOS had not paid their outstanding debts of TZS 4.8 billion since last year. I was informed that NSSF is currently taking legal action against all defaulted SACCOS.

I also noted that repayments for most of the SACCOS loans reviewed were not in accordance with initial repayment plans. Non-repayment of the principles and interests by the members of SACCOS casts doubt over the existence of these loans.

v) SACCOS Loans Given to Members Other than NSSF Members

WADOKI SACCCOS received Loan from NSSF of TZS 838 million for lending to NSSF members as per List of NSSF Members attached for Loan application. However 80 non NSSF members were paid TZS 200 million contrary to Loan Agreement, Article 2 (2.2), which states that *"The Borrower hereby undertakes to ensure that the Loan obtained from NSSF shall be utilised only for lending to members of NSSF as per list in appendix 1 of the Loan Agreement Article."*

I further noted that, some of NSSF Members who were included in the Original list sent for Loan application didn't receive the loans, some of them were given less than what they requested.

Management of NSSF should;

(i) comply with the requirements of the Loans Agreement Policies when advancing loans to the members of NSSF SACCOS

(ii) Institute rigorous controls to ensure repayments of the disbursed loans are made as per the requirements.

5.2.3 Weaknesses Noted With Investment in Land

Financial statements of NSSF showed that the Fund investment in plots (land bank) cumulatively was valued at TZS 97.2 billion. I noted weaknesses during acquisitions and existence of the already acquired land as shown below:-

(i) There was no plan and feasibility study in place to justify the reasonability for investment in such properties contrary to Para 3.3 of NSSF Investment Policy of 2012 which requires NSSF to commit its resources into high yielding investments in order to be able to offer meaningful benefits to its members. I also noted that all the plots/farms were yet to be developed.

(ii) I couldn't obtain certificates of occupancy for four (4) plots/farms for the reasons that they are in ownership disputes. These were Nunge Beach at Bagamoyo with 67.35 acres, Plot No 146/4, Old Moshi road in Arusha City Council with 4 acres, Clement Mabina Farm Bugando Magu with 38 acres and Plot No.98.Nyerere Road (Pugu) Temeke with 8,825 square meters.

(iii) NSSF entered into an agreement with Mwanza City Council for acquisition of 692 plots (405 plots at Kiseke and 287 plots Bugarika) at a consideration of TZS. 1,887,018,700, however, only 156 plots were allocated at Kiseke and no plots allocated at Bugarika. Further, on 8 Sept. 2011 NSSF engaged HABCONSULT LTD for provision of consultancy services to design and supervise the proposed construction of NSSF housing scheme at Bugarika in Mwanza city at a cost of TZS 753,985,200 of which TZS 216,070,615.64 was paid despite the fact that no plots were allocated at Bugarika.

(iv) Farm No.113 was acquired for TZS 1,260,000,000 at Mapinga in Kinondoni Municipality with 127 hectares but only 58 hectares were allocated.

I am concerned that, no due diligence was performed before acquisition of such plots/farms to assess the market value, ownership and size of the plots. There is a risk that the Fund might have acquired plots that do not exist.

Management is advised to take steps to ensure that the acquired land/plots reap the return on investments as per the objective of the investment policy.

5.2.4 Consultancy Contract for Acquisition of Pan African Energy Limited USD 946,500 and TZS 511,610,000

NSSF entered into Contract No. NSSF/CS/20/2014-2015 on 12th February, 2016 with M/s. Yakubu and Associates Chamber for provision of advisory consultancy services to structure and facilitate the procurement of a strategic partner towards acquisition of M/s. Pan African Energy Limited at a professional fee of USD 946,500 and reimbursable and local taxes of TZS 511,610,000. The following weaknesses were noted:-

(i) Reg. 253 and 258 of PPR (2013) sets a criteria for adoption of various selection methods and insists on informing the Regulatory Body for assignments with complexity prior to consultants submitting their proposals. The expression of interest was neither prepared nor advertised contrary to the noted Regulations.

(ii) The consultant lacked required experiences as stipulated in the Terms of Reference that include experience in Local real estate and environmental issues, tax (local & international advice) and hydrocarbon licensing framework and regulations. M/s. Yakubu and Associates chamber was firstly registered in the same year of the invitation of the tender and sub consultancies did not have experience with local environment.

(iii) The Consultant was to review a due diligence report prepared under contract No. NSSF/CS/20/2014-2015 entered into on 11 December, 2014 for provision of consultancy services to acquire transaction advisor to undertake due diligence on M/s. Pan African Energy Ltd. Reg. 257 (2) (a) of PPR, 2013 which was used by the Tender Board to justify this award referring the tasks as a natural continuation of previous work carried out by the firm was not valid.

(iv) The contract had already expired on 26 April, 2016 but no extension of time was granted as per Reg.111 (1) of the PPR, 2013 that allows extension of time by the Accounting Officer and reasons to do so. The Consultant raised invoice No.01031604 dated 1st March, 2016 but up to 07th October, 2016 the payment was not yet effected.

I am concerned that NSSF had not complied with the selection criteria of the consultancy stipulated in the Procurement Regulations and terms of Reference.

Management of NSSF should consider terminating the contract as a matter of convenience as per clause 67.1 due to complexity of the transactions and Consultant lacking the required experience to carry out the awarded assignment.

5.2.5 Dungu Farm and Tuangoma Investment Project

The Trustee had entered into various contracts worth TZS 165.4 billion in regards to construction of a satellite village at Dungu farm/Tuangoma Kigamboni in Temeke Municipality Dar salaam. The Fund had already incurred cost of TZS 73.4billion. The following weaknesses were noted:

i) Absence of Feasibility Study for the Project

NSSF implemented the project without conducting any feasibility study which could give management reasonable assurance in the investment. I could not ascertain the basis and criteria which influenced management decision to invest, objective of the investment, and the plan to recover the funds injected in the project.

ii) Unrealistic Plot of Land at Dungu Farm

During the commencement of the project, NSSF noted that part of the land belonged to National Housing Corporation, as such, some of the construction work moved to Tuangoma. Management couldn't provide the acquisition documents of Tuangoma plots and whether the new areas had the same size, marketability and rate of return as it was in Dungu. Further, Board or Management decision to re-allocate some of the buildings to Tuangoma was not provided for audit review.

iii) Multiple Award of Water Network Supply at Dungu Farm

I noted that NSSF issued notification of award to M/s. Canopies International for tender No.PA/004/2014-2015/HQ/W/27 for construction of water supply network at Dungu Farm dated 07th September, 2016 but this activity had already been included in the awarded tender of other three (3) bidders amounting to TZS 4,363,008,112 as such we could not obtain justification for additional award. There was no

clear clarification on what prompted this tender and how will the ongoing contracts be affected by this award and the areas for which the implementation will be performed.
There is a risk that the Fund will not get value for money for the ongoing Dungu and Tuangoma projects.

Management of NSSF is advised to investigate the Dungu Farm/Tuangoma project to come up with the realistic area of the plot of land at Dungu Farm and resolve the multiple award of contract for water network supply at Dungu Farm.

NSSF is advised to conduct a feasibility study before implementation of any project so as to have a reasonable assurance on returns to investment of their projects/investments.

5.3 Export Processing Zone Authority (EPZA)

5.3.1 Inefficient Monitoring and Evaluation of Investors with EPZA License

Sec. 14 (1) of Special Economic Zones (SEZ) Act, 2012 requires the Authority to initiate, develop and manage the operations of the SEZ on behalf of the Government. Further, Reg. 5(a) of SEZ's Regulations, 2012 requires the Authority to regulate, supervise and monitor day to day activities of the SEZ business entities and SEZ residents in each SEZ to ensure compliance with the Act and Regulations.

I noted that EPZA has no investors monitoring and evaluating mechanism to ensure compliance by the investors with EPZA Investment guidelines and license requirements. I noted that during the year under review, the Authority conducted only a single site visit.

EPZA is advised to:

(i) Conduct investors monitoring and evaluation so as to ascertain progress and overall performance of SEZs and ensure compliance by investors with EPZA investment guidelines

(ii) Establish a department of monitoring and Evaluation to fully execute its regulatory, supervisory and monitoring roles.

5.3.2 Lack of Data Integration between TRA and EPZA

For the exemption process to be complete, investors are required to submit a list of goods for tax exemption where the Authority reviews and recommends to TRA for approval. During our review, we noted that EPZA had 158 investors that had been registered by TRA. However, it was noted that there is no interface of systems between TRA and EPZA and there are no reconciliations carried out to reconcile the available investor's information between the two institutions. As a result, EPZA is unable to determine with accuracy the amount of exemptions granted to investors and how the exemptions have been used.

EPZA should liaise with Tanzania Revenue Authority to get proper and appropriate access to necessary information of project's investors to facilitate adequate monitoring of investors' operations.

5.3.3 Inadequate Performance of the Licensed Investors

The Government established EPZ program in 2002 with the aim of establishing export oriented investments within the designated zones with the views of creating international competitiveness for export in order to enhance the country's economic growth.

Later in 2006 Special Economic Zones (SEZs) were established as a strategy to achieve Mini-Tiger Plan 2020, the objective being to promote quick and significant progress in economic growth, export earnings and employment creation as well as attracting private investments in the form of both Foreign Direct Investments (FDI) and Domestic Direct Investment (DDI) from all productive and service sectors.

As part of licensing procedures, Investors submit a project proposal which is subjected to evaluation whereby capital investment and employment to be created form part of the criteria which in turn becomes a performance contract between EPZA and a particular investor after being issued with a license.

I reviewed 13 investors' files out of 57 files of active licensed investors. Our review noted that the actual capital investment attracted was TZS 43.4 billion equivalent to 33 per cent of the total promised capital investment of TZS 132.4 billion while the actual employment generated is 3,850 equivalent to 87 per cent of the promised employment of 4,439. This underperformance can mainly be attributed to failure by EZPA to execute performance contracts between EPZA and investors after being issued with licenses.

There are risks of failure by the Authority to meet its strategic objectives in terms of capital investment and employment creation due to failure to execute the related performance contracts with investors.

EPZA is advised to develop rigorous mechanism to encourage investors to comply with the proposals submitted during license application and sign performance contracts with investors.

5.4 Local Authority Pension Fund (LAPF)

5.4.1 Policy for Evaluating and Monitoring of Investments

Para 5 (2) (f) of the Social Security Schemes Investment Guidelines (2015) provides for the Board of Trustees of every scheme to ensure that, at minimum, investment policies should have procedures for monitoring and evaluating investments. The procedures will help the Fund to identify problems and failures and take immediate corrective actions. Putting them into policy helps to enforce implementation as it becomes mandatory to management and/or those charged with governance.

I noted that LAPF policy on investments is not adequate for evaluation and monitoring functions as it focuses on returns only. Thus, the investments are evaluated only on returns which is not enough as it covers only one aspect of revenue generating investments leaving behind investments in progress which are prospects of future income and other dimensions which in one way or another, affects actualization of income earned. The Investment policy does not cover aspects of evaluation and monitoring on implementation of investment budget, assessment of percentage of financial vs physical completion of real estates and infrastructure projects. The policy also does not address issues relating to the recoverability of loans and rent.

Incomprehensive investment policy escalates the risks of not detecting, tracking and taking appropriate corrective actions of real investments impediments at early stages

LAPF Management is advised to:

- Intensify other dimensions of evaluation and monitoring of its investments so as to have effective performance and achievement of its plans/goals.

- Revisit its investment policy on evaluation and monitoring to broaden and include aspects which affect the Fund's performance on implementation of investment budget, assessment of percentage of financial vs physical completion of real estates and infrastructure projects, including addressing issues relating to recoverability of loans and rent.

5.4.2 Inadequate Compliance with Provisions of SSRA Act

LAPF is required to comply with various provisions of SSRA Act. Our review identified several areas of non-compliance with the Act as follows:

- Sec. 27 (1) (d) of SSRA Act requires Pension Funds to submit a report for contributions that have been due for more than 30 days forthwith. Our review revealed that, only quarterly reports were sent to SSRA and BOT instead of contributions report.

- Sec. 53 (1) of SSRA Act requires an annual report to be sent to SSRA six months after the end of each financial year. For the financial year ended 30th June, 2015, the annual report was supposed to be sent by 30th December 2015. Our review noted that, the annual report was signed in February 2016 by the Board.

Non-compliance with the provisions of SSRA Act could attract penalties including sanctions.

Management is advised to comply with provisions of SSRA Act in order to avoid consequences that might be associated with non-compliance.

5.4.3 Inefficiency in Rent Collection

LAPF had entered into rent contracts with various tenants, whereby, the tenants were required to pay rents in advance as per the contract agreements. I noted a total of TZS 774 million and TZS 261 million to have been outstanding for more than three months and twelve months respectively. The situation has significant liquidity implication to the Fund which will in turn affect the Fund's operations as rental income has huge contribution to its revenues.

Management should intensify efforts to collect the outstanding rent to ensure that collection of rent from tenants is done on a timely manner.

5.4.4 Investment in Subsidiary

LAPF has 80% and 60% shareholdings in Mwanza Commercial Complex Company Limited (MCCCL) and Msamvu Properties Company (T) Limited (MPCT), respectively. The remaining shares of the companies are owned by Mwanza City and Morogoro City Councils respectively.

In the formation of MPCT, Morogoro City Council contributed land which was valued at TZS 2.9 billion while LAPF agreed to provide all the funding required to construct the bus stand. In the formation of MCCCL, Mwanza City Council contributed land which was valued at TZS 6.2 billion while LAPF agreed to provide the funding for the construction of the mall. As at 30 June 2016, LAPF contributed total capital of TZS 7.3 billion and TZS 65.9 billion in Msamvu Properties and Mwanza City Council, respectively.

Para 12 of the Memorandum of Understanding (MOU) between the Fund and Morogoro City Council and Para 14 of the MOU between the Fund and Mwanza City Council contain a clause which states that the Companies shall be transferred to the Councils once LAPF has realized its invested funds plus interest as shall be agreed by the parties. No further details regarding this arrangement have been provided.

Nevertheless, management of LAPF is of the view that the clause in the contracts is not substantive and no transfers will happen in the future. In addition, management believes that this arrangement does not constitute a service concession arrangement in accordance with IFRIC 12 as the Government (through the municipality) does not set prices to be charged to users of the bus terminal. Prices are set up by the board and approved by the shareholders in the AGM.

While the accounting treatment of the companies as subsidiaries may be correct based on substance over form, in future, the legal aspect may be challenged by the stakeholders and this could result into serious disagreements.

Management should review the Memorandum of Understanding to clearly indicate that no transfer of investment in subsidiary companies will take place in future.

5.5 PPF Pension Fund

5.5.1 Deficiency in Loan Recovery Process

PPF is providing loans to various stakeholders such as members' SACCOS, Government, Corporate entities and staff as allowed in SSRA Act and Social Security Schemes Investment Guidelines.

SACCOS loans are recovered from employees' staff by the employers for government employees. Due to change in the system of salary payments by the Treasury, the Treasury is now depositing salaries direct to employees' accounts, therefore, reducing chances by the SACCOS to recover the loans directly. For private institutions the repayments were supposed to be done promptly.

We have noted deficiencies in the recovery of loans instalments whereby members' SACCOS have a loan balance of TZS 42.81 billion as at 30th June, 2016. We reviewed fourteen (14) SACCOS and noted that the Fund had a past due balance of TZS 2.78 billion expected to be received from SACCOS but was yet to be received at the end of the year.

Despite management efforts to follow up, PPF may be unable to recover these loans as most of these SACCOS are from Government institutions. The Table 4 below shows the past due balance of the sampled fourteen (14) SACCOS:

Table 4: Past Due Balance of the Sampled SACCOS

SN	SACCOS Name	Amount Due (TZS)	Payment (TZS)	Overdue (TZS)
1	SUA SACCOS	613,202,486	505,820,750	107,381,736
2	IFM SACCOS	1,911,469,317	1,778,758,967	132,710,350
3	NYUMBU SACCOS	491,805,911	344,510,340	147,295,571
4	TPRI SACCOS	1,525,958,947	1,085,249,701	440,709,245
5	MLIMANI SACCOS	413,324,345	380,321,799	33,002,546
6	TIB SACCOS	1,100,286,285	994,847,652	105,438,633

SN	SACCOS Name	Amount Due (TZS)	Payment (TZS)	Overdue (TZS)
7	TPAWU SACCOS	278,613,011	184,863,912	93,749,099
8	OUT SACCOS	166,447,415	93,825,714	72,621,701
9	DIT SACCOS	336,571,728	308,427,284	28,144,444
10	TSN SACCOS	1,968,816,025	1,151,362,700	817,453,325
11	NDC SACCOS	2,173,080,814	1,748,759,765	424,321,049
12	RELI SACCOS	1,263,779,889	948,953,820	314,826,069
13	DUCE SACCOS	103,366,873	88,600,176	14,766,697
14	SANAPA SACCOS	74,364,656	53,117,610	21,247,046
	TOTAL	**12,421,087,701**	**9,667,420,190**	**2,753,667,511**

Funds tied up in debts for long, increase the risks of recovery, hence impair the performance of the Fund. Failure by the Government to timely issue non-cash bonds as planned, may limit PPF to recover the funds given to the University of Dodoma, Nelson Mandela University and NIDA which were guaranteed by the Government.

Management is advised to continue taking aggressive measures to recover the outstanding members SACCOS loans and to continue making follow up with Ministry of Finance so that the non-cash bonds can be issued to settle the outstanding loans.

5.5.2 Non-submission of Contribution Reports to SSRA

Sec. 27 (1) (d) of SSRA Act requires Pension Funds to submit a report for contributions that have been due for more than 30 days forthwith.

I noted that PPF had not been submitting the reports for contribution which are due for more than 30 days. It came to our attention that management had been submitting only quarterly reports as per requirements of Social Security Scheme Investment Guideline and not as per SSRA Act. I also noted that the regulator (SSRA) has only been insisting on the quarterly reports and ignored contribution reports as per the provision of the Act. The Fund's management agreed to liaise with SSRA regarding future submission of such reports as per Sec. 27 (1) (d) of SSRA Act.

PPF has not complied with the requirement of SSRA Act which could attract penalties or sanctions.

Management of PPF is advised to comply with the requirements of SSRA Act and submit the reports for all the contributions which are due.

5.5.3 Non Achievement of Annual Investment Project Targets

Sec. 14 of the PPF investment policy requires the Fund to evaluate itself by comparing periodical targets against actual performance. The evaluation enables the Fund to be focused on achieving what it has planned.

During the year under review, I noted that PPF had not achieved its investment budget by TZS 131.55 billion (TZS 207.74 billion budgeted investment against actual investment of TZS 76.19 billion). This being 63 per cent of the annual planned expenditure on investment projects.

The low budget absorption of the financial instruments was significantly caused by non-issuance of corporate bonds in the market where TZS 18.03 billion was budgeted and TZS 14.14 billion couldn't be spent.

The low performance of the fixed assets investment was due to non-alignment of budget timeline by management.

I am concerned that PPF is unable to achieve its intended targets hence impair its reaching the targeted strategic objectives and operational performance.

Management is advised to institute rigorous measures to ensure that back log activities are implemented as planned.

5.5.4 Low Occupancy Rate of PPF Buildings

PPF has hired property managers for its real estate investments located in several parts of the country. The respective property managers have been vested with the duty of bringing the tenants and ensuring rent collections by the Fund.

On assessing the occupancy rate, I have noted that some parts of these buildings have not been occupied as per the set targets. With a minimum rate of USD 12 per month, the Fund is losing USD 43,000 per month equivalent to USD 516,000 per annum. This is deemed to be significant to add value to the Fund.

The table 5 below shows an analysis of the loss:

Table 5: Analysis of the Loss

S/N	Property name	Lettable area	Expected Occupancy	Occupied area	Occupancy ratio	Target ratio	Loss (US $)
1	PPF Tower and Parking Arcade	13567	12,210.3	9,900	72.97%	90.00%	27,723.60
2	PPF Plaza Mwanza	3,664	3,297.6	3,089	84.31%	90.00%	2,503.20
3	PPF Plaza Arusha	7,515	3,757.5	2,670	35.53%	50.00%	3,050.00
	Total						**33, 277**

Management explained that they are working closely with the Property Manager to attain the targeted occupancy level of 90 per cent. Also management is assessing performance of the property managers on quarterly basis for evaluation and monitoring of the same.

I am concerned that unoccupied space resulted into loss of revenues. I am also concerned with the inefficiency by the property managers which resulted into failure by the Fund to meet the targeted occupancy rate.

Management is advised to;

(i) Continuously follow up with the property managers to assess their ability to bring the tenants and ensuring rent is collected;

(ii) Initiate appropriate measures to ensure that the targeted occupancy rate is achieved.

5.5.5 Returns on Investments Projects

Section 9(1) of the Social Security Schemes Investment Guidelines requires the Board of Trustees of every scheme to ensure that any investment different apart from Treasury instruments to have returns which are over and above the return on Treasury bills/ Treasury bonds.

My review noted that PPF had investment projects which had lower returns than the treasury instruments at the time of implementation. This is as result of not having a comprehensive analysis on real estate investment.

Management had it that investing on properties helps to preserve capital, also the estimated projections of returns have only taken into account cash flow projections while properties appreciate in value over a time.

There are risks that the Fund is losing opportunity to obtain higher rates of returns by not investing in Government Securities which are risk free and have higher rates of returns comparing with real estates.

Management is advised to develop a comprehensive analysis on real estate investment by including maturity or life span of properties and make viable estimations of appreciation in value over a time so as to make reasonable comparison.

5.5.6 Issuance of SACCOS Loans Above Credit Limit

PPF issues loans to SACCOs using various criteria including audited financial statements of the borrower in-order to identify the credit risk on the investment. However, it has been noted that, SANAPA SACCOs was issued with a loan of

TZS 500.00 million instead of TZS 234.40 million. The amount of loan disbursed TZS 265.6 million above the credit loan limit based on the audited financial statements of the named SACCOS.

Issuing loans in excess of the agreed credit limit increases the risk of default.

PPF is advised to ensure all loans disbursed are properly reviewed and aligned to the Fund's credit policies.

5.6 Public Service Pensions Fund (PSPF)

5.6.1 Low-Performing Investment

PSPF commenced construction of 1,144 low cost houses in year 2008 for the purpose of selling them to the PSPF members. The Fund planned to implement the project in four phases, phase I (668), phase II (141), phase III (200) and phase IV (135).

During our site visit, I noted that the Fund started implementation of the first phase by constructing 666 houses in Dar es Salaam, Mtwara, Morogoro, Shinyanga, Tabora and Iringa Regions at a cost of TZS. 29.7 billion. The houses were supposed to be sold within two years after being completed in June 2014 and earn a projected profit of TZS 5.1 billion for the whole project life. However, I noted that the Fund sold 304 houses on hire purchase out of the 666 houses. The sold houses are equivalent to 46 per cent.

I also noted that PSPF has been facing difficulties in selling the houses, which might have been caused by lack of social amenities and utilities and others lacked burglar-proofs bars.

Management of PSPF is advised to:

(i) Ensure availability of social amenities and utilities to the projects of Kihonda Morogoro, Tabora, Buyuni- Dar es salaam.

(ii) Come up with a strategy on how the remaining houses will be sold and collect revenue for the houses which were sold on hire purchase.

5.6.2 Non-compliance with Investment Limits

The Social Security Regulatory Authority (SSRA) and the Bank of Tanzania (BOT) issued investment guidelines made under Sec. 26(2) of the Social Security Regulatory Authority Act No. 8 of 2008 which sets limits on various permissible areas of investment for Pension Funds, Banks and Financial Institutions. The limits are 20-70 per cent of total assets in Government Securities and 10 per cent on loans.

However, I noted that PSPF had invested in Government Securities to the tune of 3.32 per cent of total assets and direct loan to the Government of 25.69 per cent of its total assets contrary to the above set limits.

Further, Section 27 of the SSRA Act requires Pension Funds to exercise management of members' Funds at the best interest of the members and not to the contrary. This implies that the set investment limits need to be monitored as well.

I am concerned that non-compliance with set limits may subject the members' funds to risks. Management is advised to abide with regulatory requirements and to do away with the plans that are not at the best interest of members' funds to avoid unnecessary risks.

5.6.3 Funding Actuarial Valuation

Actuarial valuation report for PSPF prepared by Muhana & Co Actuaries & Consultants showed that accumulated fund of PSPF as at 30th June, 2014 was TZS 1,306,707 Million and the actuarial Fund liability was TZS 12,460,217 Million leading to an actuarial deficit of TZS 11,153,511 Million.

My reviews noted the following:

i. The total past service actuarial liability of TZS 12,460,217 Million includes TZS 7,224,634 Million liability due to the Government, TZS 4,553,294 Million liability of existing pre-99 employees as at 30th June, 2016 and TZS 2,671,340 Million represents payments made to the retired pre-99 employees from 2004 to 30th June, 2014 as gratuity and monthly pensions plus interest accrued thereof.

ii. A letter from the Ministry of Finance with Ref. No. CJA.452/479/01 dated 3 November, 2015 to the Governor of BoT requesting him to issue a special bond of TZS 2,671,340 Million. The Government through the Cabinet meeting held on 5th March, 2015, approved issuance of the Non-Cash Special Bond for Settling the outstanding debt of TZS 2,671,340 Million owed by the Government to Pension Fund which takes into account payments made by PSPF to the retired pre-99 employees from 2004 to 30th June, 2015 as Gratuity and Monthly Pensions plus interest accrued thereof.

iii. The actuarial report detailed projections of the future income and expenditure from the PSPF so as to assess its short, medium and long-term financial position. The projected actuarial report noted significant decline of investment income and accumulated fund over years. The results of the actuarial cash flow projections from 2015 to 2019 is shown on the table below:

Table 6: Cash Flow Projections – BASE Scenario (in thousands TZS)

Year	Contribution Income '000,000'	Investment Income '000,000'	Total Income* '000,000'	Benefit Expenditure '000,000'	Total outgo* '000,000'	Accumulated Fund '000,000'	Accumulated Fund in real terms '000,000'
2015	645.94	114.65	760.60	838.10	876.02	1,191.28	1,191.28
2016	740.75	99.27	840.01	926.77	970.35	1,060.95	989.69
2017	770.56	80.84	851.40	1,015.72	1,061.31	851.05	746.12
2018	831.20	58.71	889.91	1,092.32	1,141.57	599.38	497.60
2019	889.08	33.46	922.53	1,205.69	1,258.52	263.40	208.63

Source: PSPF Pension Fund Actuarial Report

My review noted that, there is a need of revising the Public Service Retirement Benefits Act, 1999 to capture the current development with regards to pre-1999 employee's liabilities. Section 75 of the Act provides that, "***Subject to the provisions of this Act, all powers, rights, privileges, duties, liabilities or obligations which, immediately before the commencement date were those exercisable by persons in accordance with the provisions of the Pensions Ordinance shall as from that day devolve on the Pensions Fund*". This suggests that, the pre-1999 liabilities devolved to the Fund.

In addition, Section 46 of the Act provides that "***If the Fund is at any time unable to pay any sum which the Fund is required to pay under this Act, the sum required to be so paid shall be charged on and advanced to the Fund from the Consolidated Fund and the Fund shall as soon as practicable repay to the Government the sum so advanced***".

This section suggests that any funds paid by the Government should be treated as advances which are subject for refund by the Fund.

Delay by the Government to pay its outstanding debt subjects the Fund to liquidity problems leading to failure to honor matured financial pension obligations.
Management is advised to make follow up with the Ministry of Finance to ensure the Government pays its loans and issue Non –cash bond to strengthen the liquidity position of the Fund.

In order to enforce the above letter and previous agreements made between the Fund and the Government, I recommend for the current Public Service Retirement Benefits Act, 1999 to be revised in order to accommodate the current environment with respect to the pre-1999 liabilities.

5.7 Tanzania Communication Regulatory Authority (TCRA)

5.7.1 Moving Stations for Spectrum Monitoring System

The level of spectrum has been increasing necessitating TCRA to develop a spectrum monitoring system with highly effective and versatile tools.

My review of the Spectrum Monitoring System (SMS) needs assessment noted that TCRA has only two moving stations, although six of them are required to cover at least the six TCRA zones of Zanzibar, Dar es Salaam, Arusha, Mwanza, Mbeya and Dodoma. Further, existing moving stations located in Zanzibar is not in conformity with the current existing software Scorpion Spectrum Monitoring run by TCI International Inc. as it can only go up to 3 GHz.

Absence of moving station in TCRA zones, apart from Dar es Salaam, impairs the effective monitoring process of spectrum. TCRA may not be able to monitor the spectrum system in the remaining zones.

TCRA management is advised to perform a detailed needs assessment for each zone and come up with a comprehensive list of spectrum monitoring systems required to obtain better value solutions; and prioritize the acquisition of spectrum monitoring systems to fully cover the four moving stations yet to be covered.

5.7.2 Entities not Registered With dot (.) tz Domain

Regulation 10(1) of The Electronic and Postal Communications 2011 requires any public or business entity in Tanzania to register and use domains with the dot-tz.

Review of .tz registration process revealed that, some private companies are yet to comply with the requirement of this Regulation and are still operating using their foreign based domains which are also hosted abroad. Further, the number of entities required to change their foreign website domains is unknown.

Having foreign domain leads to absence of coordination between tzNIC and other government entities like BRELA and TRA; where the business licenses are issued and quarterly returns are submitted also first-hand information is still held and controlled outside the country, which may pose information security threat to the Government.

TCRA management is advised to establish a data base to ensure the number of entities required to change website domains is identified and that both public and private companies are registered with .tz domain; and have coordination between tzNIC, BRELA and TRA in identifying the entities that are required to be registered with dot (.) tz domain.

5.7.3 Technical Contribution by TISPA not Quantified

Tanzania Network Information Centre (tzNIC) was formed in 2006 by TCRA and TISPA as a public private partnership responsible for administration and management of the dot (.) tz registry. While TCRA was supposed to support and facilitate establishment of tzNIC, TISPA is responsible of provision of technical support to tzNIC.

However, TISPA's contributions of the technical support has not been quantified and expressed in financial terms, which raise concerns on the recognition and identification of their overall contribution for proper running of the center. The total running costs of tzNIC contributed by both parties cannot be established reliably.

I am of the view that, quantification of contributions is necessary for transparency and acknowledgement of efforts made by each party to tzNIC' operations. Therefore, Management of TCRA is advised to sit together with TISPA to discuss and agree on ways of quantifying the technical contributions by TISPA.

5.7.4 Failure to Develop a Business Plan to Smoothen Implementation of .tz Registry

After accomplishing the non-contested re-delegation process in 2010, tzNIC was designated by the Internet Corporation for Assigned Names and Numbers (ICANN) as both Administrative and Technical contact for the .tz country code Top Level Domain (ccTLD).

My review of the procedures for establishment of tzNIC noted that there was neither evidence in the form of a report justifying feasibility study performed before tzNIC was formed nor business plan to support the decision to implement the project.

Lack of business plan and feasibility study increases the risks that implementation of the project which will not be realized as potential risks will not be fully mitigated by considering the proper needs of both the Authority and all other stakeholders. Management of TCRA in collaboration with TISPA is advised to develop a comprehensive business plan that will support the operations of tzNIC.

5.7.5 Internet Data and Airtime Usage Not Monitored by TCRA

Reg. 4 (2)(b)-(d) of the Electronic and Postal Communication (Telecommunications Traffic Monitoring System) Regulations, 2013 requires TCRA to acquire, install, operate and maintain traffic monitoring and measurement device at the operator premises and verify returns of the telecom operators.

My Review of modules under Telecommunications Traffic Monitoring System (TTMS) revealed that there are no modules for detection and monitoring of actual internet data used and its costs together with the actual revenue earned by mobile operators for a specific airtime recharged. On inquiry, management of TCRA responded that primarily TTMS was developed to monitor telecommunication traffic. Due to emerging needs, there is a room for improvement by adding more modules and that currently there are ongoing discussions between TCRA and Tanzania Revenue Authority (TRA) on how this can be taken into account.

Inability to monitor the internet data and airtime usage suggest that there are risk that TCRA is unable to give assurance of revenue declared by mobile operators or telecoms leading to uncertainty over tax being declared by mobile phones and telecommunication Companies.

TCRA management is advised to liaise with TRA and BOT to intensify their efforts to incorporate additional modules on the existing TTMS modules to help the Government in tracking internet data and airtime usage for proper revenue management.

5.7.6 Existence of Spectrum Interferences among Users

Review of interference reports from July 2015 to June 2016 for TCRA Dar es salaam Zone noted transmission interferences are still occurring between frequencies or networks contrary to the requirements of Regulation 8 (1) and 9 (1) (a) (b) of the Electronic and Postal Communications

(Radio communications and Frequency Spectrum) Regulations, 2011.

I further noted absence of user guideline which would be used as a way to increase awareness of how best to operate within a given frequency range; and that TCRA uses only field visits as a mechanism to monitor interference among different frequencies. This creates a room for some unregistered operators to periodically use the spectrum by going on and off hence difficult for TCRA to timely recognize them.
I am of the view that there are risks on safety as the radio spectrum range is near air space range for planes thus any harmonics arising might severely impact the airspace range for planes.

TCRA is advised to devise guidelines of increasing awareness to operators on how best to operate within a given frequency range and frequently send reminders to them on how to conduct their operations within the boundaries of given frequencies with a view to alleviate the frequency interferences among spectrum users.

5.7.7 Absence of Database for Radio Calls, Security Fenced Alarms, and Vehicles Tracking System

Review of the spectrum management processes noted that TCRA does not maintain a database for radio calls, security fenced alarms, and vehicles installed with communication and car tracking system. Therefore, the reported revenue by TCRA might not reflect the actual situation as it solely depends on voluntary declaration of companies or individuals owning radio calls or installed security fenced alarms to houses and security systems to vehicles.

Further, I noted that, there is no scheduled inspection plan which could show the location, companies involved, number of inspectors, time taken to carry out the assignment, time between successive inspections and the report issued thereof with the aims of identifying number of houses installed with security fenced alarms, companies and individual owning radio calls or vehicles with tracking system.

Voluntary declaration of ownership suggests weaknesses over identification and monitoring of radio calls, security fenced alarms and each vehicle installed with tracking system. Absence of consolidated register indicates weak spectrum management processes hence, risks of existence of unregistered users.
TCRA is advised to ensure identification of actual number of radio calls, security fenced alarms and vehicles installed with tracking system. TCRA should ensure that all these facilities are registered and consolidated into a single database.

5.7.8 Country's Main Optical Fiber Not Regulated by TCRA

TCRA is responsible for regulating communications, broadcasting, electronic communications, postal services, and management of the national frequency spectrum in the United Republic of Tanzania. The main optical Fiber is one of the electronic communication and it therefore qualifies to be regulated by TCRA.

My audit revealed that there is conflicting roles between the Ministry of Works, Transport and Communications and TCRA, currently the main fiber optic is under TTCL where TCRA tends to withdraw from their mandate and responsibilities.

TCRA is advised to initiate a discussion with the Ministry of Works, Transport and Communications and inform them on their mandate over the management and regulation of the communication Industry within the Country.

5.8 Tanzania Industrial and Research Development Organization (TIRDO)

5.8.1 Inadequate Implementation of Strategic Plan and Work Plan

I reviewed the TIRDO's Planning, budget and strategic plan preparation and execution. We revealed the following weaknesses:

a) Shortfalls in Preparation of the Organization Work/Action Plans

My review noted that one department had not prepared the annual work plan out of four. The prepared work plans for the three departments had no link to organizational strategic plan in terms of the set objectives, targets and financial resources (budget) needed to accomplish the required activities. There were no key performance indicators developed to measure the performance of activities.

b) In Prioritization of Strategic Plan Goals and Tasks

My review of TIRDO plans and programmes noted that the prioritization of goals and tasks highlighted in the Strategic Plan of 2011 to 2016 was not done. Activities were accomplished conventionally without showing their priorities and the ways of accomplishing them. The same were not incorporated in the work or action plans and key performance indicators and baselines were missing in the plan, hence, difficult to benchmark the actual results versus the targets.

Lack of coordinated planning documents inhibits management to measure the level of achievements reached versus the financial resources utilized. This also limits the Authority from determining the encountered challenges to plan for the way forward.

Management of TIRDO is advised to ensure that:

a) annual operational plans are linked with the organizational objectives priorities, also the plans need to include key performance indicators for benchmarking targets versus the actual results/output; and

b) annual work plans define the activities which are priority to be implemented and timeline for their accomplishment.

5.8.2 Inadequate Monitoring and Performance Evaluation

TIRDO Strategic Plan 2011-2016 requires monitoring and evaluation process to assess performance of strategies and programs based on the extent to which the desired objectives and outcomes were achieved. In the strategic plan, two levels of evaluation are required to be made, on quarterly basis and an in-depth external evaluation to be done biannually.

It was noted that, monitoring and evaluation of activities performed was not comprehensive enough to attain the set objectives as detailed in the Overall Strategic Plan.

I noted that TIRDO made performance evaluation in Technical programmes committee meetings of its staff basing on individual project assignments as it forms part of TIRDO objectives. I also noted that the evaluations were done basing on tasks performed instead of performance benchmarks set during planning on the entire organization's annual performance evaluation with respective targets.

Management is advised to ensure monitoring and evaluation of the activities is performed in a very comprehensive manner to attain the intended organizational objectives.

5.8.3 Ineffective Dissemination and Sustainability of the Research Output

In implementing the National Development Strategy for Growth and Reduction of Poverty (NSGRP) and vision 2025, transfer of technology and research output are important aspects in promoting industrial development and enhancing growth of entrepreneurship and enterprises, a factor that needs industrial support of institutions such as TIRDO.

Review of TIRDO's service delivery to various institutions, organizations and stakeholders noted that there is a gap within TIRDO's activity implementation. I also noted an absence of clear road map on dissemination and sustainability of research and technology to various SME and other stakeholders.
On inquiry of the proof of technologies and knowledge available at TIRDO disseminated to potential clients, management provided some research outputs already transferred to stakeholders. The mentioned technology transfer includes Cassava Grating, Solar Drying, and Recycling of plastics and Food Processing. I noted that the transfers are no longer at TIRDO dynamic processes as no further evidence was provided on future sustainability, ownership and transfer of such technologies.

Management acknowledged that TIRDO used the exhibitions and trade fair in demonstrating to the public about its activities. However, I noted that there were no comprehensive documented strategies concerning dissemination of information or results of the impact of the assessments made as a result of the researches carried out.

There is a risk that management lacks information for decision making due to non-assessment of the impact of the research conducted. There are risks also that TIRDO technologies and transfer process will not be sustainable for future practicability and referencing.

TIRDO management is advised to;

(i) Initiate a mechanism and enforce it for effective and efficient dissemination of industrial research outputs;
(ii) Ensure Technology Transfer function within the organization is efficiently discharged;
(iii) Devise a way to conduct an impact assessment on the research performed to quantify the value and impact of the researches to the society.

5.9 University of Dar-es-Salaam (UDSM) – Mlimani City Project

5.9.1 Delay in Implementation and Completion of Sub-Projects

Mlimani City project commenced on 1st October, 2004 with planned completion date of 1st September, 2006 or any other date the lessor and lessee might agree in writing.

I noted that, sub projects of a 3-Stars Hotel (with 100 rooms including a conference center with seating capacity of 1,000 people) and Upgrading of University's botanical garden, being part of the Mlimani City project, were not yet completed for a period of about 10 years from the agreed completion date.

I am of the view that, there was lack of close follow up, monitoring and evaluation of the contract by UDSM management; thus, there is possibility of failure to carry out the outstanding project components due to cost overruns following elapsing of time.

Management of the University is advised to consider revisiting the contract with Mlimani City Holding to fast track the completion of the delayed projects.

5.9.2 Violation of Rent Payment to UDSM

Clause 1.1(j) of the contract read together with clause 10.1 of the Memorandum for ground lease provides that UDSM will be entitled to 10 per cent of the "Gross Rent".

Contrary to the above provision, Mlimani Holding Limited (MHL) calculates the 10 per cent of rent basing on Base Rental fees instead of Gross Rents. The 'Base Rental Fees' is calculated after deducting operational and utilities costs while the "Gross Rent" fees include all charges. This malpractice leads the University to stand at risk of losing substantial amounts of its revenue from Mlimani City Project.

I advise management of the University to:

(i) Recalculate its portion of 10 per cent as required by the contract and the difference be claimed from the lessee; and

(ii) Liaise with the lessee and consider reviewing the contract to include all necessary clauses such as allowing UDSM internal audit department to conduct verification of revenue and operational costs.

5.9.3 Inadequate Monitoring and Supervision of Revenues from Sub-tenants

Clause 11.2(l) of the Memorandum of Agreement requires the Lessee and MHL to refrain from letting premises to any tenant who has not been approved by the Lessor, UDSM. This could be used by UDSM as a control means for revenue collections.

However, contrary to the above contractual requirements, I noted that MHL rented premise to other tenants without seeking prior approval from the University of Dar es Salaam.

There is inadequate enforcement of terms of the contract on the side of UDSM as a result, UDSM may not be in a position to determine with accuracy the rental income to be collected from all the tenants.

UDSM Management is advised to adhere to the terms and conditions of the Memorandum of Lease agreement including clause 11.2(l) of the Memorandum of Agreement which requires UDSM to approve the lease to a subtenant.

5.9.4 Lack of the Right to Access MHL Operations

My review of the lease agreement between UDSM and MHL noted that, the agreement does not provide for the owner of the land, the Lessor, a right of access to the physical actual operations of the lessee.

Under this situation, the lessor, UDSM, may not be aware whether the tenant, MHL, operates contrary to the contract requirements or not and whether there are subtenants not disclosed by the main tenant.

UDSM is advised to liaise with MHL with a view to obtaining the right of access for the best interest of both parties and that during such process, UDSM be allowed to have access to MHL operations so as to be aware of the operations of the tenant.

5.9.5 Residual Risks at the End of the Contract not Addressed

Residual risks arise at the end of the contract when the asset is to be transferred back to the Government.

My review of the ground lease contract noted that the contract does not provide for what will happen upon coming to an end of the contract period (50 or 85 years upon mutual agreement of parties). There was no any arrangement on the right of the parties with regards to the buildings and its infrastructures.

Under this situation, there is a possibility of occurrence of unpleasant legal disputes at the end of the duration of the lease. In case this happens, UDSM will lack legal recourse. UDSM management is advised to enter into negotiations with MHL to insert a clause showing the rights of each party upon expiry of the term of the lease agreement.

5.9.6 Amounts Not Collected from MHL USD 57,607

UDSM engaged M/s. Ernest and Young to conduct a special audit to determine the income due to the University from

Mlimani Holding Limited since 1st May, 2006 to 30th June, 2014.

My audit revealed that USD 309,458 was supposed to be received by UDSM from MHL but reconciliation showed that MHL had paid USD 213,850 through swift bank transfers while USD 57,607 was still outstanding.

There are inadequate follow up on the part of UDSM management in collection of the outstanding debt. UDSM management is thus, advised to increase follow up efforts to collect the outstanding debts from MHL

5.10 Vocational Education and Training Authority (VETA)

5.10.1 Inadequate Management of VETA operations

In March 2002 VETA adopted a decentralization system of organization in which daily operations and decision-making responsibilities were delegated to Regional and centres levels. This allows top management to devote on strategic issues, corporate matters, policies, etc.

My assessment on the operation system of the Authority with regard to its efficiency, effectiveness and economy noted the following deficiencies which need interventions by management:

a) Inadequate Management of Centres' Advisory Committees

VETA Act of 2004 requires the establishment of Centres Advisory Committees (CAC) responsible for ensuring that vocational education and training programmes offered by the Authority are in line with the needs of employment market.

However, I noted that Manyara and Bukoba Regions had not established their Centres Advisory Committees. We also noted that other Regions had committees but they are not functioning as required as they have not convened any

statutory annual meetings to execute their responsibilities since they were established.
Non-functioning of the Committees, imply deficiency in management of the centres towards provision of the VETA Programmes.

b) Improper decentralizing of VETA properties

Section 3(3) of VETA Act vested the power to manage the assets of the vocational training centres to the Authority. I noted that, land rents of VETA buildings and their maintenance were decentralized to Regional offices while the control of ownership remained with the Headquarters. In this modality, each Region is required to pay land rent of its plots.

I noted failure of the regional offices to pay for the rents resulting in accumulation of rent liabilities approximately to TZS 1 billion which had not been paid as at end of the financial year.

I am of the view that management of properties is a central matter that needs direct management from VETA Headquarters.

c) Non issuance of Performance Contracts to Lower Levels

Para 2.2.1 of the Guidelines and Income Generating Activities (GIGA) of 2014 requires the Director General, Regional Directors and Centres Principals to sign performance contracts as an agreement on the goals, objectives and targets to be achieved during the performance periods.

My review and inquiries with the Entrepreneurship and Short Courses Coordinators national wide revealed that, for the year under review, there were neither performance agreements signed between the Director General and

Regional Directors nor between Regional Directors and Principals of the centres.

Lack of performance agreements may defeat the efforts of the Authority in achieving its annual planned objectives.

VETA is advised to comply with its internal regulatory requirements for it to achieve the intended objectives.

5.10.2 Inadequate Monitoring of Decentralized Revenue Generating Activities

VETA's Guidelines and Income Generating Activities (GIGA) require Regional and station offices to prepare and sign a monitoring production report at the end of each quarter and at the end of the year for the certification of project performance.

Para 1.3.4 (b) requires existence of monitoring system at Regional and National levels that reports on quarterly basis to ensure that guidelines are exhaustively understood and implemented by all key players. Para 3 provides that GIGA should be streamlined into VETA organization structure to establish a monitoring and evaluation team with the Directorate of Finance to monitor and evaluate GIGA performance in all VETA stations in collaboration with respective VETA Zone Offices.

Contrary to the above provisions, I noted that:

a) Quarterly reports were not being prepared and submitted to HQ for evaluation.
b) VETA-Finance Department has no adequate plans and procedures to manage financial risks in production and short courses that might arise which hinders achievements of the intended objectives.
c) There were no evidence of the existence of mechanisms to monitor and obtain assurance that the planned activities are being achieved and in case of deviations, interventions are immediately made.

I am concerned that, absence of the monitoring and evaluation framework may result into weak monitoring and evaluation of the Authority activities, hence, impairing the measurement of objectives against the set targets.

VETA is advised to develop and implement GIGA monitoring framework to strengthen the monitoring, evaluation and reporting functions with regard to income generation.

5.10.3 Delays in Implementation of Planned Activities

During the year 2015/16, the Authority planned to finance 48 different development activities. However, we noted that, only three activities (equivalent to 6 per cent) were implemented leaving 42 unimplemented (94 per cent).

I also noted the rolling over of budgeted items, slow implementation of annual procurement plans, deficiencies in training tools and a need for maintenance of Authority's infrastructure.

Failure to implementing development activities suggests that the Authority may not be able to achieve its intended objectives.

Management of VETA is advised to institute measures which will ensure monitoring and control over its operations.

5.10.4 Non Utilization of Training Tools and Equipment of TZS 321 million

VETA - Pwani in 2012 received various tools and equipment worth TZS 321 million from South Korea for training purpose specifically on tailoring and welding. However, the equipment and tools have been stored in containers without being installed for more than five years. Poor planning and management of idle tools and equipment lead to loss of value by these equipment that could be used for training of students.

Management is advised to install the tools and equipment for the intended training to ensure that the purposes for which the tools were brought is met.

5.12 Tanzania Port Authority (TPA)

5.12.1 Inadequate Implementation of Development Projects

Tanzania Ports Authority (TPA) had a five year Corporate Strategic Plan which covered year 2011/12 to 2015/16. I reviewed the Corporate Strategic Plan and noted that TPA had a total of 52 projects with estimated cost of USD 2,377 million which were supposed to be completed within five years of the strategic plan in 2016. We noted that, out of the 52 projects, 16 projects had not been implemented, 14 projects were at different stages of implementation and 22 projects had been fully implemented. Delays in completion of planned projects may impair the achievement of the intended strategic objectives.

TPA is advised to expedite the implementation of all the planned projects to ensure that the intended strategic objectives are achieved.

5.12.2 Assessment of Wharfage Collection MoU between Tanzania Ports Authority and Tanzania Revenue Authority

Tanzania Revenue Authority (TRA) entered into an agreement with Tanzania Ports Authority (TPA) in respect of wharfage charges collection. The following shortfalls were noted;

i) Wharfage Revenue not Deposited into TPA Bank Account

Paragraph E (ii) of the MOU requires TRA after collection of wharfage charges to deposit the amount collected in TPA bank account not later than 14 days from the collection date. We noted that a sum of Tshs 98.6 billion collected by TRA between August and December 2016 was not deposited into TPA bank account as required by the MOU.

Table 7: Revenue Not Deposited Into TPA Bank Account

Months (2016)	Dsm Port '000,000'	Ticts '000,000'	Other Ports (Tanga & Mtwara) '000,000'	Total '000,000'
AUGUST	6,882.68	7,608.77	133.79	14,625.24
SEPTEMBER	19,194.51	7,982.57	535.83	27,712.91
OCTOBER	14,966.60	8,123.95	74.94	23,165.49
NOVEMBER	18,664.84	8,373.90	6,212.92	33,251.66
TOTAL	**59,708.63**	**32,089.19**	**6,957.49**	**98,755.30**

Source: Tanzania Ports Authority

ii) Non Collection of Wharfage by TRA from other Ports

Paragraph 2.1 of the MOU requires TRA to collect wharfage at all TPA ports but our review noted that the collection of wharfage by TRA was only implemented at Dar es Salaam, Mtwara and Tanga Port. The collection of wharfage at Lake Victoria (Mwanza port), Lake Tanganyika (Kigoma port) and Lake Nyasa Ports were still being done by TPA contrary to the requirement of the signed MOU.

iii) No Modality Established on Overcharges and Under Changes of Wharfage

Paragraph 1.4 of the MOU requires parties to develop a well advanced mechanism to deal with overcharges and undercharges. I noted that there was no mechanism established as required by the MOU.

I advise TPA management to liaise with Tanzania Revenue Authority on the terms of the MoU to ensure that parties fulfil the requirements of the agreement to ensure that TPA operational efficiency is not impaired by the new modality of wharfage collection.

5.12.3 Inefficiency in Labour Productivity

My review noted that, during the year ended 30th June 2016 TPA had set targets to be achieved in order to increase efficiency of its operations. A sample of two vessels selected indicated that the Authority did not meet the set target of 900 tons per gang per shift as shown in table II below:.

Table 8: Ship Performance

Vessel name	Date of operation	Total discharge	Gangs deployed	Average ton/gang/shift	Target	Variance	Average Days at berth
Blue Phoenix	31.10.2015	2,580.18	4	645.05	900	254.95	4
	01.11.2015	3,322.18	6	553.70	900	346.3	
	02.11.2015	3,388.78	6	564.80	900	335.2	
	03.11.2015	1,225.40	4	306.35	900	593.65	
Hilal Bey	05.12.2015	1,324.92	2	662.46	900	237.54	4
	06.12.2015	877.04	1	877.04	900	22.2	
	07.12.2015	1,393.60	2	696.80	900	203.2	
	08.12.2015	777.60	2	388.80	900	511.2	

Source: Ship performance reports and Daily Performance Reports

I noted that waiting of trucks took longer time compared to other reasons given by Management which always cause delays of vessels to leave the berth.

Delays by clearing agents to provide tracks on time for direct delivery of the cargo increase the number of days vessels remain at the berth thus affecting the efficiency of the Ports.

I advise TPA management to liaise with customers in order to create awareness to comply with the agreed time schedules for tracts to facilitate direct delivery in order to improve service delivery by the Authority.

5.12.4 Evaluation of Vessels Dwell Time

My review of Dar es Salaam Port performance report for the period ended 30th June, 2016 for cargo dwell time was done to establish time elapsed since the cargo is unloaded from the ship until it exits the Port. The average time for any cargo to remain within the Port compound is set to be 5 days. I noted that the average dwell time ranged between 6.1 and 8.6 days as indicated below:

Table 9: Average Dwell Time

	First quarter	Second quarter	Third quarter	Fourth quarter

Average time(days)	6.9	7	8.6	6.1

Source: Quarterly Performance reports for the period ended 30th June, 2016

Further, the target for a ship to be at berth was 3 days, however, I noted that the average time for a ship to stay at any particular berth was 4 days while the average time taken by a ship at single point mooring (SPM) ranged between 5 and 9 days.

Table 10: The average time taken by a ship at single point mooring (SPM)

Vessel name	Date of berth	Date of sailed	Metric Ton (MT)	Cargo	Days at Berth
Phoenix Hope	02.8.2015	10.08.2015	95,211.671	Gasoil	9
Pacific Sky	19.8.2015	28.8.2015	103,202.305	Gasoil	9
Maersk Penguin	2.10.2015	8.10.2015	85,769.974	Gasoil	6
Ashley Lady	16.10.2015	23.10.2015	101,626.064	Gasoil	7
Shan Hu Zuo	4.3.2016	11.3.2016	68,292.529	Gasoil	6
Selin	22.3.2016	28.3.2016	66,799.522	Gasoil	5

Source: Monthly summary report for period ended 30th June, 2016

I also noted that vessels in some instances spent between 3 and 26 days at outer anchorage waiting for the Authority to allocate them a berth to offload their cargo.

Table 11: Vessels Stayed for Long Period of Time Waiting for Berth

Sn	Vessel Name	Arrival At OA And NOR	Arrival Of Berth	Time To Berth (Days)	Date Of Sailed	Cargo Type
1	Uacc Harmony	21.07.2015	31.07.2015	10	04.08.2015	Gasoline
2	Bursa	31.07.2015	05.08.2015	4	09.08.2015	Gasoline
3	Melati 7	19.08.2015	27.08.2015	8	31.08.2015	Veg Oil
4	Phoenix Hope	30.07.2015	02.08.2015	3	10.08.2015	Gasoil
5	Ipanema Street	23.09.2015	8.10.2015	16	12.10.2015	Mogas

Sn	Vessel Name	Arrival At OA And NOR	Arrival Of Berth	Time To Berth (Days)	Date Of Sailed	Cargo Type
6	Ribe Maersk	27.09.2015	12.10.2015	15	17.10.2015	Fuel Oil
7	High Loyalty	05.10.2015	17.10.2015	12	22.10.2015	Mogas
8	Alpine Marina	02.10.2015	22.10.2015	20	25.10.2015	Gasoil
9	Bastille Street	11.02.2016	26.02.2016	15	3.03.2016	Mogas
10	Fairchem Eagle	06.02.2016	3.03.2016	26	4.03.2016	Crude Sunflowe r
11	Silver Monika	19.02.2016	9.03.2016	19	14.03.2016	Veg Oil
12	Sti Mythos	03.03.2016	14.03.2016	11	19.03.2016	Mogas
13	Argo	03.03.2016	15.03.2016	14	17.03.2016	Crude Oil

Increased vessel dwell time impedes the efficiency of the Authority in handling cargo at its Ports. A long period of time used by vessels at outer anchorage waiting to dock amounts to inefficiencies by the Authority which may lead to discouraging ships to use its Ports.

Management is advised to ensure that these operational inefficiencies are addressed for better performance of its Ports.

5.12.5 Review of Oil Terminal Operation

The Authority operates two oil terminals, one at Kurasini Oil Jetty (KOJ) and the Single Point Mooring (SPM). The SPM is used to discharge crude oil and diesel while KOJ discharges lubricant oil, petrol, diesel, kerosene, heavy fuel oil and vegetable oil. Our review noted the following:

i) Low Discharge Rate of Oil

A sample of monthly summary reports for the period ended 30 June 2016 at Kurasini Oil Jetty (KOJ) and Single Point Mooring (SPM), for a period of August 2015, October 2015 and March 2016 indicated that the oil discharge rate for the three months selected at KOJ averaged at 375 metric ton per hour (MT/HR), the pumping rate was slow thus increasing the number of days for a vessel to be at one particular berth. We were informed that the time for effective pumping depends on different factors like distance from SPM or KOJ to the tank farm (receiving point), pump pressure and diameter of the oil pipe etc.

Low discharge rate of oil/fuel may affect the efficiency of the Authority to meet its targeted levels of serving the docked vessels.

ii) Non-operating Flow Meters

KOJ has 16 flow meters which have not been operating for a period of time. Our analysis of the metric ton discharged through KOJ noted that on average 202,476.76 MT per month (for the selected months of August 2015, October 2015 and March 2016) were discharged through KOJ without passing through flow meters as they were not operating.

Lack of flow meters may subject the process of discharging fuel/oil to storage tanks to errors which may have a negative effect on the Authority's revenue.

Management is advised to:

a) Negotiate with the Government for TPA to make use of TIPER storage tanks which could reduce the distance between the ship and oil terminals hence reducing the days vessels stay at one particular berths;
b) Implement the construction of bulk liquid storage facility as planned to improve management of the fuel storage system; and
c) Ensure that flow meters are installed at KOJ to enhance revenue collection.

5.12.6 Completeness of Trade and Other Payables Records

Review of trade and other payables noted cases where suppliers confirmed higher amounts than what is reflected in the general ledger. Total confirmed balances was TZS 105.50 billion while amounts reflected in the General ledger was TZS 687.23 million making a difference of TZS 104.81 billion, understated in the financial statements of TPA. In addition, management does not perform supplier statements reconciliation on regular basis, which results in material differences between suppliers' records and TPA's.

I am of the view that, the balance of trade and other payables recorded is materially misstated and does not reflect fair view.

Management is advised to perform regular reconciliation for all trade and other payable balances recorded in the general ledger alongside with balances reflected by the suppliers to ensure they are complete and accurate.

5.12.7 Non-Current Assets Not Re-valued

The statement of financial position has property, plant and equipment with a carrying value of TZS 646 billion at 30 June 2016, which is accounted for by using revaluation model.

Sub regulation G of Regulation 4.28.2 of TPA's Financial Regulations requires a revaluation of assets to be made after every five years. However, I noted that, the last revaluation was carried out on 30th June 2008 and up to 30th June 2016 revaluation of the assets was not performed. Basing on TPA Financial Regulations of 2012, the next revaluation was supposed to be done on 30th June 2013. The Authority has therefore, not complied with its own Financial Regulations and thus not compliant also with the requirements of International Accounting Standard Number 16.

I am of the view that, the value of Property Plant and Equipment does not reflect the realistic value. I thus, advise the Management of TPA to conduct revaluation for all of its assets as per the requirements of the Financial Regulations.

5.12.8 Unpaid Tax Liability TZS 42.88 billion

My review revealed certain instances in which the Authority was non-compliant with tax Laws and Regulations.

Subsequent to the year end, the Authority received final tax assessments from Tanzania Revenue Authority of TZS. 42.88 billion in respect of various unpaid taxes and levies (i.e. Pay as You Earn tax, withholding tax, Skills and Development Levy, and Value Added Tax) for two financial years 2013 and 2014, and is yet to quantify and provide for potential indirect tax liability relating to the years ended 30 June 2015 and 30 June 2016 on the basis used by Tanzania Revenue Authority. In the absence of information to establish the quantum of the potential liability relating to these years, the balance of trade and other payables recorded in the statement of financial position is not stated at their fair value.

Management of TPA attributed the tax liability accumulation to TRA's failure to honour agreement of wharfage remittance to TPA's account.

Without complying with tax laws and regulations, TPA may attract unnecessary penalties and fines.

Management of TPA is urged to fully comply with tax laws and regulations. Management should also settle amicably disputes arising between the Authority and TRA.

5.12.9 IT and Application Controls Findings

My review of IT Applications and Controls noted usage of an outdated accounting system, which is, COBOL and the use of manual works. That is, majority of the standard business processes are processed and recorded manually into the outdated system, COBOL.

This outdated system has several limitations including lack of an interface with the billing and payroll systems. The limitations increase risks of errors and accuracy of data posted into it. Thus, data from these systems have to be keyed, however sub-ledgers do not exist to provide detailed records and reliability of the reports generated rendering them unreliable.

I further noted that 36 vessels docked in Dar, Tanga and Mtwara ports recorded in Harbour View Plus system (HVP) were not recorded in the billing system and thus not invoiced. Also there was lack of segregations of duties in the billing system. These anomalies might have led to not raising of invoices for the vessels.

I recommend that, IT and its general and application controls be improved and strengthened and that Management of TPA should ensure that all vessels docked at its ports are properly invoiced.

CHAPTER SIX

REVIEW OF PERFOMANCE OF EXTRACTIVE INDUSTRY IN TANZANIA

6.0 Introduction

Extractive Industry refers to any process that involves the extraction of raw materials from the earth to be used by consumers. The Extractive Industry consists of operations that remove metals, minerals and aggregates from the earth. Example of extractive processes include oil and gas extraction, mining, dredging and quarrying.

Our country is known for its endowment in mineral resources and gas deposits but so far the contribution of the sector to the economy is very modest.

During the financial year, I conducted special review of the extractive industry and recommendations to the Government for appropriate action.

My audit involved all government key players in the sector such as the Ministry of Energy and Minerals (MEM), Geological Survey of Tanzania (GST), Tanzania Mineral Audit Agency (TMAA), State Mining Corporation (STAMICO), Tanzania Revenue Authority (TRA), STAMIGOLD and Tanzania Petroleum Development Corporation (TPDC).

This chapter covers the two sector areas of the extractive industry, whereas, part one presents audit findings and recommendations in respect of the mining sector while part two covers matters relating to oil and gas. The findings and recommendations are grouped basing on what was observed when reviewing the related operations of a particular Government Institution.

Part A: Mining Operations in Tanzania

6.1 Ministry of Energy and Minerals (MEM)

i) Weaknesses in Mining Development Agreements

Special Mining Licenses in Tanzania are contracted through Mining Development Agreements (MDAs). I obtained and reviewed four MDAs entered between the Government of the United Republic of Tanzania and Geita Gold Mining Ltd (Geita), ACACIA mine (Buzwagi), Bulyanhulu and North Mara mine.

Significant weaknesses were noted in procedures to enter MDAs such as Government relying on prospecting and feasibility reports conducted by the license applicants without having adequate mechanism to monitor and verify the submitted reports therefore impairing Government bargaining position.

Further, the MDAs were found to have unreasonable terms which undermine public interests such as unreasonable conditions for renewal of licenses, protection against future amendments of laws, unreasonable agreements in foreign currency policies, custom arrangements and unreasonable incentives in tax and accounting treatment of capital expenditures.

The Government is advised to use sanctity of fundamental clauses which exist in most MDAs to renegotiate the unfavourable contractual terms. Further, the Government is advised to effectively supervise prospecting exercises conducted by private companies so as to obtain advanced information which will enhance its bargaining power.

ii) Challenges In Collection of Rent and Royalty From Small Scale Miners

License holders are required by Mining Act, 2010 to pay annual rent and royalty in respect of their licensed areas and gross production. My review noted significant non-compliance on the matter by small scale miners. I noted that there are long outstanding annual rent amounting to TZS 9.8 billion as of 30th June, 2016 and most of small scale miners do not submit quarterly returns hence difficult to assess their due royalties.

I noticed that the problem is caused by lack of regular physical inspection by Zonal Mining Officers to mining sites and issuing of licenses to applicants who have no financial and technical capacity to develop the licensed areas.

The Government is advised to enhance capacity of the Zonal mining offices by giving them adequate fund and staff so as to increase their ability to make follow up with the license holders who do not pay annual rents and submit quarterly returns.

Further, the Government is advised to include a criterion for making an assessment of the financial and technical capacity of all the applicants when issuing mineral rights to small scale license applicants.

6.2 Geological Survey of Tanzania (GST)

i) Restricted involvement of Geological Survey of Tanzania in Mining prospecting

I noted that, Geological Survey of Tanzania (GST) currently conducts all geological activities except for prospecting. Its mandate to engage in prospecting activities has been restricted by Section 21 of the Mining Act, 2010. Presently, prospecting activities are done by private companies thereafter they submit reports to the Ministry of Energy and Minerals.

The Ministry using the submitted reports grants mineral right licenses to the applicants. I am concerned that, the Ministry is not as qualified as GST to evaluate the submitted reports, thus, without critical evaluation of the submitted reports and proper supervision of prospecting exercises, the Government is in no position to bargain at arm's length with the mining license applicants.

The Government is advised to revise the Mining Act, 2010 and extend GST responsibilities to include prospecting of potential mineral sites.

6.3 Tanzania Mineral Audit Agency (TMAA)

The audit scrutinized the challenges facing Tanzanite mining in Tanzania. The following are the observations;

i) Effect on Change of the Rate for Charging Royalty

The Government through Mining Policy of 2009 and Government Notice No. 146 published in Government Gazette No. 14 Vol. 91 dated 02^{nd} April, 2010 banned exportation of rough Tanzanite below one (1) gram. Also, an amendment was made in the Mining Act of 2010 through Section 87(1) (d).

The Government through the above Section reduced royalty charged on gemstones from 5% when exported as rough to 1% when exported as polished. This was made to promote employment of residents in the sector on cutting and polishing of gems and to increase royalty to the Government following increased price due to value added.

However, my review noted insignificant value addition to tanzanite polished in the country which also causes adverse impact to the royalty paid to the government. Price analysis on gemstone issued by TANSORT as of July 2016 shows price of Tanzanite for Grade B and C to be slightly higher than its rough, while unexpectedly grade A rough Tanzanite fetches higher price than the polished.

The Insignificant value addition in price of Tanzanite is caused by low technology and experience to cut and polish gems to match global standards that are preferred by designers.

I am concerned that the employment created from value addition of Tanzanite is being outweighed by the loss on royalty caused by reduction of royalty charge from 5% when rough to 1% when polished.

The Government is advised to revise its initiative and perform cost benefit analysis between rough and polished Tanzanite against their impact to government revenue and the economy at large.

ii) Smuggling of Tanzanite

Tanzania is the sole producer of Tanzanite in the world. However, quite surprisingly; the country is not benefiting as it should from the monopoly due to severe smuggling activities. Review of TMAA statistics on smuggling for the period ranging from 2012 to 2016 noted 2,894,312 gram worth TZS 1,281,225,965 were seized from various airport destinations in the country in attempt to be smuggled outside the country.

Discussion with management of TMAA revealed that the problem is attributable to lack of Mererani Protected

Area, failure to demand for certificate of origin and insufficient patrols at border posts.

The Government is advised to enhance control and security over Mererani Protected Area, engage in diplomatic discussion with countries with high demand of Tanzanite so as to authenticate requirement for certificate of origin for tanzanite traded in their countries and enhance funding, coordination and harmonization of its institutes engaged in combating smuggling of tanzanite.

6.4 State Mining Corporation (STAMICO)

6.4.1.1 Review of Operational Efficiency of STAMICO and TML Joint Venture

STAMICO and Tanzanite one Mine Ltd entered into a Joint Venture agreement on 20th June, 2013 to operate block C Tanzanite mine in Mererani, Simanjiro at fifty percent each ownership. Our assessment on efficiency and effectiveness of the joint venture agreement noted the following:

i) Ineffective Joint Operation Committee (JOC)

The Joint Venture agreement requires all major decisions regarding the mine operation to be deliberated by the joint operation committee. Our review of the JOC minutes and enquiry from STAMICO management noted that neither budget nor capital expenditure decisions are discussed in the JOC.

ii) Delayed Establishment of Joint Bank Account and Rehabilitation Fund Account

The Joint Venture requires the parties to open a joint bank account which would require approval from both parties to release funds from the account. Further, it requires opening of a rehabilitation fund account which will be credited with 1% of gross sales to enable meeting the cost of mine closure. I noted that the parties managed to open the accounts on 31 October 2016 three years after commissioning of the mine, however, up to March 2017 the accounts were not yet operational.

iii) Failure to Conduct Graphite and Marble Business

The Joint Venture agreement requires mining, processing, refining and marketing graphite, marble and tanzanite. Currently graphite and marble are mined concurrently with tanzanite; however, they are not being processed and sold, instead, they are piled up outside the processing plant.

The Government is advised to boost the capital of STAMICO so that it can be able to effectively and actively participate in the Joint Venture.

iv) Failure to Outsource Value Additional Process on Tanzanite

Article 15.1(b-d) of the Joint Venture Agreement (JVA) between TML and STAMICO requires that obtained tanzanite will be cut and polished by a separate entity other than the operator. On these grounds, STAMICO and TML engaged Urafiki Gemstone EPZ Limited on 12 December 2013 for a contract period of three years to cut, polish, and market tanzanite for the purpose of adding value to the gemstone produced before it is sold. In consideration of mutual benefits, STAMICO and TML agreed to make payment not exceeding 5% of market price likely to be realized on the sale.

My review noted that since the signing of the contract on 12th December, 2013 no value addition on tanzanite was done by the company until the expiry of the contract in December 2016. Cutting and marketing of tanzanite has always been done by TML contrary to the requirements of the joint venture. TML management informed us that the noncompliance has been caused by low expertise and experience of the contracted company.

When the terms and conditions of the joint venture agreement are not honoured, transparency on value addition and the determination of the selling prices are at risk.

I advise STAMICO to use the Joint Operation Committee to ensure terms of the joint venture agreement are adhered to and the value addition process on tanzanite is outsourced to a reputable company which can act fairly on the interest of both parties to the joint venture.

v) Intercompany Transactions In Selling And Buying Of Tanzanite Minerals

On 30th January, 2015 M/s Sky Associates acquired Richland Resources Ltd who was one of the shareholders in Tanzanite One Mine Limited.

My review of tanzanite sales for 2015 revealed that, TML sold 230,953 carats worth USD 1,751,404 to M/s Sky Associates which is an affiliate company to TML. I am concerned with competitiveness of the price between the two affiliates which may lead to transfer pricing.

I further noted that TML markets and sells Tanzanite without obtaining a consent of the other shareholder, STAMICO contrary to Article 15.1(b-d) of the Joint Venture Agreement (JVA) between TML and STAMICO.

The Ministry of Energy and Minerals through STAMICO is advised to ensure Tanzanite is traded in an open market through public auctions so as to eliminate the risk of transfer pricing through intercompany transactions. All sales by the operator should obtain consent of STAMICO.

6.4.1.2 Review of Buckreef Gold Mine Operations and Joint Venture Agreement Between STAMICO and TANZAM 2000

STAMICO and Tanzania American International Development Corporation (2000) Limited (TANZAM 2000) entered into a joint venture agreement in 2011 To operate Buckreef gold Mine in Geita at an ownership structure of fifty five per cent of shares to TANZAM 2000 while the remaining forty five per cent shares were for STAMICO. My review of the venture agreement and operation of the mine noted the following:

i) Failure to Establish Reasonableness of Consideration Price

My review noted that TANZAM (2000) paid USD 3,000,000 to STAMICO as a consideration price to acquire 55% ownership of the Mine. TANZAM 2000's Management informed us that the value was reached following a bid placed by its parent company. However the same could not be verified by STAMICO and no satisfactory response was given. I am of the view that without proper valuation to determine the fair value of the mine, the Government might have given out the mine at an unreasonable price.

The Government through STAMICO is advised to ensure that the agreed amount which is set as a purchase consideration in the joint venture agreement is a result of a comprehensive feasibility study, assets valuation or estimates of the available mineral deposits.

ii) Delay in Commencement of Mining Operations

I noted that since commissioning of the mine in 2011 up to the time of audit in January 2017, operations had not yet started. Discussion with Management of TANZAM 2000 noted the delay is caused by unsuccessfulness of the heap leaching pilot programme that cost the company TZS 2.3 billion and invasion of the contracted area by indigenous small scale miners.

Enquiry from STAMICO Management and review of recent financial reports of TANZAM 2000 noted liquidity constraints on the side of the operators. Due to the delay, STAMICO sued TANZAM 2000; however, disputed the charge claiming that the delay was significantly caused by invasion of locals to the mining sites which qualifies to be a state of force majeure.

The Government through STAMICO and MEM is advised to evaluate TANZAM 2000's financial capability to run the mine and ensure prompt commencement of mining operations.

6.4.1.3 Review of STAMIGOLD Operations

The Government through STAMICO acquired Tulawaka Gold Mine which was under the ownership of Pangea Minerals Limited. A transfer agreement between STAMICO and African Barrick was signed on 15th November, 2013. STAMICO incorporated a subsidiary company by the name of STAMIGOLD Company Limited for the purpose of running the Mine operations. My review of the mine operations under the management of STAMIGOLD noted the following challenges:

i) Delayed Consent by MEM to Transfer Special Mining License to STAMIGOLD

Section 9(2) of the Mining Act, 2010 requires written consent of the Licensing Authority before a special mining license is transferred to another person. My review noted that, after the acquisition of Tulawaka mine, STAMIGOLD wanted to enjoy the terms of the MDA that Pangea Mineral Ltd was enjoying, however, despite several correspondences, the the Ministry of Energy and Minerals is yet to approve the transfer of the MDA to STAMIGOLD.

Delaying to transfer the MDA to STAMIGOLD Ltd is depriving their right to enjoy benefits of the MDAs such as obtaining relevant tax exemptions which African Barrick Ltd was enjoying.

The Ministry of Energy and Minerals is advised to speed up the process to provide a written consent for the assignment of the relevant MDA to STAMIGOLD Ltd.

ii) Un-Developed Prospecting Licenses

I noted that STAMIGOLD Company Limited has 11 prospecting licenses granted between 2007 and 2014 these licenses include one Special Mining License (SML). With the exception of one license (PL9548/2014 located at Lyobahika other remained licenses have never been developed. Review of the Mining plan shows that only three (3) prospecting licenses i.e. PL 9548/2014, PL 9549/2014 and 9578/2014 and the Special Mining license (SML 157/2003) are planned for exploration, this implies the remaining licenses are not expected to be developed at least for the near future.

Discussion with STAMIGOLD management revealed that the problem is caused by inadequate funds. I am of the view that delay to develop these licenses denies the government revenue that would have been collected from royalty and income tax if the mines were operational. Also maintaining the licenses without developing them increases cost to STAMICO in the form of annual rents for investments which do not contribute to the company's income generation.

The Government is advised to inject enough capital in the newly established company (STAMIGOLD) and enhance its effective and profitable operations.

iii) Non-Supply and installation of Electricity through National Grid (TANESCO)

My review on the operational efficiency of the mine noted that STAMIGOLD is currently using power generators to run all its mining operations. The Mining Operation Reports showed that the monthly energy requirement is around 1,100,000 kilowatts generated using 300,000 litres of diesel which costs around TZS 670,000,000. Nevertheless, if TANESCO power was used, the same kilowatts would be obtained at TZS 273,788,458.

By using power from the National Power Grid, STAMIGOLD could serve more than 50% of the cost. I am of the opinion that cost saving will have direct impact to the Company's profit and thus revenue to the Government. The Ministry of Energy and Minerals is advised to facilitate TANESCO to supply the mine with electricity from the National Grid to enable STAMIGOLD to cut down production cost and thus to enhance its profitability.

iv) Reclamation Funds Not Transferred to STAMIGOLD USD 3,218,043

Section 7.2 of the Transfer Agreement of the Tulawaka Mine requires Pangea Mineral resources Ltd to transfer reclamation funds to STAMICO upon discharge of its operations.

My review of the financial provisions of the Mine closure plan for Tulawaka Gold Mine noted that a balance of TZS 19,977,602 was set aside for reclamation fund. However, Pangea Minerals Ltd declared only USD 16,759,559 and that the actual amount transferred and received by STAMICO was USD 11,633,254. This was after retaining USD 5,126,305 as agreed in the transfer agreement.

I am concerned with the retained balance of USD 3,218,043 between the balances set aside, USD 19,977,602, and the declared, USD 16,759,559. I thus, advise the Management of Ministry of Energy and Minerals and that of STAMICO to make follow up with African Barick Ltd to ensure that the retained balance is paid to STAMIGOLD.

6.4.1.4 Review of Kiwira Coal Mine Operations

Kiwira Coal Mine is currently fully owned by the Government through STAMICO. Prior 2005 the mine was under STAMICO, however following privatisation of public entities, seventy per cent shares in were transferred to Tan Power Resources Ltd. In 2008 the mine was reacquired by the Government through Treasury Registrar and later transfer the ownership back again to STAMICO in 2014. Physical visit to Kiwira Coal Mine noted that the mine has never resumed operation since when it was reacquired by the Government. My review on the operational efficiency of the mine noted the following challenges:

i) Legal Obstacles in Development of Kiwira Coal Mine

My review noted that the share certificate of Kiwira Coal Mine Limited (KCML) is yet to be transferred to STAMICO as it still carries the name of Tanpower Resources Ltd.

This is because TRA has not issued a tax clearance certificate. Further, NEMC, with regard to Section 18(2)(b) of the Environmental Impact Assessment and Audit Regulations, 2005, rejected STAMICO Environmental Impact Assessment (EIA) report as its share certificate was still under the name of Tan Power Resources Ltd.

In absence of a valid share certificate under the name of STAMICO, It is difficult to form any Joint Venture with other partners since it raises doubts as to the ownership of the mine

The Government through the Office of the Treasury Registrar and TRA is advised to intervene with the matter to ensure the tax clearance certificate is obtained and the share certificate is issued in the name of STAMICO.

ii) Other Operational Challenges Facing Kiwira Coal Mine

My review of operational efficiency of the mine also noted that, ever since the transfer of the mine was made from TAN Power Resources ltd to STAMICO in 2014, no development fund has been issued to the project despite being budgeted for by MEM which also contributes to its failure in resuming operations. Further, I also learnt that Kiwira Coal Mine had long outstanding liabilities due to TANESCO and employees' claims of TZS 1.8 billion and TZS 1 billion respectively as of June 2016.

The Government is advised to come up with a solution that will address and resolve the identified challenges in order for STAMICO to be able to resume mining operations at Kiwira Coal Mine.

6.5 Tanzania Revenue Authority (TRA)

The following are the observations noted at TRA;

i) Zero Rating VAT on Mineral Exports

Review of VAT returns of five mining companies namely Geita Gold Mine, Bulyanhulu Gold Mine, North Mara Gold Mine, Williamson Diamonds and Pangea Gold Mine for five years from 2012 to 2016 noted significant refunds of VAT to the tune of TZS 1,144 billion.

The refunds are caused by loopholes provided under Section 55(1) of the VAT Act, 2014 and other prior VAT Acts which allowed and still allows zero rating of VAT when goods are exported outside the country. Since major market of minerals are overseas, all minerals produced are exported thus, enjoy zero VAT. As a result causing the VAT that was paid upon importation of capital equipment, fuels and other expenses incurred in the country to lack corresponding output tax to net off causing excess of the input over output VAT which calls for refund as provided under Section 83(2) of VAT Act, 2014.

The Government motive to zero rate exports was to promote growth of domestic industries, however, the weakness noted is that the Act did not set categories of goods/services to enjoy the incentive thus, minerals, which by any means must be sold abroad, their exportation are treated the same as agricultural and industrial products exported.

The Government is advised to review the Value Added Tax Act, 2014 and make appropriate amendment to eliminate zero rating on mineral export then call the mining companies to discuss its effect on the MDAs.

ii) Perpetual Reporting of Losses In Mining Operations

Review of financial statements and final returns of corporate tax relating to Bulyanhulu Gold Mine, North Mara Gold Mine, Williamson Diamonds and Pangea Minerals Ltd for five years from 2012 to 2016 noted perpetual loses from their operations. The losses are mainly attributed to allowing full capital expenditure to be deducted from the revenue generated during the year.

Most MDAs entered with these companies allow expending capital expenditure at the rate ranging from 80% to 100% during the first year of acquisition starting from the exploration stage to the development stage of the mining activities. This treatment plunges revenue to the extent of remaining with losses to infinity. The Table below shows the amount of the losses carried forwarded from 2011 to 2015 from the major mining companies:

Table 12: Analysis of profit /loss Carried Forward for Major Mining companies in Tanzania

Financial Year	Geita Gold Mine '000,000'	Bulyanhulu Gold Mines Ltd '000,000'	Pangea Minerals Ltd '000,000'	North Mara Gold Mine '000,000'	Williamson Diamond Ltd '000,000'
2015	107,022	(2,362,355)	(959,034)	(101,345)	(135,540)
2014	77,746	(2,047,708)	(727,473)	(234,347)	(106,563)
2013	33,774	(1,349,194)	(785,833)	(317,254)	(188,341)
2012	219,174	(182,952)	(8,213)	75,911	(107,508)
2011	41,620	(579,316)	(196,468)	29,346	-
	479,336	**(6,521,525)**	**(2,677,021)**	**(547,689)**	**(537,952)**

Source: TRA data

The Government is advised to renegotiate with Mining companies with perpetual losses to allow the government to charge corporate tax at 0.3 per cent on gross turnover as per paragraph 3 (3) of the First schedule of Income tax Act 2004 (Revised edition 2015).

iii) Low Tax Rates Compared to Current Applicable Rates

The MDAs of North Mara Gold Mine, Geita Gold Mine, Buzwagi Gold Mine and Bulyanhulu Gold Mines were signed before the Income Tax Act, 2004 with exception of Buzwagi Gold Mine which was signed in 2007. The tax rates referred to in the MDAs were taken from the repealed Income Tax Act, 1973 and have never been changed since then due to stability clause.

For instance in most MDAs, rates of withholding tax on management fees and technical services range from 3% to 5% which is contrary to Income Tax Act, 2004 which requires withholding tax of 15% on payments made to non-resident technical service providers. Moreover, MDAs provide for payment of local levy at capped amount of USD 200,000 per annum contrary to Section 6(1) (u) of the Local Government Finances Act of 1982 which sets local service levy at 0.3% on annual turnover.

The Government is advised to amicably negotiate with mining companies using sanctity of fundamental clause which exists in most MDAs to adjust the tax rates taking into consideration the economic variables of signing the MDAs that have changed from the time to date.

iv) Exemption of Fuel Levy and Excise Duty on Fuel

Exemption on fuel toll and excise duty was introduced to mining companies so as to give the companies relief over cost of fuel used to run their power plants for generation of electricity. Section 8 of the Road and Fuel Tolls Act, 1985 as amended from time to time, give Minister for Finance mandate to exempt fuel levy through publishing order in the Gazette. Through Government Notice Number 190 published on 15 July 2011 which repealed prior relevant notices, the Minister exempted road and fuel tolls on fuel imported or purchased by holder of a mining license for gold subject to compliance with the stipulations required.

My analysis for four major gold mining companies: Geita Gold Mine, Bulyanhulu, Buzwagi and North Mara noted TZS 126.7 billion to be exempted from fuel toll and excise duty for financial years ended December 2015 and 2016.

The Government through MEM and TANESCO are advised to revise means necessary to supply reliable power to the mining companies which will increase revenue to the Government and eliminate giving tax exemption on the fuel. Alternatively, the Government may propose a slight levy on the fuel rather than exempt it all.

v) Weaknesses Noted with Income Tax Act in Relation to Source of Income Rule.

Source rule of the income is addressed in UN model convention on tax which advocates on source taxation. The UN model charges the taxation to the income basing on the source while Organization of Economic Corporation and Development (OECD) model convention on tax advocates on resident taxation. It is a common practice for the Mining companies to receive services from the companies who provide services without their physical presence in the United Republic of Tanzania.

However, Section 69(i) of the Income Tax Act 2004 does not impose a liability on an individual Company to withhold tax where service fee is paid in relation to services rendered out of the United Republic regardless of the fact that payment is made by a Company registered in and is doing business in Tanzania.

The Government should review the Income tax Act 2004 and make appropriate amendments of Section 69(i) to impose a liability on Individuals or companies to withhold tax when service fee is paid as long as its source is in Tanzania regardless of physical presence of the service provider.

Part B: Oil and Gas Operations in Tanzania

6.5.1 Review of Mtwara- Dar es Salaam Natural Gas Pipeline

i) Construction of Gas Pipeline Before Pre-identification of Gas Potential Consumers

Mtwara–Dar es Salaam Natural Gas Pipeline (MDNGP) was constructed by China Petroleum and Technology Development Company (CPTDC) at a total cost of USD 1.283 billion of which USD1.225 billion was obtained as a concessionary loan from Export-Import Bank of China. Loan repayment was scheduled and expected to depend on gas sales upon completion of the pipeline construction and after commercial operation date.

Review of on lending agreements, Gas Sales Agreements (GSA) and pipeline construction contract revealed that the pipeline was constructed before pre-identification and pre-signing of gas sales agreements between TPDC and expected major gas customers. This anomaly has an effect on loan repayment as actual gas sales is far below the initial projection of 138.8 mmscfd.

Further, to date, TANESCO is the only gas consumer with a consumption average of 46.61 mmscfd instead of the agreed amount of at least 80 mmscfd as per the GSA between TPDC and TANESCO.

Furthermore, commissioning was performed at a below capacity average of 46.61 mmscfd of which TPDC will be responsible in case there is abnormality accompanied with the pipeline operating to its full capacity when demand goes high since the defect liability period has already lapsed from August 2016.

Efforts should be increased to ensure consumers are obtained to recoup the loan on time before it can be restructured which will make the loan more expensive to the Government.

ii) Significant Underutilization of Mtwara-Dar Pipeline by 94% of its Capacity

Mtwara-Dar es Salaam Natural Gas Pipeline (MDNGP) was designed and constructed to deliver natural gas to Dar es Salaam for use in power generation, industrial applications, household cooking and in propulsion of transport vehicles.

My review noted that TANESCO is the only consumer utilizing approximately an average of 46.61 mmscfd (6%) out of the available pipeline's capacity of 737.39 mmscfd (94%) despite an agreement to supply gas to TANESCO's six (6) power plants namely Kinyerezi I, Kinyerezi II, Ubungo I, Ubungo II, Tegeta, and Symbion at a minimum rate of 80 mmscfd and maximum of 138.8 mmscfd.

Nevertheless, to date only "Kinyerezi I" plant is in operation and consumes an equivalent of 34% of total projected gas supply to the six plants i.e.138.8 mmscfd. The other five plants with remaining total projected gas supply of 92.19 mmscfd (66%) are yet to start operations.

TANESCO still has long terms contracts with two independent power producers namely Independent Power Tanzania Limited (IPTL) and Songas running until 2022 and 2023 respectively, this makes fulfilment the of the GSA between TPDC and TANESCO even more complicated.

I recommend that TPDC should communicate with TANESCO and the Ministry of Energy and Minerals to discuss how TANESCO plants can be completed on time so as to ensure the pipeline is operating at a reasonable capacity for timely loan repayment, meanwhile efforts to engage other potential buyers should be considered to increase revenue and TPDC's ability to meet its obligations as they fall due.

iii) Common Price Charged to Customers Irrespective of Distance From Gas Source

Gas price has four components of which Wellhead charges and Regulatory charges (processing and transportation Tariff) are fixed and any adjustment depends on negotiations with gas supplying companies and EWURA. Distribution Tariff & Marketing Charges and Other charges are variable costs depending on the market situation.

Review of gas charge revealed that TPDC has the same price (USD 5.14/mmBTU) for all customers along the pipeline irrespective of the distance from the source of gas. That is, price for customers in Mtwara and Lindi is the same as that charged to customers based in Dar es Salaam.

Lack of differential rate may act as a demotivating factor for some companies to be connected to the pipeline leads to TPDC failure to generate enough revenue.

TPDC is advised to prepare a differential price proposal which will show variation of prices depending on the distance from the source for approval by EWURA so as to promote gas sales to other companies apart from TANESCO.

iv) Unsettled Gas Supply Bill Between From TANESCO to TPDC USD 61,350,651

On 31st October, 2013 TPDC and TANESCO entered into an agreement where TPDC was to supply gas to TANESCO. The two entities also agreed that the Government should establish a performance security by depositing an amount greater than or equal to three months supply of gas in favour of TPDC with the bond supposed to remain active until TANESCO obligations are settled.

Contrary to the above agreement, the Government has not deposited any amount to cater for the agreed performance security bond. As a result there is an outstanding amount of USD 61,350,651 (TZS. 133,373,032,060) up to December, 2016 due from TANESCO for supplies of gas.

Delay in payment by TANESCO to TPDC also delays payments to gas supplying companies and to the financier, Exim bank of China, by TPDC. Both these delays in payments may attract extra charges of interests to TPDC.

It is in my opinion that, TPDC should arrange early repayment to both gas supplying companies and Exim bank of China to avoid paying extra charges in terms of interests and penalties.

v) Unfavourable Terms of Loan Agreement

Review of the preferential buyer credit loan agreement between the Government as the borrower and Export-Import Bank of China as the lender for construction of pipeline and plants at $1.225 billion revealed that Article 8 waives an immunity on all Government properties except military and diplomatic assets upon subjection to arbitral proceedings except for assets prohibited to be waived by any law of Tanzania before the agreement.

The contract subjects the country's assets to a risk of forfeiture in case of arbitral proceedings.
The Government should consider renegotiating some of the terms and conditions of this loan agreement to ensure that the country's interests are protected.

In addition, a policy should be in place to ensure proper valuation of assets to match the assets with the value of the loan plus interest is made instead of subjecting all country's assets to guarantee the loan.

vi) Difference in Gas Price Between Suppliers

My review noted a difference of $1.64/mmBTU in prices of gas between that charged by TPDC of $5.14/mmBTU and that which is charged by Energy Tanzania Limited (PAET) of $3.5/mmBTU.

It is evident that any rational buyer will buy an item from a source which brings him/her a comparative advantage from the competitors of the particular item.

TPDC should assess its market potential with a view to coming up with an optional price which will be competitive to its customers to ensure that it utilizes the available production capacity and take advantage of huge sales which will enhance its profitability.

vii) Weaknesses in Security Environment at Kinyerezi Terminal Station

Physical verification along Mtwara-Dar es Salaam Natural Gas Pipeline revealed there is no buffer zone between Kinyerezi terminal station and people's settlements and that CCTV camera observers in the control room are not stationed specifically to monitor CCTV footage as they are also controlling other pipeline situations.

Furthermore, physical security around the compound need to be improved with at least one guard be located along each fence wall to reduce the possibility of attack threat from outside the plant.

Moreover, the area where the plant is installed is owned by TANESCO with no formal transfer made to TPDC. TPDC Management should strengthen security systems to avoid the risk of any probable threats.

viii) Risks Surrounding Take or Pay Obligations

I noted that Gas Sales Agreements between TPDC and M&P and TPDC and Ndovu Resources Limited require upon commencing of the commercial operations date and in each contract year, TPDC to purchase, take delivery of and pay for or pay for any quantity of gas which at a minimum shall be equal to the take or pay quantity equal to eighty five per cent (85%) of adjusted Annual Contract Quantity (ACQ) for that contract year.

However, to date the commercial operation date for the GSA between TPDC and M&P and between TPDC and Ndovu resources have neither been set nor agreed as required by clause 6.4 and 7.5 of the respective GSAs.
My discussion with management revealed that if commercial operations date is agreed between the Corporation and the two gas supplying companies, it will automatically trigger take or pay obligations of which TPDC are currently unprepared for it.

Basing on current gas consumption, TPDC sorely depends on TANESCO and once the commercial operations date is triggered, the Government will suffer severe loss. Despite that being the case, commercial operation dates need to be agreed under improved terms before respective parties decide to seek for a dispute dissolution.

It is recommended that, before agreeing on the commercial operations date, TPDC needs to assess its position regarding its ability take delivery of the agreed production capacities so as to avoid obligations.
Management should consider renegotiating the terms and conditions in relation to take or pay obligations to ensure that it doesn't pay for unutilized gas supplies.

ix) Dispute on Price of Condensate Not Resolved Yet

TPDC as a seller entered into a contract with Kilimanjaro Oil Company Limited to supply condensate (by-product of gas) Kilimanjaro Oil Company Limited for a duration of one year and a half up to January 2017 at an agreed price of USD 310 per metric ton excluding value added tax.

However, before the named contract ends, on February 2016 a dispute on prices arose after Kilimanjaro Oil Company Ltd filed for a discount of 35% from the original price and was logged to the Attorney General where no resolution has been reached so far as a result there has been an accumulation of condensate which forced TPDC to enter into a bulk storage agreement with Tanzania International Petroleum Reserves Limited (TIPER) on June 2016 at a cost of USD 6.38 per cubic meter every month.

Currently, the 2,205 cubic-meters-tank offered by TIPPER is full and TPDC is considering leasing one more tank because on average in every three months TPDC receive 600 metric tons of condensate from processing plants.

It is my opinion that, storage costs incurred from June to December was not part of the agreement between TPDC and Kilimanjaro Oil Company Limited thus increase expenses to TPDC which there is a possibility of not recovering it even when the new buyer is obtained.

I recommend TPDC to make follow up with the Attorney General to ensure a resolution is reached, meanwhile TPDC should expedite a process of getting new condensate buyers to avoid paying unnecessary storage charges.

6.5.2 Review of Comparison of PSA Vs MPSA and Compliance With Articles of PSA

MPSA

i) Higher Agreed PSA Cost Recovery Rates Than Those Proposed in MPSA

The Maximum recoverability percentage as proposed by the 1995, 2004, and 2008 MPSA under Article 9 (b) and Article 11 (a) and (c) respectively are 60%, 70% and 50% while the negotiated percentage of cost recoverability in respective PSA are 75% for Pan African Energy Tanzania (Songosongo), 72.5% for Ophir (Block 4), 60% for Dodsal (Ruvu), and 60% for gas for Heritage Rukwa (Rukwa basin) and 60% for Heritage Rukwa (Kyela basin).

My review of the above 5 PSA with their operations areas in bracket Heritage Rukwa (Rukwa Basin and Kyela basin), Dodsal (Ruvu), Ophir (Block 4) and Pan African Energy Tanzania (Songosongo) revealed recoverability percentage agreed in respective PSA varies from the MPSA proposed rate by 2.5% for Ophir (Block 4), 10% for Heritage Rukwa (Rukwa and Kyela basins) and Dodsal (Ruvu), and 15% for Pan African Energy Tanzania (Songosongo).

It is my opinion that contractors' recovery cost if not properly negotiated reduces profit of gas available for distribution between contractors and TPDC hence reduces Government share. I thus, advise the Government to strengthen its contract negotiations and ensure that model PSAs are mostly adhered to for the benefit of the public.

ii) Decrease in Government Share of Profit as Production Increases

Article 9(g) of 1995 MPSA provides for profit revenue distribution to the Government to be increasing as daily production volume increases.

However, the Production Sharing Agreement (PSA) entered into between the United Republic of Tanzania, Tanzania Petroleum Development Corporation and Pan-African Energy Tanzania Limited (PAET) has been structured in a reverse order where the Government share of revenue declines as production increases as shown in table below:

Table 13: Profit as Per PSA Contract with PAET

Average Daily Sales		Cumulative Sales of Additional Gas	Share of Proven Section Profit Gas Revenues (%)	
Million Cubic feet per day (mmcfd)		**Billion Cubic Feet (BCF)**	**TPDC**	**PAET**
0 to 20		0 to 125	75	25
Over 20 but less than or equal to 30	**OR**	Over 125 but less than or equal to 250	70	30
Over 30 but less than or equal to 40		Over 250 but less than or equal to 375	65	35
Over 40 but less than or equal to 50		Over 375 but less than or equal to 500	60	40
Over 50		Over 500	45	55

I recommend respective PSA to be renegotiated to benefit the government to increase its gain from profit of gas as production increases.

iii) Six PSA with TPDC's Low Participating Interest

Article 9 (b) (i) of MPSA 2008 requires TPDC at any time elect to contribute in participating interest not less than twenty five percent (25%) of contract expenses other than exploration expenses incurred.

My review of 6 PSAs revealed that, three PSA which are Swala Oil and Gas TZ Limited (Kilosa Kilombero), Petrobras (Block 8) and Ndovu Resources Limited (Nyuni Area) were negotiated at TPDC participating interest of 15%, 20% and 20% respectively. Two PSA which are Heritage Rukwa (Rukwa basin) and Heritage Rukwa (Kyela basin) did not have a specific percentage of TPDC participation disclosed. While TPDC participation interest for Motherland Industry Ltd (Malagarasi basin) was negotiated at least for 20%.

The arrangement has an impact of reducing government revenue from profit gas as it offers lower percentage of revenue as profit increases.

It is recommended, that respective PSA should be re-negotiated to reflect the requirement of the respective MPSA to ensure that Government interests are protected.

iv) Payment of Royalty and Windfall tax (Additional Profit tax) to the Government

a) Low Negotiated Royalty Rate Below the One Suggested in MPSA

My review of three PSA's which are Beach Petroleum (T) LTD operating along Lake Tanganyika basin with agreed royalty of 5%, Petrobras Tanzania LTD operating at Block 8 with negotiated royalty of 5%, and Pan African Energy Tanzania Ltd operating at Songosongo with no negotiated royalty, were signed based on the MPSA 1995 for Pan

African Energy Tanzania Ltd and MPSA 2008 for both Beach Petroleum (T) LTD and Petrobras Tanzania LTD. All these rates differ from the 12.5% provided in MPSA of 2008.

It is my opinion that, charging royalty at lower rates deprives the Government of its revenues. I thus, recommend the Government to strengthen and enhance its negotiation teams with relevant and adequate negotiating skills for protection of government interests.

b) Exclusion of Windfall Taxes Clause From Six PSA

Our review revealed that, PSA for six companies named Swala Oil and Gas Tz Limited (Kilosa area), Mother Land Industry Ltd (Malagarasi basin), Heritage Rukwa (Kyela and Rukwa basins), Petrobras (Block 8), Ndovu Resources Ltd (Nyuni area) were all signed based on MPSA 2008 but did not incorporate a requirement for additional profit as provided under Article 15 of MPSA 2008.

I further noted that Sect 13.1(a) article XIII of Songo Songo PSA on additional profit tax states that:

"PAET shall be subject to Additional Profit Tax that shall be calculated on a contract area basis in accordance with the provision of the Section 13.1 additional profit tax shall be calculated for each year and shall vary with the real rate of return earned by PAET on the net cash flow from the contract area".

During the period under review, I noted that PAET has never filed or submitted statements of additional profit tax report in respect of first accumulated net cash position (FANCP) and second accumulated net cash position (SANCP) as required under article III Sect 13.1(a) of the PSA.

However, the Income tax Act 2004 does not include a requirement to collect Additional Profit Tax.

It is my opinion that, absence of the additional profit tax (windfall taxes) clause implies the Government will not get taxes from this category of revenue.

I recommend the Government to renegotiate and amend respective PSAs to incorporate Additional Profit Tax component.

TRA should consider amending the Income tax Act 2004 to incorporate additional profit tax.

TPDC should make follow up on additional profit tax positions in respect of additional profit made by Pan African Energy to ensure that it pays the tax due.

v) 18 PSA Giving Rights to Contractors of Possession of Recovered Movable Assets

My review noted that two (2) PSA signed basing on 1995 MPSA, eight (8) PSA signed basing on 2004 MPSA, and eight (8) signed basing 2008 MPSA give the contractors right of the movable assets despite the fact that the acquisition costs are part of recoverable costs of the mentioned PSA.

List of these PSA with their areas of operations in brackets are Maurel & Prom (Bigwa), Pan Africa Energy Tanzania Ltd (Songosongo), Petrodel (Kimbiji), Dodsal (Ruvu), Ndovu resources (Ruvuma basin), Petrodel (Tanga), Ophir (Block 4), Petrobras (Block 6), Ophir (Block 1), Statoil (Block 2), Swala Oil and Gas TZ Limited (Kilosa Kilombero), Swala Oil and Gas TZ Limited (Pangani), Mother land Industry Ltd (Malagarasi basin), Beach Petroleum Tz Ltd (lake Tanganyika), Heritage

Rukwa (Kyela basin), Heritage Rukwa (Rukwa basin), Petrobras (Block 8), and Ndovu Resources Ltd (Nyuni area).

The rights given to the companies under those PSAs deny TPDC's rights of possessing assets already recovered provided for in the MPSA. I recommend the Government to renegotiate the contracts and amend such clauses to ensure movable assets once recovered are owned by the Government.

PART B: Review of Compliance with Articles of Songosongo PSA

i) Unestablished Field Restoration Fund

I noted that 9 years are remaining before Songosongo PSA comes to an end on 10th October, 2025 while 16 years have elapsed since the PSA was entered into. However, TPDC and PAET are yet to set aside funds for abandonment and field restoration.

It is my opinion that site restoration cost after PSA expiration will fall under the Government of URT. I thus, recommend the parties involved in this PSA to introduce funds for abandonment to avoid the possibility of the Government incurring the resultant abandonment costs.

ii) Taxes and Royalties not paid by PAET to the Government

a) Provisional Corporate Taxes Deducted Directly from Gas Sales Proceeds

My review noted, that Provisional corporate tax paid by PAET as per Para 12.2(a) of Songosongo PSA is recovered from sales invoices of gas from TPDC.

Our audit observed that the amount paid by PAET to TRA was deducted by PAET directly from Gas sales proceeds (Recovered from Gas Sales Invoices).
Since the amount of tax paid by PAET to TRA is deducted back from gas sales proceeds to take charge of the factor, it is evident that PAET does not pay taxes at all instead all the taxes are paid by TPDC.

There is a need for SongoSongo PSA to be re-negotiated so that each party to the agreement pays its own tax liability.

b) Unfavourable Agreement on Payment of Royalty
Sect 12.2(c), Article XII of Songo Songo PSA states that:
"TPDC shall discharge its obligation to pay royalties under the Act, and Development Licence in respect of Additional Gas and other Petroleum produced and sold from the contract area by payment of royalties as established by GOT.

Article 16 (c), of MPSA 2003 describes that, TPDC on behalf of itself and the contractor shall discharge the obligation to pay royalty under the Act in respect of petroleum obtained from the contract area by delivering to the Government 12.5% for onshore/shelf areas and 7.5% for offshore of the total crude oil/natural gas produced (prior to cost oil/ cost gas recovered).

During the review I noted that, profit share paid to TPDC by PAET does not indicate the percentage of royalty for onshore/shelf areas and offshore of the crude oil/natural gas produced (prior to cost oil/cost gas recovered) that has to be paid to the GoT.

Absence of specified rate of royalty on Songosongo PSA gives difficulties on the bases of collecting the royalty.

I recommend that, Songo-Songo PSA be re-negotiated to include a clause that requires both TPDC and PAET to pay royalty to the Government prior to the cost oil/cost gas recovery.

c) Songosongo PSA Allowing Recovery of Market and Market Research Costs

Para 2.6 and 3 of Article II and III under Annex D (Accounting Procedure) of the Songosongo PSA listed costs which qualifies to be recoverable without further approval by TPDC. Among the allowed costs are Market and Market Research expenses not exceeding USD 250,000 for additional gas.

It is my opinion that market and market research expenses are downstream activities they are not associated with operations in the upstream and therefore, they should not be allowed. Being recovered from sales, increases costs and thus reduces a share of revenue due to the Government. I thus, recommend the review of the PSA to ensure that downstream costs are removed from the list of recoverable costs.

d) Failure by TPDC to Participate In Development Operations

During the Audit I noted that TPDC does not participate in development operations of Songosongo since 2001 in which the development activities started contrary to the requirements of Section 8(b) of Article VIII of Songosongo PSA on Joint Operations.

Further, I noted TPDC and PAET have a Draft Joint Operations Agreement since 2009 which is yet to be finalized.

By not participating in the development operations, TPDC forgoes its opportunity of sharing the gas revenue.
I recommend that TPDC should ensure it exercises its right of participation by concluding and signing the Joint Operation Agreement.

e) Unresolved PSA Dispute on Recoverable Cost USD 34 Million

My audit observed that TPDC and PAET have unresolved dispute over recoverable cost of USD 34 million as of 30th November 2012.

It is my opinion that delays in resolving this dispute may result into PAET taking the matter to arbitration which may cost the Government more in terms of payment of legal costs and penalties.

I recommend the parties to sort out this dispute as it has an impact on the cost recovery pool and government share in particular.

CHAPTER SEVEN
SPECIAL AND FORENSIC AUDITS ON PUBLIC ENTITIES

7.0 Introduction

This chapter highlights the most significant audit observations noted during the Special and Forensic audits of Public Authorities and other Bodies (PA&oBs). These special audits have been carried as per Sect. 29 of the Public Audit Act of 2008 and Reg. 79(1) of the Public Audit Regulations of 2009.

During the year under review, four (4) special audits and one (1) forensic audit were conducted. The four special audits were conducted at College of Business Education (CBE), National Development Corporation (NDC) and Tanzania Ports Authority (TPA). The forensic audit was done to the Tanzania Gaming Board (TGB).The following are the significant issues noted in those audits;

7.1 Tanzania Ports Authority (TPA)

Special Audit on Payment of Wharfage Charges at Tanzania Port Authority - Dar es Salaam Port was conducted following the request from the Permanent Secretary –Transport via a letter with Ref. No. CCB.364/505/01 of 23rd March, 2016. The audit aimed at identifying Clearing Agents involved in evasion of paying wharfage charges and determining the amount of loss (if any) caused by evasion of payment of the wharfage charges.

The audit revealed that a total amount of TZS 15,021,886,716 was not collected by the Tanzania Ports Authority (TPA) as wharfage charges on various instances as follows:

i. Invoices amounting to more than TZS. 1,131,381,306 with corresponding receipts which were accepted in cargo clearance at the Port of Dar es Salaam through various ICDS/IFS indicating that wharfage charges had been paid for accordingly. However, there were no corresponding records of payments reflected in the TPA's payment system indicating that no payments were received by TPA;

ii. Authenticity of Invoices amounting to TZS 50,217,127 were recognized by TPA and therefore used in cargo clearance. However, same invoices were revealed to have been cancelled in the payment system;
A total of 1,310 invoices with TZS 4,168,278,902 whose numbers were revealed in TPA Payment System, were used to clear different cargoes/details for different clearing agents (customers) with different values and therefore different wharfage charges;

iii. Invoices amounting to more than TZS 131,155,797 were used with two or more different cargoes / Bill of Lading for the same clearing agent;

iv. Cheques amounting to TZS 195,536,984, among them, some whose Bank Pay-in-Slips were received from CRDB, which were presented at CRDB Bank by clearing agents in respect of settling wharfage charges were indicated to have been used in clearing cargoes related to different/other clearing agents, while others whose Bank Pay-in-Slips were yet to be submitted by CRDB up to the time of writing this report.

About 82 clearing agents did not submit their information during this audit hence not included in the analysis.

The audit further revealed weaknesses in the payment systems as there are no integrations/interface/cross referencing between TPA, TRA and the Bank (CRDB Bank) on payment information. As such, TPA's Revenue Department could have not been able to exactly determine the amount of wharfage to be charged until the clearing agent submits the Release Order.

I recommend TPA to recover from CRDB Bank a total of TZS 195,536,984 as a result of cheques whose Bank Pay in Slips were received from CRDB. Cheques amounting to TZS 616,370,195 and USD 21,789 in respect of wharfage charges payments which were presented for payment at CRDB Bank though not submitted during the audit have to be scrutinized and the respective payments to be recovered from CRDB.

TPA Payment System should be enhanced such that it does not allow duplicate invoices. The system should also be integrated or interfaced with TANCIS and Terminal Operating Systems (Harbour View, Cargo System and Bill System) to enable reliable Call ID information, Manifests and Release Orders for easy reconciliation and audit trail.

7.2 Small Industries Development Organization (SIDO)

The Board of Directors of the Small Industries Development Organization (SIDO) requested the Controller and Auditor General (CAG) to undertake a special audit on Assets (Land and Buildings) Management at Small Industries Development Organization (SIDO). The assignment aimed at establishing the validity and accuracy of the assets' values, ownership and prevailing status and condition, assessment of the process and procedures followed so as to determine grounds for which the SIDO assets were sold (where applicable).

The audit noted improper revocation of 25 SIDO Plots by the various District Councils/Municipalities namely Kinondoni, Mtwara, Mbeya and Moshi due to non-compliance with procedures. However, the revocation of SIDO plots was inappropriate as the District Councils/Municipalities were incompetent authorities for the cause of actions; the Ministry of Land Housing and Human Settlement Development (MLHSD) confirmed the irregularities.

Further, I noted that SIDO Management did not adequately safe-guard the lands acquired by SIDO. Management delayed completion of the ownership processes of the land with MLHSD. Also one residential house at Block 41, Kinondoni was illegitimately dominated by SIDO former employee who then rented it out to another person.

The audit noted a sale of five (5) SIDO Plots No. 09 and 10 Block "X" Mwakibete, Mbeya and Plots No.673 – 675 Block 46 Kijitonjama, Dar es Salaam to individuals and the Parastatal Pension Funds (PPF) without following proper procedures.

The tenants operations within SIDO Small Business House (SSBH) were not in line with SIDO main objectives of creating, promoting and sustaining innovative entrepreneurial base by providing SMEs with tailor made services in a business-like manner. It was noted that some of the rented rooms at the SSBH were used as food and beverage kiosks, advocate offices, offices for NGOs, etc.

On the other side, there have been two court cases against SIDO with regard to the SSBH tenants filed in 2007 and 2012 by Scan –Tech Co. Ltd and Pluto Emanuel

Minja and 21 others. These cases have been precluding SIDO from effective utilization of SSBH buildings.

The audit noted improper agreement on Plots sub-leasing between SIDO Management and JAE (T) which resulted into Build Operate & Transfer (BOT) arrangements for a period of 37 years through which SIDO was not able to realize appropriate return from the utilization of the land. Additionally, agreements for exchange of portion of SIDO lands with six (6) industrial sheds lacked valuation reports which confirmed that the land value was not determined before the exchange agreements were reached.
PSRC privatized MBECECO, a subsidiary company of SIDO, to Kyela Valley Foods Ltd in August 1995. The Sale agreement required Kyela Valley Foods to start operation immediately after completion of the acquisition. The operationalization was longer delayed as a result of which, in July 2011 the Treasury Registrar (TR) recommended termination of the contract. However, the Treasury Registrar's recommendation has not yet been implemented to the time of this audit.

There is ongoing court Case No. 4 of 2012 between Kyela Valley Foods Ltd (Plaintiff) and Mbeya City, SIDO and Attorney General (Defendants) whereby the Plaintiff is claiming TZS. 9.2 billion against the Defendants. The case has been built up on bases that Mbeya City and SIDO authorized businessmen to tress-pass the area privatized to and owned by M/s. Kyela Valley Foods, they caused fire which damaged the properties. The case has been mentioned and heard with preliminary orders being granted.

I recommend that;

(i) SIDO Management should take necessary action to recover all 25 purported revoked plots;

(ii) appropriate measures should be taken against personnel from Kinondoni, Moshi, Mbeya, Mtwara Municipal Councils and the Ministry of Land who were involved in depriving SIDO's rightfully owned Plots and ensure that all plots sold without appropriate approvals are repossessed;

(iii) SIDO should expedite follow up processes in the transfers of ownership of its plots Certificates of Title of which have not yet been obtained;

(iv) the management should liaise with relevant authorities to remove invaders from SIDO plots;

(v) SIDO Management should negotiate with JAE (T) Limited in order to realise benefits out of the agreement of 37 years period;

(vi) the Government through the Treasury Registrar should consider termination of the sale of assets agreement between PSRC and Kyela Valley Foods Ltd due to breach of agreements; and

(vii) SIDO Management should actively engage the Attorney General to remove the SSBH tenants out of the buildings and consider possibilities of settling the conflicts amicably.

7.3 Joint Venture between State Mining Corporation (STAMICO) and Tanzanite One Mining Limited (TML)

A Special Audit on the Joint Venture Operations between STAMICO and TML (with 50% share-holding each) was undertaken upon receipt of a request from the Permanent Secretary, Ministry of Energy and Minerals vide a letter with Ref. No. CA 2/88/01/J/222 of 15th February 2016.

This audit focused on establishing whether or not TML Management (the Operator) had internal controls in place to implement the Joint Venture Operations from 20th June, 2013 to December 2015.

The following key findings were noted:

i. On 30th January, 2015 the Ministry of Energy and Minerals approved the sale of 50% shares in TML (Government Co-venture) by M/s. Richland Resources Ltd to M/s. Sky Associates Ltd without conducting Due diligence on M/s. Sky Associates Financial and Technical Capacity for conducting mining operations. The transfer of shares in TML between M/s. Sky Associates and M/s. Richland Resources puts the Government's interests in TML at stake.

ii. There was neither Joint Operating Account nor Rehabilitation Account opened by TML, hence, Tanzanite sales revenue was being deposited in TML owned Amana Bank accounts No. 005110122860001 and 005110122860002. STAMICO has therefore no access or control over the information regarding Tanzanite sales and has not realized any profit in the Joint Venture and reaps less benefit from the agreement.

iii. During the period from January to September, 2015 Tanzanite weighing 367.94kg valued at USD 3,374,683 was taken from Mining premises to Arusha for sorting, cutting and polishing contrary to Article 15 (1) (b) of the Agreement. The

Tanzanite processed outside Operator's premises may not reflect the actual value of the processed minerals and therefore, the required VAT and payable royalty amount may not be established.

iv. Up to 31st March, 2016 TML had outstanding statutory payments amounting to TZS. 4,396,083,315.09 payable to TRA, NHIF,NSSF, Simanjiro DC and TAMICO which implies that the Company did not comply to various Laws and Regulations.

v. Uncontrolled ongoing underground illegal mining activities commonly known as "mitobozano" in TML's Block "C" is the major challenge in Tanzanite production as it poses serious safety concerns in daily mining operations. The underground tunnels crossing over one another are used for Tanzanite trafficking from Block "C" by illegal miners which lead to loss of Government revenue.

I recommend the following;

(i) The Ministry of Energy and Minerals should conduct due diligence to assess the capabilities of M/s. Sky Associates Ltd in mining operations;

(ii) STAMICO Management in liaison with TML (co – ventures) to expedite the opening of the Joint Venture operating account and ensure that all Tanzanite sales revenues are deposited in the newly opened account;

(iii) STAMICO should strengthen supervision in Tanzanite processing by ensuring that it is always processed by using the Operator's plant located in the mining premises in presence of STAMICO and other Government Institutions as required;

(iv) TML's Management should ensure timely payments of the outstanding statutory payments as per legislative requirements; and

(v) Commissioner for Minerals should promptly carry out a special underground inspection to all Tanzanite Blocks operations and small scale miners at the mine area to determine the extent of underground tunnels crossing over one another which are used to facilitate illegal mining activities and smuggling of tanzanite and take necessary actions accordingly.

7.4 College of Business Education (CBE)

The special audit for CBE was requested by the Permanent Secretary (Trade and Investment) of Ministry of Industry, Trade and Investment on 19th May, 2016 through a letter with reference No. CKA23/48/01/1 after Staff of the College raised allegations of misuse of funds against the Administration at the College's campuses of Dar es Salaam, Dodoma, Mbeya and Mwanza. Our audit noted the following:

7.4.1 Misappropriation of Students' Fees

Section 4 (4) of College's Financial Regulations requires fees to be paid directly to the Colleges' official account then the pay-in-slips be presented to the College. My review at Dodoma Campus revealed that, a sum of TZS 265,533,000 from Students' fees were missed from the College. The fees were received as cash contrary to the requirements of the above regulation.

Six (6) staff who were involved in the embezzlement of the said fees were terminated from employment while the Students were ordered to repay the fees as required by the Financial Regulations. Up to the time of this audit, a sum of TZS 108,965,400 had already been repaid to the College.

I noted at Mwanza Campus that, a sum of TZS 17,671,600 was noted to have been misappropriated by an accountant who was receiving fees from Students as cash with a promise to bank them. However, she was either banking less of the money she received or not banking it at all. The cashier was also tempering with the receipts book through carbon slipping while issuing receipts. I noted in some incidences that, the receipts that students hold differed in amount with its corresponding copies in the receipt books.

The matter was reported to the Police. The alleged Accountant resigned and promised to repay the money. Up to the time of my audit, a sum of TZS 15,008,000 had already been repaid to the College.

7.5 Tanzania Gaming Board (GBT)

Pursuant to Section 27 of the Public Audit Act, 2008 and upon receipt of allegations regarding the Abuse of Office by the Director General (DG) on 26th October, 2016, I commissioned undertaking of a Forensic Audit at the Gaming Board of Tanzania and revealed the following:

7.5.1 Uncollected Tax on Winning TZS 427, 906,771

The audit revealed unpaid gaming tax (tax on winning) of TZS 427,906,771 by M/s Entertainment Africa Ltd (Operator) for the months of July and August 2015 as tax on winnings for the period.

On 30th June, 2015 the 'gaming tax on winning' was introduced vide amendments of the Gaming Act 2003. The Board vide a letter Ref. No. GBT/SB/131/VOL. i/42 prescribed the manner in which the tax collection and remittance will be conducted.

The Entertainment Africa Ltd revealed difficulties to impose the taxation manually whilst as it was not feasible to have configured the gaming machines in less than two months period. A payment of TZS 200,000,000 was effected against gaming tax of TZS 300,899,241 and TZS 327,007,530 for July and August 2015. The balance of TZS 427,906,771 is still unpaid.

7.5.2 Uncollected Tax Penalty of TZS 80,237,357

Following under declaration of tax by M/s Le Grande Casino, the Board through letter with Ref. No. GBT/CAS/TEL/VOL.IV/14 of 3rd December 2013 charged M/s Le Grande Casino a penalty of Sh. 80,237,357 (being 50% of principal amount) as per Section 35(2) of the Gaming Act No.4 of 2003.

M/s Le Grande Casino requested for waiver of the imposed penalty on grounds that the discrepancy of the understated tax does not fall under S.35 (2). The Board declined the request as it was unable to waive the penalty prescribed by the law.

I recommend that the Board should engage the Office of the Attorney General and the Commissioner General of TRA to ensure proper collection of unpaid taxes from Entertainment Africa Ltd and Le Grande Casino.

7.7 Joint Venture between National Development Corporation (NDC) and ETC Holding Limited (ETC)

A Special Audit on the Joint Venture Operations between NDC and ETC Holding Ltd (with 25% and 75%

share capital respectively) was undertaken upon receipt of a request from the Permanent Secretary Ministry of Industrial Trade and Investment through a letter with Ref. No. CAB.211/263/01/29 dated 21st June, 2016.

The Joint Venture was effective from 14th January, 2009 with the main purpose of developing an Inland Container Depot (ICD) and Agro-processing Plant on Plots No.1-66 Block 'R' and 101 Block 'Q' located at Mbagala Rangi Tatu, Dar es Salaam.

In line with Section 29(2) of the Public Audit Act, 2008 I commissioned the Audit on 19th September, 2016 with the main objective of determining whether or not the JVA was properly executed in accordance with the intended objectives. The following key findings were revealed:

7.7.1 Formulation, Approval and Signing of Joint Venture Agreement by NDC without Attorney General's Vetting

The JVA Agreement between NDC and ETC Holding Limited was signed on 14th January, 2009 without being vetted by the Attorney General (AG). The Acting Treasury Registrar vide letter No. TYC/N/40/6/17 of 11th April, 2011 pointed that NDC ought to have submitted the Draft Agreement to the AG for vetting prior signing of the Agreement as it involves an amount over and above Fifty Million Tanzania Shilling.

7.7.2 A Loan of $9,647,605 from ETC Holding Limited to ETC Cargo Limited without Board's Approval

On 1st January, 2012, ETC Holding Ltd entered into an agreement with ETC Cargo Ltd for a loan facility of USD 9,647,605 to finance the borrower's working capital requirements. The loan was extended at an interest rate of 8.50% per annum for a period of three (3) years. The

Board's approval was not sought before entering the contract.

I further noted that a total of USD 10,354,768.60 loan was acquired by M/s ETC Cargo Ltd on 31 May 2013 instead of USD 9,647,605 as agreed resulting into USD 707,164 being taken by M/s ETC cargo Ltd outside the loan agreement.

7.7.3 Improper transfer of NDC Plots No 1-66 Block "R" Mbagala Rangi Tatu to ETC Cargo Ltd (the Company)

The transfer of ownership of Plot No.1-66 Block "R" to M/s ETC Cargo Ltd had neither approval of NDC Board of Directors nor consent of the Treasury Registrar. Also Plot No 101 Block "Q" was leased for 98 years to ETC Cargo Ltd by NDC Management without Board's approval

Based on the findings, it is recommended that;

(i) Treasury Registrar in collaboration with NDC Board and Management, and in consultation with the Attorney General, should ensure recoverability of NDC improperly transferred assets.

(ii) NDC Board and Management should take appropriate measures to all NDC staff implicated in various matters addressed in the report.

CHAPTER EIGHT

OTHER AUDIT MATTERS AND GENERAL AUDIT FINDINGS

8.0 Introduction

This chapter entails Other Audit Matters and General Audit Findings which both have been described below in para 8.1 and 8.2 respectively.

8.1 Other Audit Matters

During the year under review, I carried out audits of 150 entities and came up with matters some of which have been reported in Chapter Four of this report while the rest of these matters are detailed under paragraph 8.2 below and in Appendix IV. In addition 32 audits were in progress as at the date of this report.

I could not carry out audits for 18 entities listed in the Appendix V due to budget constraints as these entities could not afford paying related audit costs.

8.2 General Audit Findings

This part relates to observations that cut across multiple PA&oBs. The cross cutting issues are detailed below:-

8.2.1 Absence of Board of Directors and Trustees

During the year under review, there were 18 Boards that had completed their tenure of office and that, new Boards were not appointed yet as at the time of concluding our audits in March 2017. Some of the entities have been operating without Boards for more than one accounting period. The entities that have no Boards are as shown in Appendix VI. Absence of the Board of Directors and Trustees slackens the operational activities of the entities due to lack of the authorizing Bodies.

Further, some entities had Board of Directors, however, their Boards could not sit timely to consider, authorize and adopt the audited financial statements as shown in Appendix VII.

Appropriate appointing Authorities should timely appoint Boards of Directors once their tenure expires and the appointed Boards should sit timely to authorize and adopt the financial statements of their respective Public Entities in accordance with their mandate.

8.2.2 Potential Liability Due to Contributions from Ghost Workers

During the year 2015/16, the Government of the United Republic of Tanzania formed a task force to conduct a special exercise to identify Ghost Workers in various Government Institutions. The identified ghost workers were in the payroll systems of these institutions, therefore, there is a possibility that their contributions were remitted to the pension funds.

Review of pension Funds identified that the Funds are yet to receive the names and details of ghost workers from the Treasury and there is no independent assessment done by managements of the Funds to establish possible liability resulting from contributions submitted for ghost workers. There is potential liability that emanates from ghost workers' contributions. The magnitude of liability to each Pension Fund is dependent on proportion of civil servants to the total membership of the Fund.

Managements of Pension Funds are advised to liaise with the Treasury to obtain list of their members identified as ghost workers. In addition to that, independent review should be done basing on the analysis of member portfolio to establish provisional amount so as to avoid lump sum financial burden to the Funds which could be detrimental to their operations.

8.2.3 Overdue Government Debts TZS 1,596.35 billion

The Government of the United Republic of Tanzania borrows from public institutions, guarantees other entities to borrow from public institutions and also has legitimate obligations emanating from governing laws and contracts. As a result, the Government assume liabilities which have to be paid as per agreed terms and conditions or requirement of laws.

During the year 2015/16 it has been revealed that the Government has an outstanding overdue debts of TZS 1,596.35 billion from nineteen (19) + different Institution. These debts have originated from direct borrowings, guarantees and contributions not remitted as per requirements of laws.

In addition to that, the loan amounting to TZS 44.29 billion granted to University of Dodoma for construction of medical Center has neither Agreement nor Government guarantee.

The analysis of loans overdue Government Loans are shown in Appendix VIII.

Non-payment of the above mentioned overdue debts affects financial strength of institutions expecting to receive such amounts which in turn affects their operations.

The Government is advised to make deliberate efforts to rescue the situation by paying those debts as some of the institutions have been weakened financially in such a way that they cannot carry their duties effectively and efficiently.

8.2.4 Delays and Non Remittance of Statutory Deductions TZS 26.26 billion

Review of statutory deductions noted that some Authorities had not complied with the remittance deadlines. The statutory deductions were not remitted include VAT, SDL, PAYE, and pension contributions all amounting to TZS 26.26 billion.

The liabilities have been accumulating over years a situation that may attract extra payments in terms of fines, interests and penalties which have impact on the liquidity position of the entities resulting in failure to meet their planned activities.

Non-submission taxes have the effects of denying the Government its revenues while that of pension creates uncertainties regarding workers' compensation from respective Pension Funds on their retirement dates.

Table below summarises the deductions not submitted within the statutory deadlines:

Table 14: Deductions Not Submitted Within the Statutory Deadlines

Entity	Taxes (VAT & PAYE) '000,000'	Pension Fund '000,000'	SDL '000,000'	Total '000,000'
Songea Urban Water Supply and Sanitation Authority	73.37	-	-	73.37
Open University of Tanzania	3,642.04	437.01	-	4,079.05

Entity	Taxes (VAT & PAYE) '000,000'	Pension Fund '000,000'	SDL '000,000'	Total '000,000'
Tanzania Postal Corporation	10,582.35	-	3,768.41	14,350.76
DAWASCO	2,951.23	1,173.99	2,718.92	6,844.14
Kariakoo Market Corporation (KMC)	368.30	-	274.05	642.34
Lindi Urban Water Supply and Sanitation Authority	58.29	87.13	-	145.42
Tanga Urban Water Supply and Sanitation Authority	-	-	120.73	120.73
Total	**17,675.58**	**1,698.13**	**6,882.12**	**26,255.82**

Managements of the entities are advised to take the necessary remedial measures to ensure that salary deductions are remitted timely and thus avoiding fines/interests and penalties which may be charged by the respective authorities for failure to remit statutory deductions in due dates.

8.2.5 Payments Made Without EFD Receipts/Invoices TZS 5.61 billion

The Government of the United Republic of Tanzania introduced the use of Electronic Fiscal Devices (EFDs) through the Value Added Tax Regulation, 2010 and Income Tax (Electronic Fiscal Devices) Regulation of 2012. The two Regulations rendered issuance of EFD receipts/invoices compulsory.

Contrary to the above regulations, various government institutions made various payments amounting to TZS

5.61 billion without being acknowledged with EFD receipts.

The table below illustrates institutions, which made the payments that were not acknowledged with EFD receipts/invoices:

Table 15: Payments that were Not Acknowledged with EFD Receipts/Invoices

S/N	Institutions	Subject Amount (TZS Billion)
1	College of Business Education	0.87
2	Mzumbe University	1.30
3	Mbeya Water Supply and Sanitation Authority	3.44
4	Open University of Tanzania	0.24
	Total	**5.85**

EFD facilitate tax collection as they capture real time transactions and hence control tax evasion. Making payments the receiving of which is not acknowledged with EFD receipts creates a loophole for tax evasion hence hindering Government's efforts to collect tax revenues.

Management of the above institutions are reminded to demand and retain EFD invoices and then receipts for all of their payments to suppliers and contactors.

8.2.6 Significant Long outstanding Accounts Receivable Balances – TZS 61.28 billion

I have identified entities with significant long outstanding accounts receivable balances. The long outstanding balances have gone beyond the credit limits that is, time payment periods as indicated in their respective policies.

For the case of Colleges and Universities, the situation had been far worse as graduates collected their certificates without paying liabilities of their tuition fees which make it difficult for the institutions to collect the respective amounts. The situation where certificates were collected without graduates clearing their tuition fee has been noted with University of Dar es Salaam (USDM), Institute of Finance Management (IFM) and College of Business Education (CBE).

Such aggregation of accounts receivable balances over a long period has been caused by inefficiency in debts management. Further, there is an indication of fraud for as the graduants received their certificates while they had not cleared their dues. The Breakdown of the respective accounts receivable is shown below:

Table 16: Significant Long outstanding Accounts Receivable

S/N	Entity	Percentage of Total Debt	Amount 'TZS billion
1	MWANZA URBAN WATER SUPPLY AND SANITATION AUTHORITY (MWAUWASA)	42%	2.16
2	MOSHI URBAN AUTHORITY	86%	2.20
3	Tanzania Commission for Universities	61%	1.18
4	Mkwawa University College of Education	51%	0.85
5	Ardhi University	99%	4.50
6	Universal Communication Service Fund	70%	5.68
7	TANZANIA COMMUNICATIONS REGULATORY AUTHORITY	51%	14.60
8	Ubungo Plaza Limited	87%	4.25
9	Institute of Finance Management (IFM)	69%	4.48
10	UNIVERSITY OF DAR-ES-SALAAM	29%	6.79
11	Tanzania Broadcasting Corporation	46%	2.57
12	Tanzania Postal Corporation (TPC)	64%	10.75
13	Institute of Rural Development and Planning (IRDP)	72%	1.26
	Total long outstanding accounts receivable		**61.28**

The amounts enlisted above are very significant and may have impaired operations of respective entities as significant amounts of cash are held by outside parties instead of being used to implement activities of respective Institutions.

Managements of respective Institutions are thus recommended to review their collection mechanisms for improvement.

CONCLUSION

I would, again, like to use this great opportunity to submit my report to his Excellency, Hon. John Pombe Joseph Magufuli.

It is my expectation that, as a result of my report, the Government will take immediate, necessary and appropriate actions in respect of my audit findings.

This may be possible if the Government will institute mechanisms such as new policies, procedures and legal framework in a view of improving performance of Public Entities as recommended in this report.

In regard to my previous recommendations and recurring matters, I urge the Government to increase the pace of its implementations, in order to enhance efficiency and effectiveness of the respective Public Entities.

APPENDICES

APPENDIX I – Analysis of Audit Opinions Issued in 2015/2016

SN	Public Authorities	Opinion
1	Architects and Quantity Surveyors Registration Board (AQSRB)	Unqualified Opinion
2	Ardhi University	Unqualified Opinion
3	Arusha International Conference Centre	Unqualified Opinion
4	Arusha Technical College	Unqualified Opinion
5	Arusha Urban Water Authority	Unqualified Opinion
6	Benjamin W. Mkapa HIV/AIDS FOUNDATION	Unqualified Opinion
7	Bukoba Urban Water Supply and Sanitation Authority	Unqualified Opinion
8	Cancer Institute (Ocean Road)	Unqualified Opinion
9	Capital Markets and Securities Authority (CMSA)	Unqualified Opinion
10	Centre For Agriculture Mechanization And Rural Technology (CARMATEC)	Unqualified Opinion
11	Chalinze Urban Water Authority	Unqualified Opinion
12	College of African Wildlife Management, Mweka	Unqualified Opinion
13	College of Business Education (CBE)	Unqualified Opinion
14	Contractors Registration Board	Unqualified Opinion
15	Dar es Salaam Institute of Technology	Unqualified Opinion
16	Dar es Salaam Stock Exchange (DSE)	Unqualified Opinion
17	Dar es Salaam University College of Education (DUCE)	Unqualified Opinion
18	Dar es Salaam Water and Sewerage Authority	Unqualified Opinion
19	Dar es Salaam Water and Sewerage Corporation (DAWASCO)	Unqualified Opinion
20	Deposit Insurance Board	Unqualified Opinion
21	Dodoma Urban Water Supply and Sanitation Authority	Unqualified Opinion
22	Energy and Water Utilities Regulatory Authority	Unqualified Opinion
23	Energy and Water Utilities Regulatory Authority - Consumer Consultative Council (EWURA-CCC)	Unqualified Opinion
24	Engineers Registration Board (ERB)	Unqualified Opinion
25	Fair Competition Commission (FCC)	Unqualified Opinion
26	Gaming Board of Tanzania	Unqualified Opinion
27	Government Employees Provident Fund	Unqualified Opinion
28	Institute of Finance Management	Unqualified Opinion
29	Institute of Rural Development and Planning (IRDP)	Unqualified Opinion
30	Institute of Social Work (ISW)	Unqualified Opinion

SN	Public Authorities	Opinion
31	Iringa Urban Water Authority	Unqualified Opinion
32	Kahama Shinyanga Water Supply and Sanitation Authority	Unqualified Opinion
33	Kariakoo Market Corporation	Unqualified Opinion
34	Kibaha Education Centre	Unqualified Opinion
35	Kigoma Urban Water Supply and Sewerage Authority	Qualified Opinion
36	Kilimanjaro Development Company Limited	Unqualified Opinion
37	LAPF Pension Fund	Unqualified Opinion
38	Lindi Urban Water Supply and Sewerage Authority	Unqualified Opinion
39	Marine Parks and Reserves Unit	Unqualified Opinion
40	Masasi- Nachingwea Water Supply and Sanitation Authority	Unqualified Opinion
41	Mbeya University of Science and Technology	Unqualified Opinion
42	Mbeya Water Supply and Sanitation Authority	Unqualified Opinion
43	Mkwawa University College of Education	Unqualified Opinion
44	Morogoro Urban Water Supply and Sanitation Authority	Unqualified Opinion
45	Moshi Co-operative University	Unqualified Opinion
46	Moshi Urban Water Supply and Sanitation Authority	Unqualified Opinion
47	Mtwara Urban Water Supply and Sanitation Authority	Unqualified Opinion
48	Muhimbili National Hospital (NMH)	Unqualified Opinion
49	Muhimbili University of Health and Allied Sciences	Unqualified Opinion
50	Musoma Urban Water Supply and Sanitation Authority	Unqualified Opinion
51	Mwanza Urbarn Water Supply and Sanitation Authority	Unqualified Opinion
52	Mzumbe University	Unqualified Opinion
53	Namtumbo Urban Water Supply and Sewerage Authority	Unqualified Opinion
54	National Board of Accountants and Auditors (NBAA)	Unqualified Opinion
55	National Bureau of Statistics (NBS)	Unqualified Opinion
56	National Council for Technical Education (NACTE)	Unqualified Opinion
57	National Environment Management Council	Unqualified Opinion
58	National Examinations Council of Tanzania (NECTA)	Unqualified Opinion
59	National Institute of Transport	Unqualified Opinion
60	National Sports Council of Tanzania (NSCT)	Unqualified Opinion

SN	Public Authorities	Opinion
61	Ngorongoro Conservation Area Authority (NCAA)	Unqualified Opinion
62	Njombe Urban Water Supply and Sewerage Authority	Unqualified Opinion
63	NSSF Pension Fund	Unqualified Opinion
64	Open University of Tanzania (OUT)	Unqualified Opinion
65	PPF Pensions Fund	Unqualified Opinion
66	Procurement and Supplies Professionals and Technicians Board (PSPTB)	Unqualified Opinion
67	Public Procurement Regulatory Authority (PPRA)	Unqualified Opinion
68	Public Sector Pension Fund	Unqualified Opinion
69	Same Urban Water Supply and Sanitation Authority	Unqualified Opinion
70	Shinyanga Urban Water Supply and Sanitation Authority	Unqualified Opinion
71	Singida Urban Water Authority	Unqualified Opinion
72	Small Entrepreneurs Loan Facility (SELF)	Unqualified Opinion
73	Social Security Regulatory Authority (SSRA)	Unqualified Opinion
74	Songea Urban Water Supply and Sanitation Authority	Unqualified Opinion
75	Sugar Board of Tanzania (SBT)	Unqualified Opinion
76	Sumbawanga Urban Water Supply and Sanitation Authority	Unqualified Opinion
77	Surface and Marine Transport Regulatory Authority	Unqualified Opinion
78	Surface and Marine Transport Regulatory Authority – CCC	Unqualified Opinion
79	Tabora Urban Water (TUWASA)	Unqualified Opinion
80	Tanga Urban Water Supply and Sanitation Authority	Unqualified Opinion
81	Tanzania Agriculture Development Bank	Unqualified Opinion
82	Tanzania Atomic Energy Commission	Unqualified Opinion
83	Tanzania Broadcasting Corporation (TBC)	Unqualified Opinion
84	Tanzania Commission for Science and Technology	Unqualified Opinion
85	Tanzania Commission for Universities	Unqualified Opinion
86	Tanzania Communication Regulatory Authority	Unqualified Opinion
87	Tanzania Diary Board	Unqualified Opinion
88	Tanzania Education Authority	Unqualified Opinion
89	Tanzania Fertilizers Regulatory Authority	Unqualified Opinion
90	Tanzania Fisheries Research Institute	Unqualified Opinion
91	Tanzania Food and Drugs Authority	Unqualified Opinion
92	Tanzania Institute of Education	Unqualified Opinion

SN	Public Authorities	Opinion
93	Tanzania Investment Bank – Corporate	Unqualified Opinion
94	Tanzania Investment Bank – Rasilimali	Unqualified Opinion
95	Tanzania Library Services Board	Unqualified Opinion
96	Tanzania National Parks (TANAPA)	Unqualified Opinion
97	Tanzania Ports Authority (TPA)	Qualified Opinion
98	Tanzania Postal Bank	Unqualified Opinion
99	Tanzania Tobacco Board	Unqualified Opinion
100	Tanzania Tourist Board (TTB)	Unqualified Opinion
101	Tanzania Warehouse Licensing Board (TWLB)	Unqualified Opinion
102	Tanzania Women's Bank	Qualified Opinion
103	Tea Board of Tanzania	Unqualified Opinion
104	TIB Development Bank Ltd	Unqualified Opinion
105	Tropical Pesticides Research Institute (TPRI)	Unqualified Opinion
106	Tukuyu Urban Water Supply and Sanitation Authority	Unqualified Opinion
107	TWIGA Bankcorp	Unqualified Opinion
108	Ubungo Plaza Limited	Unqualified Opinion
109	Universal Communication Access Fund (UCSAF)	Unqualified Opinion
110	University of Dodoma (UDOM)	Qualified Opinion
111	Watumishi Housing Corporation	Unqualified Opinion
112	Workers Compensation Fund	Unqualified Opinion

Appendix II: Previous Recommendations on Significant Audit Matters

S/N	Para	Audit Finding & Recommendation	Response by PMG	Audit Comments on the PMG's Response
Financial Year 2008/2009				
1	**3.2.2**	**Outstanding PSPF Loan TZS 51.1 Billion to HESLB** PSPF loan of TZS 51.1 billion given to Higher Education Student's Loans Board (HESLB) has not been fully re-paid for more than nine (9) years. The Government paid TZS 21.9 billion to PSPF as at 30th June, 2015, as a result, TZS 40 billion payable to PSPF with penalties is not paid yet. *Government should ensure the outstanding loan both principal and interest is repaid to avoid any further costs in terms of interest and penalties.*	The Government has already engaged the Office of IAG to verify all pension funds' debts before are paid. So, PSPF's outstanding amount will be paid after IAG completes his verification on other pension funds and advise the Government accordingly. (i) In years 2006 and 2007 the Government guaranteed HESLB to secure loans amounting to TZS 53,000,000,000 from PSPF; (ii) For the purpose of fast tracking payoff of the Government's debt it owes to PSPF, in February, 2016, the Internal Auditor General (IAG) under directives of the Ministry of Finance and Planning conducted an audit verification exercise of a debt in regards with the loans given to HESLB; (iii) The audit verification report revealed that, the Government had paid TZS 21,948,080,195.48 to PSPF	I still insist that, Government should ensure the outstanding loan (both principal and interest) is repaid to avoid any further costs in terms of interest and penalties.

S/N	Para	Audit Finding & Recommendation	Response by PMG	Audit Comments on the PMG's Response
			as at 30th June, 2015 as a result, the outstanding debt of TZS 40,330,467,749.72 payable to PSPF with penalties exclusive.	
Financial Year 2010/2011				
2	3.3.1	**Lack of Agreement on Plot No. 2338 Mbezi Beach by NDC** National Development Corporation (NDC) does not have a rental agreement with the current tenant of the property, Messrs Avignon Education Foundation, the owners of IMTU, whose agreements with Consolidated Holdings Corporation (CHC) expired in August 2011. Vignan Education Foundation refused to accept the terms of the agreement drafted by NDC which, inter alia, contained a monthly rent of TZS 60 million determined by a professional valuer. *NDC should make close follow up to ensure the matter is resolved.*	Issue pertaining to the Plot No. 2338 Mbezi Beach has been taken to the Court. The Government through NDC will continue to make follow up on court proceedings.	I reiterate my previous recommendation
3	3.3.2	**Assets Management at UDOM** Social Security Funds (PPF, PSPF, LAPF, NSSF and NHIF) spent TZS 415.4 billion in the construction of some of the buildings at the University of Dodoma (UDOM), under contract terms of Design, Build, Own and Transfer after 10 years. The buildings are not in the books of the University.	Transfer documents for hospital equipment and furniture are at Ministry Head Quarter for official finalization. Transfer of buildings has not been effected yet. However, Construction Phase 1 has been completed since October, 2015 and is expected to hand over by Contractor in October, 2016 after	I reiterate my previous recommendation

S/N	Para	Audit Finding & Recommendation	Response by PMG	Audit Comments on the PMG's Response
		Transfer needs to be formally effected to facilitate recognition of the buildings in UDOM's books of account.	expiration of liability period.	
Financial Year 2012/2013				
4	**3.5.2**	**Azania Bank Limited** Azania Bank Limited (formerly 1st Adili Bancorp Limited) is a bank established in 1995. The major shareholders of the bank are National Social Security Fund (NSSF) 36 percent, PPF Pensions Fund (PPF) 30 percent, Public Service Pension Fund (PSPF) 12 percent, LAPF Pensions Fund 14 percent, East Africa Development Bank Limited (EADB) 2.3 percent, Staff and other minority shareholders with 1.4 percent. The Pension Funds collectively own 92 percent of the paid up share capital of Azania Bank Limited. This implies that the Pension Funds have a controlling interest over the operations of this bank. Since all the Pension Funds are owned by the Government through the Treasury Registrar, then by virtue of this relationship, Azania Bank is indirectly owned by the Government through the Pension Funds. *Azania bank is supposed to be under the control of the Treasury Registrar and*	The Government has noted CAGs Recommendation and since the Bank is owned by Pension Funds, will consult stakeholders to ensure proper handling of the issue.	I reiterate my previous recommendation

S/N	Para	Audit Finding & Recommendation	Response by PMG	Audit Comments on the PMG's Response
		therefore, required to submit its financial statements to CAG for audit pursuant to Article 143 of the Constitution of URT and Section 9(a) iii & iv of the Public Audit Act No. 11 of 2008.		
5	3.5.4	**Promotion of Rural Initiative and Development Enterprises (PRIDE Tanzania) Limited** PRIDE Tanzania was incorporated on 5th May, 1993 under Cap.212 as a company limited by guarantee. The main purpose of its establishment was to provide credit to small and micro entrepreneurs in Tanzania. According to the Treasury Registrar's statement of Government investments and public interest as at 30th June, 2008, all shares of PRIDE Tanzania were owned by the Government of Tanzania. We noted that, the Statement of the Treasury Registrar for the year ended 30thJune, 2012 omitted PRIDE Tanzania from the list of Public Entities being overseen by the Treasury Registrar. The justification for removal from the list of Government investments and interests could not be ascertained. Further, pursuant to Section 31 of the Public Audit Act No.11 of 2008, any Public	Pride Tanzania was registered as Company Limited by Guarantee and not having shares, thus Government did not own share. However, currently the Government is in the process of transforming PRIDE Tanzania from being Company Limited by Guarantee to Company Limited by Shares under the Treasury Registrar who will own 100% of the Company.	My concern is, it has not been made clear how the shares/guarantee of the company were transferred to private owners. So, I reiterate my recommendation. that, the Treasury Registrar should make close follow up on the shares/guarantee previously held by the Government in PRIDE Tanzania to establish how its legality and transfer modalities from Government to a privately owned company.

S/N	Para	Audit Finding & Recommendation	Response by PMG	Audit Comments on the PMG's Response
		Authority or body is to submit its financial statements to the Controller and Auditor General for audit purpose. PRIDE Tanzania has never submitted its financial statements for the purpose as required by the law. *Treasury Registrar should make close follow up on the shares previously held by the Government in PRIDE Tanzania to establish its legality and transfer modalities from Government to a privately owned company.*		
Financial Year 2014/2015				
6	**4.4.1**	**Increase in Actuarial Deficit and Non-Payment of Loan from Government** The PSPF actuarial report of June, 2014 revealed that, the Fund had an actuarial deficit of TZS 11.15 trillion (2014: TZS 6.49 trillion based on actuarial valuation carried out in 2010). The deficit is primarily a result of delays from the Government to finance benefit liabilities related to members who existed before the Fund was established on 1st July, 1999. Also, the Fund had outstanding loans receivable from Government related entities of TZS 499.7 billion as at 30 June 2015 (2014: TZS 382.9 billion). *Government is advised to support PSPF by paying the outstanding balance preferably*	The Government is aware of actuarial liability emanating from pre 1999 contributions of servants transferred to PSPF during its establishment on 1st July, 1999. Currently the arrangements to pay the liability by using a non cash bond are under way. Further, the Government is paying the liability by installments of TZS 76.1 billion yearly so as to ensure that, the Fund meets its obligations to pay pensions to retiring members. Likewise, the Government is aware of its liability to the Pension Funds that jointly injected funds in various development projects, PSPF being one of them. The arrangements to pay outstanding loans by using non cash bond are going on. The	I reiterate my previous recommendation

S/N	Para	Audit Finding & Recommendation	Response by PMG	Audit Comments on the PMG's Response
		by issuance of Treasury Bonds. This will enhance the Fund's ability to meet its maturing obligations including benefits to its retiring members. Also, the Government related entities are advised to prioritize repayments of their debts borrowed from PSPF to rescue the Fund from the threat of being insolvent.	payments will be effected when reconciliation exercise is completed.	
7	4.15.1	**Implementation of a Joint Venture Agreement Between NSSF and Azimio Housing Estate Limited (AHEL) at Arumeru Satellite City Project** As noted in the previous year, NSSF during the year under review, started another project to construct a satellite Town in Arumeru District-Arusha through its joint venture company M/s Hifadhi Builders Ltd. According to Article 5 of the agreement, both parties mutually agreed to provide investment capital in the form of equity to the tune of USD 3,340,589,543 (TZS 7.2 Trillion) and technical advisory services for establishment of the said satellite town, of which 20 percent (equivalent to USD 668,117,908.60) was allocated as value of land, which Azimio Housing agreed to provide 500 acres on which the project was to be developed. During my audit, I noted that, the Fund	Government has noted the CAGs Recommendation and will ensure that before entering to any agreement with any investor for any project, NSSF has enough fund for implementation of that agreement.	Entering into Projects without confirming the availability of funds to support the projects might lead to unnecessary costs and improper use of resources on the part of NSSF. So, I reiterate my recommendation.

S/N	Para	Audit Finding & Recommendation	Response by PMG	Audit Comments on the PMG's Response
		received a feasibility study from M/s. Azimio Housing Estate Ltd for the proposed construction of the project through a letter dated 16th May, 2013 with reference No. AZIMIO/NSSF/ARUMERU/13/5 by which the Board of Directors approved the incorporation into the joint venture, pieces of land in Lindi, Mtwara, Mwanza and Arusha regions to be provided by AHEL for investment opportunities of the same nature. Consultancy fee for project design was USD 218,087,643 (TZS 468.9 billion) of which TZS 2.4 billion was budgeted for the planning phase. However, the amount was increased to TZS 102 billion without Board approval. The actual consultancy fee, which had been paid as at the year end was USD 20.1 Million (TZS 43.9 billion) out of the revised USD 102 billion. On 21st January, 2016 both NSSF and AHEL signed an agreement to terminate implementation of this Project by mutual consent between M/s. AHEL and the Board of Trustees of NSSF. Management of NSSF cited the non-repayment of loans by the Government as the main reason for the termination of the project. As stated in the termination		

S/N	Para	Audit Finding & Recommendation	Response by PMG	Audit Comments on the PMG's Response
		agreement, the TZS 43.9 billion paid by NSSF as part payment in respect of consultancy fees shall be converted into a loan to be recovered from Azimio's portion of the sales proceeds of houses at the Hifadhi Builder's Dege Project within three years at an interest rate of 3 percent per annum *Management should ensure that there is adequate funding to support planned projects before entering into any contract and ensure that USD 20.1 (TZS 43.9 billion) is recovered within the agreed time taking into account the time value of money.*		
8	**4.15.2**	**Payment by NSSF in Excess of the Agreed Proportion USD 9.01 million** During the year 2014/2015 we noted that NSSF had invested TZS 205.14 billion (Approximately USD 123 million). AHEL had contributed additional USD 5.5 million towards the project. The agreement between the parties is that, NSSF should invest in the project till when their investments equal the value of land, and then both parties will continue to invest proportionately. This means NSSF had contributed by USD 9.01 million more than what they were expected to contribute so as to be in line with the agreed terms of the	No response	Inadequate monitoring procedures of contribution by each party in the Joint venture arrangement could lead to one party contributing more than the other party while the other party continues to enjoy the agreed sharing proportion during sale of houses. So, I reiterate my

S/N	Para	Audit Finding & Recommendation	Response by PMG	Audit Comments on the PMG's Response
		JV agreement. *Management is advised to ensure that there is regular review of parties' contribution towards the project and the agreed sharing of proportions are adhered to.*		previous recommendation.
9	**4.15.3**	**Disbursement of Loans above 50 percent of SACCOS' Assets** Review of investment in loans revealed that, NSSF issued loans to nine SACCOS over and above 50 percent of their assets contrary to the requirement of NSSF lending policy. Further, preliminary reviews of the loan application showed that, the SACCOS were ineligible for the amount they had applied for. However, this advice was ignored by management and the application loan forms were approved. Ineffective loan processing procedures exposes NSSF to credit risk i.e. a risk of non-recoverability of the loans *Management is advised to ensure compliance with guidelines and policies approved by the Board with respect to lending to SACCOS.*	No response	I reiterate my previous recommendation

Appendix III: Previous Recommendations on Review of Strategic and Operational Efficiency of Public Entities

S/N	Para	Audit Finding and Recommendation
		Air Tanzania Company Limited (ATCL)
1	5.1.1	**Review of the Privatisation Process of ATC** The Government should make a detailed cost benefit analysis of its proposed undertakings including privatisations and joint ventures before entering any agreements with private parties to ensure that public interests are always protected.
2	5.1.2	**Lack of Enterprise Risk Management Policy Framework** ATCL should formulate a Risk Management Framework, Policy and Strategy, establish and operationalize a risks register including reviews and updates of the same on an annual basis and establish a fully-fledged risk management function and structures. Further, management should develop an action plan that will delineate the internal processes and systems in order to modernise and improve its operational and business processes.
3	5.1.3	**Unprofitable Lease of an Aircraft** ATCL should prepare a detailed business case after carrying out a comprehensive sensitivity analysis and determine the implication of the change between the two business assumptions before undertaking to obtain the loan from TIB to procure the needed aircrafts.
4	5.1.4	**Lack of Effective Turnaround Strategy** ATCL should develop a comprehensive turnaround strategy by carrying out a situation re-evaluation to identify the basic problems which led the company to the financial distress and downfall, carry out a comprehensive crisis stabilisation analysis through restructuring of its finances and its business processes to facilitate a smooth transition to a newly functioning and profitable ATCL.
5	5.1.5	**Failure to Obtain Key Aviation Certifications** ATCL should institute rigorous mechanisms to build capacity of its staff or recruiting new competent staff and conduct a situational analysis to identify gaps and areas for improvements, develop a succession plan for the key position so as to have well trained, broadly experienced, well-motivated and competent staff who will be able to cope with the growing and competitive market within the industry.

		The Government, as a matter of urgency, should help ATCL to acquire the necessary certifications from IATA and ensure that it conducts IATA Operational Safety Audit (IOSA).
6	**5.1.6**	**Deteriorating Financial Performance** The Government should to take up challenges ATCL is facing by devising better ways to revamp the Company through financial support and developing the appropriate and supporting structures that would enable the Company to offer services that would be industrially competitive, as well as realise profits.
		The Tanzania Civil Aviation Authority (TCAA)
7	**5.2.1**	**Absence of Airspace Master Plan** Management is advised to prepare an Airspace Master Plan to delineate, implement and improve among other things. (i) Evolutions of Air Traffic Management that will explain the airspace reorganisation study and safety control to ensure the lost airspace is recovered; (ii) Improve the relevant communication tools by acquiring at least two radars to replace the out dated and unserviceable one and ensure the new ADSB acquired is functioning at a full capacity to reap the benefits of having that system; (iii) Continued carrying out research and development activities to be in line with the changing technologies and ensure long term evolutions and invest in training for detailed plan on the new ADSB system; (iv) Adherence to the Regional and International requirements and trends (ICAO, Aviation international groups or multilateral agreements between civil aviation authorities); and (v) Persuade airspace reorganisations and ensure harmonisation of the implementation of CNS/ATM systems within the region.
8	**5.2.2**	**Review of Project Planning and Management Practices** (i) Management is advised to review the viability of ADSB

		project taking into consideration the effect of bankruptcy of the supplier of the system, and the total cost needed to deliver a "radar like capability"using ADSB system. (ii) Management is advised to create a unit for technology planning that will be responsible for investigating and testing technology viability before any new technology is adopted by TCAA.
Tanzania Communication Regulatory Authority (TCRA)		
9	**5.3.1**	**Preparation and Operationalization of Annual Action Plan** (i) Management should develop an action plan that is achievable and continue to monitor the implementation of its activities throughout the year for successful achievement of its strategic objectives; (ii) TCRA needs to ensure preparation of the annual action plan is improved by including baselines, indicators and targets in each of their activities to be implemented.
10	**5.3.2**	**Failure to Conduct a Feasibility Study before Implementation of TTMS Project** Management should develop an action plan that would enable expansion of utilization of TTMS modules to an optimal level through engaging other stakeholders such as telecom operators and other Authorities such as TRA and BOT.
11	**5.3.3**	**Implementation of Airtime Revenue Monitoring Solution (ARMS)** Management should establish a cross-cutting governance and management structure to lead and direct the ARMS project and conduct a risk assessment of the whole project cycle to enhance control over tax revenue collection.
12	**5.3.4**	**Need for Effective Utilisation of TTMS Modules** It is important that communication among the Key stakeholders be strengthened to ensure that all specific requirements in terms of deliverables are identified from the start of the project to avoid having a project that does not meet their real needs.
13	**5.3.5**	**Lack of Proper Communication among Project Key Stakeholders** (i) Going forward, public entities should consult with all

		relevant stakeholders to help ensure that projects to be implemented on a Public Private Partnership arrangements produce appropriate specifications for the project to ensure that the projects realizes value for money; and (ii) It is of vital importance that a comprehensive feasibility study be carried out and a more detailed business case be developed prior to the decision to implement any major project to ensure projects are implemented successfully and ensure the intended project benefits are realized.
Tanzania Ports Authority (TPA)		
24	**5.7.1**	**Non-Attainment of Key Performance Indicators (KPIs)** To establish a mechanism to ensure that project risks assessment and intensive feasibility study are conducted and included in project proposals for smooth implementation of its projects.
25	**5.7.2**	**Inadequate Management of Dar es Salaam Port Dockyard** (i) To ensure that, there is adequate coordination and communication between TPA and all other stakeholders such as Ministry of Finance, the Treasury Registrar, Ministry of Transport and other implementing partners during the planning process and the execution of all development projects; and (ii) TPA as a matter of priority should expedite the process of modernizing the Dar es Salaam dockyard to make the port more competitive in the region.
27	**5.7.4**	**Inadequate Projects Implementation Earmarked in the Port Master Plan 2028** To ensure that construction of berths 13 & 14 is completed since it deters most of key performance indicators to be achieved as most of these depend on the completion of berths 13 & 14.
28	**5.7.5**	**Deficiencies in the Contract Entered Between TICTS and TPA** (i) The Authority should collect data from TANCIS showing

		all containers handled at TICTS and reconcile this information with actual containers received at TICTS; (ii) The Government should review TICTS lease agreement with a view to ensuring that public interests are protected in the agreement. The legal implication of the extension of the lease agreement before the first lease agreement had expired, should consider and evaluate the possibility of terminating the lease agreement; and (iii) TPA management should closely follow up with the matter with TICTS to ensure that TICTS abides by the terms of the lease agreement.
29	**5.7.6**	**Construction of Kisarawe Cargo Freight Station** The Government should revisit its decision to stop TPA from carrying out Kisarawe Cargo Station Project to ensure that the Authority implements its wider objectives and enhance its operational efficiency.
		National Development Corporation (NDC)
34	**5.8.4**	**Absence of Monitoring and Evaluation Mechanism of Joint Venture Costs** (i) We advise management to come up with a policy or frame work which will provide guidance to the whole exercise of monitoring and evaluation of projects as required by Reg.46 (2) of PPP regulations, 2011; and (ii) NDC should enhance the monitoring and evaluation process by adding a clause which regardless of the number of shares NDC has in a joint venture, should on regular basis be able to review and approve expenditure and revenue reports of the joint venture in order to ensure there is no inflation of cost or understatement of revenues for royalty payment, tax purposes and dividend distribution.
35	**5.8.5**	**Deficiencies in Acquisition of Shares of General Tyre (EA)** The Government is advised to release the required funds to enable NDC control the operations of General Tyre (EA).
36	**5.8.6**	**Prolonged Government Decision to Start Up Various Projects**

		The Government is advised to speed up its processes so as GTEA to be in good position to attract investors and improve its general performance; A comprehensive feasibility study needs to be conducted at KMTC to assess the market demand and the project prospects to identify value added investments which will give NDC an assurance that the venture will be a profitable business; The Government is advised to fast track the process of transferring the rubber plantations to NDC to enable it attract investors and improve the plantation performance; The Government is advised to harmonise its ministerial operational activities in respect of Integrated Oil Palm Project so as to avoid unnecessary delays. As it stands, the investor will cover all project costs, remedial action should be taken before an investor pulls off the project as it could be difficult in terms of time and fund to allocate another willing investor; The Government is advised to act timely with regard to decision taking in respect of Integrated Oil Palm Project to avoid unnecessary project cost overruns and delay by the project to realize the expected benefits; and If NDC still sees the Wind Power Generation Project as viable, it has to liaise with other shareholders to look for external sources of fund before cost overruns ruin the project.
38	**5.8.8**	**Irregularities in Implementation of Mchuchuma and Liganga Projects** Management is advised to ensure that the its stake in the Tanzania China International Mineral Resources Ltd is not at risk by having negotiations with the private sector partner to ensure if there is no any other means of securing the debt financing other than the mining rights of the project as suggested in the contract then, the percentage ownership should be changed to reflect the value of mineral resources used to secure the loan; and Management is advised to raise the required funds and promptly honor the compensations in respect of the Mchuchuma Coal to Electricity Project and Liganga Iron & Steel projects to avoid any future claims from citizens who were removed from that land; and I recommend that NDC liaises with TANESCO's management to establish a dialogue which will assist parties to reach into

		a proper agreement on the Power Purchase Agreement in respect of Mchuchuma and Liganga Iron Ore Project.
		Tanzania Electric Supply Company (TANESCO)
39	**5.9.1**	**Review of the Company's Profitability and Operational Efficiency** Management should continue taking appropriate short and long term measures to ensure the Company's financial performance is improved by identifying all the possible bottlenecks and setbacks which hinder its operational efficiency.

Appendix IV: Other Audit Matters

S/N	Entity	Observation	Auditor's recommendation
1	**DODOMA URBAN WATER SUPPLY AND SANITATION AUTHORITY**	**Reported fraud of TZS 590.85 million**	
		DUWASA Management reported fraud of TZS 590.85 million perpetrated by employees as presented in the financial statements of the Authority under Note 23. Cash collection of TZS 408.85 million was not deposited and customer details worth TZS 181.85 million were compromised in the system by some employees. This was due to ineffective internal controls over cash collection and poor application controls in place. There could be other incidences of fraud gone unnoticed as controls were not workings as designed.	Management is advised to take measures that will ensure recovery of the lost funds and strengthen internal control systems to prevent recurring of the same fraud.

S/N	Entity	Observation	Auditor's recommendation
2	**MWANZA URBAN WATER SUPPLY AND SANITATION AUTHORITY (MWAUWASA)**	**Contracts entered into without receiving performance security from tenderers TZS 529.05 million**	
		Procurement Regulations require successful tenderers to submit performance security to guarantee faithful execution of the contract. It was noted that three 3 tenders worth TZS 529.05 million were awarded without receiving performance security from respective tenderers. The situation may cause loss to MWAUWASA in case of default by the tenderers.	Management is advised to ensure performance securities are obtained before any contract is entered into to avert any future disturbances that may arise due to non-adherence to procurement regulations.
		Goods supplied without framework agreement - TZS 1.19 billion	
		Sec. 50 of the Procurement Act requires procuring entity to engage in closed or open agreements so as to attain efficiency of procurement process and reduce transaction costs. It has been noted that common use items worth TZS 1.19 billion had been procured during the year 2015/16 without any formal agreement in place. The procurements were made from two suppliers only. The interests of the authority could be at stake as the suppliers are not bound to any condition.	Management is advised to take concern on enforcing requirements of procurement laws to avoid unnecessary inconveniences associated with non-compliance.

S/N	Entity	Observation	Auditor's recommendation
3	**NATIONAL HEALTH INSURANCE FUND (NHIF)**	**Missing agreements with health care providers**	
		The NHIF Act of 1999 requires the Fund to have valid formal contracts at all times. Also, NHIF's Claims Manual requires management to process claims only for service providers having written agreements. During the year 2015/16 a total of 6 healthcare providers were revealed to have not formal agreements, which are Tumaini Comprehensive Infrimary, Regency Hospital, Kairuki Hospital, MOI, Muhimbili National Hospital and Ocean Road Cancer Institute Dar es Salaam. Absence of written agreements with service providers may result into financial loss to the Fund especially in case of disputes.	Management is advised to have up to date agreements with health care service providers as well as its suppliers to avert risks associated with non-compliance with various laws.

S/N	Entity	Observation	Auditor's recommendation
		Inadequate cash management	
		NHIF does not have a formal policy which sets threshold amounts of cash advanced to staff for group training, advocacy and meetings. As a result any amount can be advanced to employees on their accounts to cater for various activities. There were instances in the year 2014/15 where TZS 85.58 million was advanced to three (3) individual staff on behalf of others to cater for travelling, training, meeting, accommodation and other allowances. Advancing significant amounts of cash to staff for which management does not have a direct control exposes the Fund to a risk of fraud and theft as cash is very susceptible to misappropriation.	Management is advised to set cash management policies that would establish a formal process to monitor cash advanced to staff in order to minimize risks associated with handling cash.

S/N	Entity	Observation	Auditor's recommendation
4	**MBEYA WATER SUPPLY AND SANITATION AUTHORITY**	**Collections from customers through MAXCOM not submitted and deposited TZS 400.52 million**	
		Mbeya Water Supply and Sanitation Authority entered into an agreement with MAXCOM AFRICA LIMITED to collect cash from customers through M-Pesa. A total of TZS 400.52 million was collected through this arrangement during the year 2015/16. From the arrangements, it was noted that TZS 127.73 million being 32 percent of the total collection through MAXCOM was submitted to the Authority but not deposited by management. Also, TZS 272.79 million being 68 percent of the total collection through MAXCOM was collected by MAXCOM but was not submitted to the Authority. By not depositing timely, the management is inviting fraud as cash is highly susceptible to theft. Also non-submission affects the Authority's cash flow and hence negatively impacts its operations.	Managements is advised to make close follow-up with MAXCOM AFRICA LIMITED including amendment of the original contract to enforce immediate submission of funds collected. Also, the submitted cash be deposited promptly as per Authority's policy.

S/N	Entity	Observation	Auditor's recommendation
5	**TANZANIA COMMISSION OF UNIVERSITIES (TCU)**	**There is slow project development at Uporoto Plot**	
		In 2013 TCU entered into consultancy services for structural design and supervision for construction of TCU permanent offices at Uporoto Plot. Costs of TZS. 126 million was used to develop land in Uporoto and was reported in the financial statements as work-in-progress. We, however, observed that there has not been any further development in this project for the past 3 years from then.	Management is advised to decide on the way forward regarding the status of this project.
6	**ARDHI UNIVERSITY (ARU)**	**Delay in completion of project on time**	
		ARU has two projects and three sub projects of TZS 642.70 million and TZS 698.40 million respectively making a total of TZS. 1.34 billion. All projects. As of now both projects and Sub projects have costed the university a total of TZS. 906 million. However, we noted delay of completion of the projects for more the three (3) years contrary to Reg.114 (b) of Public Procurement Regulations of 2013 requiring a procuring entity to be responsible for the effective management, monitoring the progress and timely completion of works.	Management of the ARU is recommended to ensure that the projects are completed without further delay to avoid further escalation of the project costs.

S/N	Entity	Observation	Auditor's recommendation
		Delay in completion of the project may result into failure of achieving the aimed objectives and escalation of cost due to inflation, hence necessitating additional funds to complete the projects.	
		Long outstanding payable amounting to TZS 631.7 million	
		The University has been having the long outstanding payable of more than one year amounting to TZS 631.7 million. Of this figure TZS 313.6 million represent government agencies which are HELSB, Ministry of Land and NHIF of TZS 178.6 million, 62.7million and 72.3 million respectively. TZS 201.3 million and TZS 116.8 million represent unknown bank deposit and other service provider. Delays of paying Government/suppliers/service providers on time may affect on creditworthiness of the University. Also long outstanding payable create doubts on the genuineness and correctness of the balance.	The University should scrutinize all dormant and long outstanding payable account balances to assess whether they are genuine and consider making settlements for all debts proved as payable without further delays.

S/N	Entity	Observation	Auditor's recommendation
7	**MEDICAL STORES DEPARTMENT (MSD)**	**1.1 Unrealistic annual increase of JEEVA support service fees**	
		Muhimbili National Hospital entered into a service contract with M/S NAPIER Healthcare Solutions (India) Limited for technical support for JEEVA for TZS 172.9 million per year. The contract provides for increase of 12%pa deemed to be an adjustment for inflationary impact (196.7 million). However, the rate of 12% pa is far much higher than the Reserve Bank of India published annual inflation rates for the last 5 years where the service provider is based. Based on the website of Reserve Bank of India annual inflation rate in India averaged 7.48% from 2012 to 2016. The annual increase of 12% pa asked by M/S NAPIER Healthcare as inflation impact is therefore almost double. Furthermore, billing is in USD; a stronger currency than Indian rupee and the US annual inflation rate has for many years remained below 2.5%.Weakness in managing negotiation process of contracts with service provider's results in overcharge of services and loss.	Management should review and renegotiate the contract with NAPIER Healthcare (India) Limited with the aim of revising downwards the charge for the year in line with inflation rate published by Reserve Bank of India.

S/N	Entity	Observation	Auditor's recommendation
8	**NATIONAL BOARD OF ACCOUNTANTS AND AUDITORS (NBAA)**	**Failure to repay NSSF loan for the year 2015/2016 amounting TZS 8.93 billion**	
		NBAA borrowed a long-term loan of TZS 15 billion from NSSF which was 100% Government guaranteed in an agreement dated 1 November 2010 for construction of Accountancy Professional Centre (APC). We noted that, NBAA has failed to service the loan to which as at 30 June 2016 installments due amount to TZS 8.93 billion.	NBAA is advised to urgently seek for common ground with NSSF on an increasing liability and expedite the commissioning and commercialization of business operations for the APC to raise funds to repay the loan.
9	**MARINE PARKS AND RESERVES UNIT (MPRU)**	**Presence of fishermen camp at Nyororo Marine Reserve (Non-Lake Zone)**	
		Nyororo Island was declared to be marine reserves through a Government Notice No. 52 published on 2nd March 2007. Sec. 4 of the Fisheries Act Cap 279 (Revised 2002) states that, “no person shall enter or reside in a marine reserve without the consent in writing of the Director of Fisheries”. However, there has been presence of more than 200 fishermen at the Island despite Management issuing letter with reference no. BC.152/230/02/12 dated 4th July, 2016 requiring immediate vacation from the Island. Presence of fishersmen in these camp may accelerate dynamite fishing which might destroy coral reefs and breeding zones.	MPRU in collaboration with parent ministry should take acute measures to remove all fishermen in Nyororo Marine Reserve as well as conserve the environment around the Marine Reserve.

S/N	Entity	Observation	Auditor's recommendation
10	**WATUMISHI HOUSING COMPANY (WHC)**	**Lack of insurance for force account construction project worth TZS 1.95 billion**	
		The currently real estate properties worth TZS 1.95 billion owned by Watumishi Housing Company have not been insured for their full replacement value as required by Sec. 51 (8) of the Capital Markets and Security Rules Act (2011). Real estates developed by WHC-REIT fund through internal engineers are exposed to various risk of non-recovery of their full replacement value in the events of fire and any other natural hazards.	WHC-REIT fund should consider the cost benefit analysis of insuring all real estates developed for their full replacement value to cover risk of loss of company's funds.
11	**OPEN UNIVERSITY OF TANZANIA (OUT)**	**Payment not supported by EFDs receipts worth TZS 235.06 million**	
		There were payment of TZS 235.06 million to various suppliers of goods and services by OUT without EFD receipts disregarding the requirements of Reg. 24 of EFD Regulation of 2012 which states that, "any person who fails to demand and retain a fiscal receipt or fiscal invoice or fails to report a denial of issuance of the receipt or invoice commits an offence and upon conviction is liable for payment of twice of the amount of the tax evaded". There is a risk of Non-disclosure of tax collection and hence loss of Government revenue.	OUT management should institute internal control mechanism to ensure payments to suppliers are made with supporting EFD receipts.

S/N	Entity	Observation	Auditor's recommendation
12	**UNIVERSAL COMMUNICATION SERVICE ACCESS FUND (UCSAF)**	**Interest not charged on Outstanding Receivables**	
		Regulation 5 of UCSAF's Regulations of 2009 stipulates that interest at bank lending rate should be charged on delayed payment of service levy for more than 30 days at the prevailing official bank lending rate. Contrary to the above requirements, we revealed that UCSAF did not charge interest on delayed payment of service levy receivable of TZS 888.3 million at the rate 18 percent hence. Not charging interest to the receivable stimulates delays of payment leading to loss of revenues.	Management of UCSAF is advised to strictly comply with the requirements of the above noted Regulation.
13	**TANZANIA POSTS CORPORATIONS**	**Doubtful Recovery of Receivables Balances TZS10.75 billion**	
		Out of the reported balance of receivables, recovery of TZS 10.75 billion is doubtful as TZS 1.35 billion were from Dar GPO(general postal office) including TTCL, Treasury Registry Office, CRDB and TCC which date back to 2009, however, the same was not be supported; our debtor's circularization of TZS 5.6 billion only debtors of TZS 294.4 million confirmed	Management should ensure that reconciliation with customers is performed and the balances are updated. Further, the impairment of receivable is performed and adjusted in the financial statements. Also, Management is urged to identify the

S/N	Entity	Observation	Auditor's recommendation
		with disagreement; While TZS 3.8 billion are from the Government following payments for ex-EAC employees' pensions in years 1994 and 2006. All these scenarios raise doubt on recoverability of the receivables.	source of the direct lodgments to ensure that it maintains proper books of account.
14	**TANZANIA TRADE DEVELOPMENT AUTHORITY (TAN TRADE)**	**Overdue Payable TZS 997 million**	
		As at 30th June, 2016 TANTRADE has had overdue account payables to suppliers with a balance of TZS 1.304 billion. The aging analysis reveals that, TZS 997 million (76 percent) was outstanding for more than twelve months. The liquidity problem of TANTRADE result into failure to discharge its obligations on time affect its future plans of operations as suppliers may stop providing their services.	Management of the Tan Trade is advised to find funds to settle its outstanding liabilities including land rent TZS 545 million.
15	**INSTITUTE OF RURAL DEVELOPMENT AND PLANNING (IRDP)**	**Long Outstanding Student Receivables TZS 1.74 Billion**	
		The Institute of Rural Development and Planning (IRDP) had student receivables balance of TZS 1.74 billion as at 30 June 2016, out of which, TZS 485 million related to the current year (2015/2016)	Management is thus, recommended to review its collection mechanism for improvement and establish to what extent the outstanding balance can be

S/N	Entity	Observation	Auditor's recommendation
		students bill and the balance TZS 1.26 billion related to previous years in respect of students graduated between years 1995 and 2014. Further reviews indicated that the institute had no control in place to establish how many students had adequate collateral like a certificate withheld which could compel the graduated students to come and settle their outstanding bills to collect their certificates.	recovered so as to make a proper provision for expected unrecoverable amounts.
		Late Payment to Suppliers which Led to Interest Charges TZS 441 Million	
		IRDP was charged 20% interest totaling to TZS 441 million for late payment of various certificates issued by a contractor M/s. Hainan International who was contracted to construct Academic Block II as per contract clause 46.1 of General Conditions stated in the Contract (Special Condition of the Contract 1B).	Management is advised to enhance more internal revenue source including adequate collection of revenues and establish proper aging analysis to avoid non-payment of high interest liabilities.

Appendix V: Audit Not Performed Due to Lack of Funds

SN	Name of Entity
1	Mpanda Urban Water Authority
2	Korogwe Urban Water Authority
3	Kyela Urban Water Authority
4	Karatu Urban Water Authority
5	Tanzania Engineering and Manufacturing Design Organization (TEMDO)
6	Marine Services Company
7	Ngara Urban Water
8	Muleba Urban Water
9	Julius K. Nyerere University of Agriculture and Technology
10	Bariadi Urban Water Authority

Appendix VI: Entities with No Boards of Directors

SN	Public Entities
1	Tanzania Sisal Board (TSB)
2	Cereals & Other Produce Board Of Tanzania (CPB)
3	Copyright Society of Tanzania (COSOTA)
4	Rufiji Basin Development Authority (RUBADA)
5	Tanzania Cotton Board (TCB)
6	Tanzania Food And Nutrition Centre (TFNC)
7	Tanzania Small Holders Tea Development Agency (TSHTDA)
8	Co-Operative Audit And Supervision Corporation (COASCO)
9	Tanzania Investment Centre (TIC)
10	UTT Projects And Infrastructure Development PLC (UTT-PID)
11	Mwalimu Nyerere Memorial Academy (MNMA)
12	National Institute for Medical Research (NIMR)
13	National Sugar Institute (NSI)
14	UTT ASSET MANAGEMENT AND INVESTOR SERVICES (UTT - AMIS)
15	Kahama UWSSA
16	Tanzania Fertilizer Company (TFC)
17	National Ranching Company (NARCO)
18	Reli Assets Holding Company (RAHCO)

Appendix VII: Report Awaiting Board Adoption

S/N	Entity
1	Tanzania Investment Centre (TIC)
2	Unit Trust of Tanzania(UTT)-PID
3	UTT Asset Management and Investor Services
4	Co-operative Audit and Supervision Corporation (COASCO)
5	NHC/ PPF IPS Building
6	Small Industries Development Organisation(SIDO)
7	Makambako Urban Water
8	Watumishi Housing Investment Trust
9	Sokoine University of Agriculture
10	Vocational Education Training Authority
11	Institute of Adult Education
12	Institute of Accountancy Arusha
13	National Sugar Institute
14	Tanzania Industrial Research Development Organization (TIRDO)
15	National Institute for Medical Research (NIMR)
16	Mwalimu Nyerere Memorial Academy (Kivukoni College)
17	Dar es salaam Maritime Institute (DMI)
18	National Ranching Company
19	Tanzania Fertilizer Company
20	Tanzania Standard Newspaper
21	Reli-Assets Holding Company (RAHCO)
22	Kahama Urban Water
23	Tanzania Telecommunication Co. LTD
24	Tanzania National Business Council
25	Tanzania Pyrethrum Board
26	Cashewnut Board of Tanzania
27	Tanzania Cereals Board and Other Produce
28	Tanzania Insurance Regulatory Authority
29	National Construction Council
30	Tanzania Cotton Board
31	Tanzania Food and Nutrition Centre
32	Tanzania Sisal Board
33	Public Procurement Appeals Authority

S/N	Entity
34	Rufiji Basin Development Authority
35	Copyright Society of Tanzania
36	Tanzania Coffee Board
37	Tanzania Small Holder Tea Development Agency (TSHTDA)
38	National Arts Council

Appendix VIII: The analysis of loans overdue Government Loans

S/N	Lender institution	Nature of loan	Borrower/responsible	Amount 'Billions'
1	LAPF	Contributions not submitted	Ministry of Finance and Planning	44.47
2	LAPF	Development and Expansion loan	PPL Bunge	4.55
3	LAPF	Development and Expansion loan	University of Dodoma	42.70
4	LAPF	Development and Expansion loan	HOMBOLO	69.85
5	LAPF	Development and Expansion loan	Nelson Mandela	7.43
6	LAPF	back purchases	President's Office - Regional Authorities and Local Goverments	74.43
7	Workers' Compensati on Fund	Contributions not submitted	Ministry of Finance and Planning	26.60
8	PPF	Construction Loan	University of Dodoma	121.95
9	PPF	Construction Loan	Nelson Mandela University	12.57
10	PPF	Construction Loan	NIDA project	5.03
11	NHIF	Equipments acquisition	Ministry of Internal Affairs	42.60
12	NHIF	CHF Projects	Ministry of Health, Community Development, Gender, Alderly and Children	1.20

S/N	Lender institution	Nature of loan	Borrower/responsible	Amount 'Billions'
13	PSPF	Development and Expansion loan	HESLB	259.67
14	PSPF	Development and Expansion loan	Ministry of Internal Affairs	32.72
15	PSPF	Development and Expansion loan	President Office	27.97
16	PSPF	Development and Expansion loan	University Of Dodoma	289.55
17	PSPF	development and expansion loan	PCCB	14.02
18	NSSF	Government Guarantee	Corporate loans	428.47
19	NSSF	Government project loans	Various institutions	90.58
Grand total				**1,596.35**