ANNUAL GENERAL REPORT OF THE CONTROLLER

AND AUDITOR GENERAL

On the Audit of Public Authorities and Other Bodies for the financial year 2012/2013

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE

The Controller and Auditor General, Samora Avenue, P.O. Box 9080, DAR ES SALAAM Telegram: "Ukaguzi", Telephone: 255(022)2115157/8, Fax: 255(022)2117527, E-mail: ocag@nao.go.tz,
Website: www.nao.go.tz

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28th March, 2014

H. E. Dr. Jakaya Mrisho Kikwete,
The President of the United Republic of Tanzania,
State House,
P.O. Box 9120,
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 2012/2013

Pursuant to Article 143 of the Constitution of the United Republic of Tanzania of 1977 as amended from time to time. I hereby submit to you my seventh Annual General Report on the Audit of Public Authorities and Other Bodies as defined in Section 3 of the Public Audit Act No. 11 of 2008.

This report includes audit reports of Public Authorities and Other Bodies for the financial years ended 30th September, 2012, 31st December, 2012 and 30th June, 2013.

I submit for your kind consideration and onward submission to Parliament in accordance with the requirement of the law.

Ludovick S. L. Utouh
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 utilisation:	We are an organization that values and uses public resources entrusted to it in an efficient, economic and effective manner.

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List of Abbreviations/Acronyms

AFROSAI	African Organisation of Supreme Audit Institutions
ADB	African Development Bank
AFROSAI -E	African Organisation of Supreme Audit Institutions for English Speaking Countries
AICC	Arusha International Conference Centre
ARU	Ardhi University
AU	African Union
AUWASA	Arusha Urban Water Supply and Sanitation Authority
BAKITA	Baraza la Kiswahili Tanzania
BAWASA	Babati Urban Water Supply and Sanitation Authority
BET	Board of External Trade
BIT	Board of Internal Trade
BoD	Board of Directors
BOQ	Bill of Quantities
BoT	Bank of Tanzania
BUWASA	Bukoba Urban Water Supply and Sanitation Authority
CAG	Controller and Auditor General
CARMATEC	Centre for Agricultural Mechanizations and Rural Technology
CAWM	College of African Wildlife Management-Mweka
CBE	College of Business Education
CBT	Cashewnut Board of Tanzania
CDA	Capital Development Authority
CEO	Chief Executive Officer
CHC	Consolidated Holding Corporation
CMIS	Claims Management Information System
CMSA	Capital Markets and Securities Authority
CRB	Contractors Registration Board
DAO	District Agricultural Officer
DAWASA	Dar es Salaam Water Supply and Sewerage Authority
DAWASCO	Dar es Salaam Water Supply Company

DITF	Dar es Salaam International Trade Fair
DFID	Department for International Development
DMI	Dar es Salaam Maritime Institute
DOWUTA	Dock Workers Union of Tanzania
DSE	Dar es Salaam Stock Exchange
DSM	Dar es Salaam
DTMS	Director of Technical & Medical Services
EAC	East Africa Community
EC	Evaluation Committee
EPZ	Export Processing Zones
EPZA	Export Processing Zone Authority
EWURA	Energy and Water Utility Regulatory Authority
FCC	Fair Competition Commission
FY	Financial Year
GEPF	Government Employees Provident Fund
GIZ	Deutsche Gesellschaft for Internationale Zusammenarbeit
GN	Government Notice
GoT	Government of Tanzania
GPSA	Government Procurement and Supplies Agency
GPN	General Procurement Notice
HESLB	Higher Education Students' Loans Board
HRM	Human Resource Management
ICB	International Competitive Bidding
ICD	Inland Container Depot
ID	Identity Card
IFAC	International Federation of Accountants
IFM	Institute of Finance Management
IFRS	International Financial Reporting Standards
INTOSAI	International Organisation of Supreme Audit Institutions
IPPF	International Professional Practices Framework
IPSASs	International Public Sector Accounting Standards
IRDP	Institute of Rural Development Planning
IRUWASA	Iringa Urban Water Supply and Sanitation Authority
ISA	International Standard on Auditing
ISCOS	Intergovernmental Standing Committee on Shipping

ISSAI	International Standards of Supreme Audit
	Institutions
ISW	Institute of Social Work
KCML	Kiwira Coal Mines Limited
KCPL	Kiwira Coal and Power Limited
KMC	Kariakoo Market Corporation
KOJ	Kurasini Oil Jet
KPL	Kilombero Plantation Limited
KSL	Kagera Sugar Limited
KUWASA	Kigoma Urban Water Supply and Sewerage
	Authority
LAPF	Local Authority Pension Fund
LUWASA	Lindi Urban Water Supply and Sewerage Authority
MoF	Ministry of Finance
MORUWASA	Morogoro Urban Water Supply and Sanitation
MOUWASA	Authority
MoW	Moshi Urban Water Supply and Sanitation
MPs	Authority
MoW	Ministry of Water
MPs	Members of Parliament
MSD	Medical Stores Department
MTUWASA	Mtwara Urban Water Supply and Sanitation
	Authority
MUCCoBs	Moshi University College of Co-operatives and
	Business Studies
MUCE	Mkwawa University College of Education
MWAUWASA	Mwanza Urban Water Supply and Sanitation
	Authority
NACTE	National Council for Technical Education
NAOT	National Audit Office of Tanzania
NARCO	National Ranching Company
NBAA	National Board of Accountants and Auditors
NCAA	Ngorongoro Conservation Area Authority
NDC	National Development Corporation
NHC	National Housing Corporation
NHIF	National Health Insurance Fund
NOK	Norwegian Krone
NPC	Ngorongoro Pastoralists Council
NSSF	National Social Security Fund

PA&oBs	Public Authorities and Other Bodies
PAA	Public Audit Act
PAC	Public Accounts Committee
PEs	Procuring Entities
PFMRP	Public Financial Management Reform Programme
PMG	Pay Master General
PMU	Procurement Management Unit
POAC	Parastatals Organisation Accounts Committee
PO-PSM	President's Office – Public Service Management
PPA	Public Procurement Act
PPF	Parastatal Pension Fund
PPR	Public Procurement Regulations
PPRA	Public Procurement Regulatory Authority
PSPF	Public Service Pension Fund
PSRC	Presidential Public Sector Reform Commission
RAHCO	Reli Assets Holding Corporation
REA	Rural Electrification Agency
Reg.	Regulations
RUBADA	Rufiji Basin Development Authority
SADC	Southern Africa Development Community
SADCOPAC	Southern Africa Development Community Public Accounts Committee
SAI	Supreme Audit Institutions
Sect.	Section
SEZ	Special Economic Zone
SGR	Strategic Grains Revere
SHUWASA	Shinyanga Urban Water Supply and Sanitation Authority
SIDA	Swedish International Development Agency
SIDO	Small Industries Development Organisation
SNAO	Swedish National Audit Office
SOUWASA	Songea Urban Water Supply and Sanitation Authority
STAMICO	State Mining Corporation
SUMATRA	Surface and Marine Transport Regulatory Authority
SUWASA	Sumbawanga Urban Water Supply and Sanitation Authority
TAFORI	Tanzania Forest Research Institute

TANAPA	Tanzania National Parks
TANESCO	Tanzania Electric Supply Company Limited
TANGA-UWSA	Tanga Urban Water Supply and Sanitation Authority
TanTrade	Tanzania Trade Development Authority
TAWIRI	Tanzania Wildlife Research Institute
TB	Tender Board
TBC	Tanzania Broadcasting Corporation
TBS	Tanzania Bureau of Standards
TCAA	Tanzania Civil Aviation Authority
TCB	Tanzania Cotton Board
TCRA	Tanzania Communications Regulatory Authority
TEA	Tanzania Education Authority
TEMDO	Tanzania Engineering and Manufacturing Design Organization
TFDA	Tanzania Food and Drugs Authority
TIB	TIB Development Bank
TLSB	Tanzania Library Services Board`
TPA	Tanzania Ports Authority
TPB	Tanzania Postal Bank
TR	Treasury Registrar
TRA	Tanzania Revenue Authority
Tshs	Tanzania Shillings
TTCL	Tanzania Telecommunications Company Limited
UDA	Usafiri Dar es Salaam
UDOM	University of Dodoma
UK	United Kingdom
UN	United Nation
UPL	Ubungo Plaza Limited
URT	United Republic of Tanzania
USAID	United States of America International Development Agency
UTT	Unit Trust of Tanzania
UWASA	Urban Water and Sanitation Authority
VETA	Vocational Education and Training Authority
WB	World Bank
WMA	Weights and Measure

ACKNOWLEDGEMENT

I am obliged to extend my gratitude to His Excellency Dr. Jakaya Mrisho Kikwete, the President of the United Republic of Tanzania, for always drawing attention to, and laying emphasis on this general report.

My appreciation goes to the Honorable Speaker of Parliament of the United Republic of Tanzania, Chairpersons and Honorable members of various oversight Committees of Parliament and the whole Parliament for their commitment in the deliberation on the contents of the report and there after issuing directives to Public Authorities and Other Bodies for corrective measures.

I equally wish to express my gratitude to the Boards of Directors, Chief Executive Officers and for that matter Accounting Officers and all employees of the audited Public Authorities and Other Bodies for the co-operation extended to my audit teams during the audit of their entities.

I would also like to thank the printer of this report for expediting the printing of this report and therefore making it possible for it to be submitted to the President of the United Republic of Tanzania on the statutory due date.

Further, I wish to express my sincere appreciation to the Development Partners who have been supporting NAOT including but not limited to the Public Financial Management Reform Programme (PFMRP) under the co-ordination of the World Bank (WB), the Swedish National Audit Office (SNAO), the Government of Sweden through the Swedish International Development Agency (SIDA), Department for International Development (DFID) of UK, Deutsche Gesellschaft for Internationale Zusammenarbeit (GIZ), African Development Bank (ADB), United States of America International and Development Agency (USAID), SAI of India, SAI of China, AFROSAI-E, Canadian International Development Agency (CIDA) and all other well wishers who have contributed immensely towards the modernization of the audit function in my office by

sponsoring training to NAOT staff and provision of various facilities such as computers and vehicles.

Furthermore, I wish to thank all the private audit firms that have been working with NAOT in the audits of Public Authorities and Other Bodies on my behalf.

The scope of the audit has substantially been broadened after my office (SAI of Tanzania) joined SAI of UK and SAI of China to constitute the UN Audit Board which is responsible for the audit of the United Nations for six years with effect from 1st July, 2012. Together with SAIs of UK and China, we have managed to issue our first audit reports on the financial statements of the United Nations of which we have received commendation for the well done assignment.

Finally, with much appreciation I would like to thank members of staff of NAOT. Their commitment and dedication in the fulfillment of this task has been very inspirational to me. I urge the staff of NAOT to continue upholding the same team spirit they have demonstrated in all their future endeavors so that we could raise higher the banner of the office in providing efficient audit services in order to enhance accountability and value for money in the collection and use of public resources.

FOREWORD

It is my great pleasure and honour to present the seventh annual general report on the audit of Public Authorities and Other Bodies for the year 2012/2013. The report is a compilation of various individual reports on the audit of Public Authorities and Other Bodies. The report highlights among others, issues that impede efficiency of Public Authorities and Other Bodies in discharging their established objectives and achievement of the predetermined goals.

The main purpose of this report is to draw the attention of the Executives, Legislature, Judiciary, Development Partners and the General Public at large about the main findings, conclusions and recommendations drawn from the audit of Public Authorities and Other Bodies during the year 2012/2013. In this era of increased need for accountability, transparency and good governance, informed decisions are very vital. To this effect therefore, my report will help to ensure that decision makers in the country are served with relevant, up-to-date information with technical recommendations on the financial reporting and public resources management of the Public Authorities and Other Bodies in the country. I have prepared this report 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.

In ensuring that the work of the CAG adds value in the economic development of the country, I have continuously been reviewing my audit approaches to ensure that the reported findings meet the expectations of the stakeholders. Capacity building of my auditors has been an area of first focus and priority in ensuring their understanding of relevant laws, regulations, circulars, directives and various emerging issues both locally and globally such as those of the ongoing reforms in the financial reporting frameworks issued by the International Federation of Accountants (IFAC), INTOSAI and other professional bodies to which NAOT is a member.

In this endeavor NAOT staff have been subjected to various trainings so as to enhance their efficiency, effectiveness and work performance with due diligence. In this regard, NAOT has plans under way to construct an Audit Training Centre at Gezaulole Kigamboni, Dar es Salaam and I believe the Government having realized the importance of training to auditors will support my office in all aspects of making the project a success.

It is imperative to note that, while there is a key role for oversight organs to play in overseeing compliance with laws, regulations and procedures in public entities, ultimately, the responsibility for the maintenance of a compliant financial reporting framework lies with every Boards of Directors and in particular each Chief Executive Officer of the PA&oBs. However, I have to commend the role played by His Excellency the President of the United Republic of Tanzania, Dr. Jakaya Mrisho Kikwete and his entire Government, the Parliamentary Oversight Committees, the Speaker and the Parliament at large and the Development Partners for their continued support in ensuring the existence of enhanced accountability which has ultimately led to improved governance and accountability in the country.

Ludovick S. L. Utouh
CONTROLLER AND AUDITOR GENERAL

28th March, 2014

EXECUTIVE SUMMARY

Introduction

This executive summary highlights specific issues detailed in this report which needs the attention from the Government, Parliament, Boards of Directors and respective Managements of Public Authorities and Other Bodies 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 and those which have been reported to PA&oBs that require immediate actions. The highlighted issues are as follows;

i. Audit Opinions and Reports Concluded

As of 7th March, 2014, I have managed to conclude 103 individual audit reports out of the existing 179 which are subject to my ambit of audit under the category of PA&oBs. Out of the concluded audits, 93 audits were issued with audit opinion while 10 audited accounts had no Board of Directors. The remaining 74 accounts were in various stages of completion due to different reasons including late submission of financial statements, while other PA&oBs failed to convene board meetings on time as required by law, failure of some of the auditees' to respond to the audit observations on time etc. I therefore urge the responsible authorities to ensure that Boards of Directors are appointed timely once the existing boards' tenure lapses.

Further, I wish to point out that some of the PA&oBs are experiencing deterioration of financial performance attributed by incurring consecutive losses/deficits. This causes serious liquidity problems to those organizations hindering them from honoring their current liabilities as and when they fall due. Attention also has been drawn to some of PA&oBs that have total contingent liabilities of Tshs.712 billion. These contingent liabilities arose from pending law suits whose preliminary hearings and investigation proceedings were in progress of which the outcome of the matters cannot be determined with certainity.

ii. Implementation of Previous Audit Recommendations

Each year in my report, I make recommendations to the Government and PA&oBs to take corrective measures aiming at curbing the shortfalls noted during the audit.

During the year 2012/2013 audit I have noted that there are 26 previous years' outstanding recommendations which were yet to be implemented out of 41 recommendations issued in the year 2011/2012 as summarized in chapter three (3) of this report. Some of the recommendations have remained unresolved for more than five (5) years indicating that those charged with governance have not fulfilled their responsibilities properly. Long outstanding recommendations lead to recurring of similar weaknesses, hindering the efforts of my Office of bringing about enhanced transparency and accountability over the use of public funds.

I commend the efforts made by the Paymaster General in responding to my recommendations issued on the previous year's (2011/2012) general report. I wish to point out that implementation of the recommendations is not satisfactory since most of them are either partially implemented or not implemented at all.

iii. Significant Audit Matters which were not Reported in the Previous Year's General Report

The PA&oBs whose audits have not been concluded within the required time for different reasons do not feature in the General Report for that particular year. This area therefore, highlights those significant audits matters raised in the previous individual audit reports of PA&oBs which were not reported in the General Report for Public Authorities for the year 2011/2012.

I have noted that, some of the PA&oBs received funds from the Ministry of Finance (MoF) less than their approved budgets, hindering them from achieving their annual targets. This has been particularly noted at EPZA, whereby, in the fiscal year 2011/2012, only Tshs.959.9 million (19.8%) was received by the Authority from Ministry of Finance out of the approved budget of Tshs.4.8 billion. The same case was also noted at MSD which received only Tshs.4.3 billion (13%) for the first and second quarter from MoF out of the approved budget of Tshs.32 billion.

Furthermore, the audit of Higher Education Students Loans Board revealed that, loans amounting to Tshs.214.5 were granted to discontinued and postponed students contrary to the Lending Manual and Financial Regulations of HESLB. I have also noted some delays in disbursing funds to students of Universities such as Mkwawa (Tshs.440.8 million), Zanzibar (Tshs.70.6 million), and Ruaha (Tshs.89.2 million) causing hardship for the students to meet their basic needs.

Audit review of VETA noted that, there are heavy duty workshop machines worth more than 1 billion which have been abandoned in Mpanda Vocational Training Centre. These machines can still be useful to other centres.

iv. Procurement and Contract Management

Procurement functions have remained one of the largest expenditure components in the budgets of PA&oBs in Tanzania. This is why the need for having laws, regulations, guidelines and circulars on public procurement becomes mandatory.

The significant procurement issues noted in this year's report includes among other things, the interference in procurement functions at TANESCO tender for supply of lubricants worth Tshs.1.137 billion and (Euro 1,172,741) vide tender No. PA/001/10/HQ/W/033 while unapproved procurements were noted at NCAA worth Tshs.69.957 million, (USD 12,300 and Euro 15,000). The prolonged time for procurement processes were noticed at TANESCO on tender No.PA/001/10/HQ/N/024 worth USD 1,225,703 (Tshs.1.8 billion) and tender No.PA/001/11/HQ/G/121 of USD 711,139 (Tshs.1.137 billion).

Further, splitting of procurement lots to favour the use of quotations was revealed at TPA on the procurements worth Tshs.4.594 billion while inefficiency in the management of contract was noted at STAMICO on a contract worth Tshs.428.375 million. The same scenario was uncovered at TPA (Tshs.1.578 billion) while at TANESCO for procurements worth (Tshs.12.972 billion; EURO 2,551,091 and USD 1,711,939.12). In connection to that, NCCA has been incurring high procurement transaction costs amounting to Tshs.268.730 million during the year under review contrary to PPRA guidelines.

Furthermore, uncompetitive bidding was noted at CARMATEC on the procurements worth Tshs.84.593 million while at NCAA the same scenario was revealed on the goods and services worth Tshs.1.872 billion. Procurements not supported with contracts were reported at TPA for the procurements worth Tshs.3.754 billion while procurement out of APP were noted at NHC and NCAA worth Tshs.127.349 million and Tshs.1.297 billion respectively. Inconsistency in tender prices was revealed at TANESCO Euro 210,283 instead of Euro 176,357.80.

The situation was worse in TANESCO where proper feasibility study was not done on project resulting to extra cost in procurement amounting to Tshs.9.5 billion while procurement transactions exceeding threshold set by PPA was Tshs.12.461 billion, unauthorized emergency procurement at the same entity was Tshs.264.320 million and unfair decision for award of tender was Tshs.7.9 billion.

v. Asset Management

I noted improper utilization of assets in some of PA&oBs which led to loss of revenues. For example, Tanzania Cotton Board had foregone USD 775,000 from non utilization of two (2) floors among six (6) which are owned by them at Pamba House in Dar es Salaam. There were no efforts to ensure that this vacant office space is rented out.

Flow meters which were procured by Tanzania Ports Authority (TPA) worth Tshs.2.458 billion for taxation and oil control purposes have been abandoned allegedly after being stopped from being used by the Weights and Measures Agency for non justifiable reasons.

Also un-accounted for revenue has been noted in some water authorities in the country mainly caused by un-metered customers. Unaccounted for revenue stood at 56.6% and 35.16% for Bukoba Urban Water Supply and Sanitation Authority and Mbeya Urban Water Supply and Sanitation Authority respectively.

I further noted the mismanagement of cash and cash equivalent at different PA&oBs which resulted to a financial loss. For instance, over Tshs.652.6 million and Tshs.314 million were fraudulently stolen at Tanzania Education Authority and Songea Urban Water Supply Authority respectively.

Recently, there has been a rapid development of ICT in the country. However, I noted that, some PA&oBs have not taken this to their advantage. For example, Tanzania Ports Authority (TPA), Institute of Social Works (ISW) and Institute of Rural Development Planning (IRDP) have failed to install the appropriate accounting software to help them in the processing and preparation of their appropriate financial statements.

vi. Human Resources Management

Human resource component is the most important resource in any organization. For PA&oBs to achieve their objectives, they require a proper management of their Human Resources.

The anomalies observed in this area were mainly due to absence of training programmes for their staff and non compliance to employment and labour laws particularly the Standing Orders for the public service 2009 noted at BASATA.

In addition, some of PA&oBs were noted to operate below their approved manning levels. Shortfalls were also noted such as improper keeping of staff records at GEPF, TPA, ISW, NCAA, DAWASA and Mbeya UWASA, improper or non performance of staff appraisal at MTUWASA, TEMDO, UTT, BUWASA, and TPA, delays in remittance of statutory deductions of Tshs.8 billion at DAWASCO, inadequate control over payroll at TCB, TAFORI and BASATA, growing trend of staff receivables of Tshs.2.18 billion in the year 2012/13 as compared to Tshs.1.53 billion (2011/12) at UTT and existence of a mix of employees which is not well balanced.

vii. Corporate Governance

In order to achieve accountability, fairness and transparency of operations of PA&oBs, good corporate governance is of paramount importance. In the audit of PA&oBs, I have noted some incidences which signify non observance of principles of good corporate governance.

I noted that TANAPA, an institution charged with the core responsibility of conservation, has been subjected to a number of directives and laws which require it to contribute money to facilitate running of other institutions. During the period of three years, TANAPA made contributions of Tshs.10.4 billion to public institutions. Of this amount, around Tshs.8 billion was paid to other PA&oBs for various activities.

I also noted that, there are ongoing discussions where TANAPA and other stakeholders are deliberating on the concept note with the aim to involve TANAPA in the establishment of the National Airline. This is a good idea, however there is likelihood of constraining TANAPA’s financial resources on other businesses than conservation which is the core objective for its establishment.

I further noted that, Tanzania Ports Authority paid Tshs.44 million on behalf of the Ministry of Transport. These payments were in respect of costs of attending meetings and Hotel bills.

Performance contracts between the Boards of Directors and Treasury Registrar are important for monitoring and evaluation of the performance of the Boards of Directors. I noted that these have not been signed as per circulars from the Treasury Registrar.

In the previous years' reports, I have always been reporting on the need to have timely succession of the Boards of Directors as soon as the existing board's tenure expires. However, there are no remarkable improvements as delays in appointment of new boards have been consistently observed over the years. This has a negative impact on operations of the corporations in terms of guidance, decision making and finalization of the audit cycles.

viii. Government Investment, Interests and Post Privatisation Study of Privatized Entities

A review of performance of government noted an increase of local investment of the government from Tshs.12.215 trillion to Tshs.14.031 trillion as at 30th June, 2013. The increase has been due to increased investment in shares of commercial entities and capital fund of non-commercial entities, significant increase in shareholders fund caused by the increase in valuation reserves, assets and accumulated surplus and increase in government institutions from 213 in 2011/12 to 215 in 2012/13.

The foreign Government investment in nine (9) foreign institutions stood at Tshs. 222.8 billion as at 30th June, 2013 as compared to Tshs.145.9 billion for the year ended 30th June, 2012. Also it was noted that as at 30th June, 2013 the total outstanding liability of the guaranteed amount by the government stood at Tshs.485.7 billion compared with Tshs.498.7 billion for the year ended 30th June, 2012.

The post privatisation study of the 10 privatised entities noted that, despite the achievements in the privatisation of public enterprises, there has been public dissatisfaction on how the divestiture exercise was carried out as evidenced by poor performance of some of the divested enterprises, where some of them never commenced businesses contrary to the agreed terms and conditions of their sale agreements.

Chapter nine (9), gives highlights on the study which was carried out in order to establish whether the relevant laws, privatization procedures and criteria were complied with and whether the wider privatization objectives for the economy were achieved.

In the process of privatization of Kiwira Coal Mine, I noted that procedures for privatization were circumvented. The sale was spearheaded by the government through the Ministry of Energy and Minerals with limited involvement of the PSRC/CHC.

In the sales agreement for Southern Paper Mills, it was found that the agreed sales price was USD 26 million. It was also agreed that out of this amount, USD 22 million should be invested in the company and USD 3 million be deposited in the escrow account. In addition, it was agreed that the amount deposited in the escrow should be withdrawn by the investors upon investing a cumulative amount of USD 22 million. This implies that SPM was sold at USD 1 million only.

The government guaranteed a loan of Tshs.6.65 billion from NSSF in favour of Kiwira Coal and Power Limited under the Export Credit Guarantee Scheme although KCPL had no qualities of being guaranteed by the government under that scheme.

Furthermore, KCPL obtained loans amounting to Tshs.28.998 billion from NSSF, PSPF and CRDB Bank for working capital, rehabilitation and expansions. The uses of these loans by KCPL are questionable as no any assets were acquired. Also, all these loans have not been serviced since their acquisition.

ix. Results of Special Audits

The special audit of Tanzania Postal Bank (TPB) revealed non compliance to PPA in a contract for renovation of the Chief Executive residential house. This tender was awarded to M/s Kiaren Investment at a total contract price of Tshs.92.629 but TPB paid to the contractor a sum of Tshs.104.5 million resulting to excess payments of Tshs.11.9 million being unjustifiable additional works. Also I noted that TPB engaged M/s Kiaren Investment to renovate TPB Mkwepu Branch without observing PPA, 2004.

I also noted that contractors M/s Havillah Business and M/s NACOD Enterprises Co. Ltd were neither registered by the Contractors Registration Board nor TRA thus VAT amounting to Tshs.61.851 million paid to M/s NACOD Enterprises Co. Ltd and Tshs.16.692 million (VAT inclusive) paid to M/s Havillah Business, by TPB was not remitted to TRA. In addition, I noted recruitments which did not observe the existing scheme of services of the Bank.

In regard to SHUWASA special audit, I noted that, invoices for water bills raised by SHUWASA to various Government Institutions in Shinyanga were not paid which led to a total accumulated debt of Tshs.147 million.

I also noted that, NARCO has not remitted statutory deduction from employees' salaries amounting to Tshs. 716 million to the relevant Authorities. Further, there was no feasibility study undertaken by NARCO to determine viability of the project in which Tshs.3.280 billion loan from Tanzania Investment Bank (TIB) and CRDB bank was invested. I also noted a loss of 376 livestock at Ruvu Ranch due to poor controls instituted over livestock monitoring.

In the special audit of Cashewnut Board of Tanzania, I noted the existence of two controversial laws i.e. Local Government Act No.9 of 1982 and Cashewnut Board of Tanzania establishment Act No.18 of 2009 which contradicts each other on the utilization of funds from export levy on cashewnut. In connection to that, Tshs.223.8 million was paid for inputs that were not delivered for a period of four years. Masasi District Agricultural Officer (DAO) approved payment of Tshs.292 million for farm inputs of which half of them were not delivered for four years. The Board had utilized Tshs.1.075 billion from export levy for official use while it was required to be used for boosting Cashewnut growing in Mtwara. The Board had also not yet released Tshs.735 million earmarked for cashewnut growers in Masasi, Newala and Nanyumbu Districts.

In NHIF, my special audit revealed some claims of Tshs.20.375 million from ineligible beneficiaries which were honoured by NHIF. The directorate of operations could not validate members' information in the database so as to reduce errors and fraud in payment of these claims. There were also other payments made to patients who were not on the list submitted by health facilities.

Tanzania Trade Development Authority (TanTrade) special audit noted that, there were forged entry tickets and stickers in the 36th Dar es Salaam International Trade Fair (DITF) amounting to Tshs.158.816 million. Management of TanTrade has not instituted controls to safeguard the boundaries of DITF grounds. TanTrade could not provide evidences to support Tshs.108.486 million claimed to be trade creditors of the Authority. It was further noted that TanTrade could not reclaim assets of the former Board of Internal Trade (BIT) and Board of External Trade (BET) which were transferred to the government, and there were 11 motor vehicles purchased for TanTrade but were not received by the Authority.

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 a constitutional office established in accordance with Article 143 of the Constitution of the United Republic of Tanzania of 1977 (as amended from time to time). Public Audit in Tanzania is emphasized under the Public Audit Act No. 11 of 2008 and under Sect.44 (2) of the Public Procurement Act No.21 of 2004.

Sub Article (5) of Article 143 of the Constitution of the URT requires the Controller and Auditor General to audit all Public Authorities and other Bodies at least once in every financial year. In connection with that, Section 33 of the Public Audit Act No.11 of 2008 empowers the Controller and Auditor General to authorize any person eligible to be appointed as an auditor of a company or any officer to inspect, examine or audit on his behalf the books of account of any public body that the CAG may be required to audit. However, the audit opinion shall remain the sole responsibility of the Controller and Auditor General.

Public Authorities and other Bodies in the country operate under the accrual basis of accounting which necessitates them to be IFRSs or IPSAS's compliant. In such a situation, the legal framework governing the financial reporting and auditing of the Public Authorities and other Bodies is either the Companies Act No.12 of 2002 or the enabling Acts of the Parliament of the respective Public Authorities and Other Bodies.

1.1 Audit and Reporting Mandate of the Controller and Auditor General

1.1.1 Audit Mandate

The audit of the financial statements of PA&oBs is mandated by Article 143 (2) (c) of the Constitution of the United Republic of Tanzania. This Article enshrines the Constitutional requirements for the audit of the Public Sector. The objectives of this provision of the Constitution are amplified under Section 34 (1) of the Public Audit Act No.11 of 2008 which states that "on receipt of accounts prescribed in relevant laws, the Controller and Auditor General shall cause the accounts to be audited and shall within a period of nine months after the end of the year to which the accounts relate, express a professional opinion, in respect of each account and the results of the audit".

The Controller and Auditor General has the mandate to conduct financial performance audits forensic or any other audit of all Public Authorities and other Bodies 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 Controller and Auditor General 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 moneys and resources.
- Improving economy, efficiency, effectiveness in the use of public moneys.

1.1.2 Reporting Mandate

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 before the first sitting of the National Assembly which shall be held after the President has received the reports. The reports shall have to be submitted to such sitting before the expiration of seven days from the day the sitting of the National Assembly began.

If the President does not take steps of submitting such reports to the National Assembly, then the Controller and Auditor General 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 then, 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) or Local Authority Accounts Committee (LAAC) on behalf of Parliament and reports to that effect prepared and submitted to Parliament.

1.2 Scope and Applicable Audit Standards

1.2.1 Audit Scope and Objectives

The scope of my audits covered the evaluation of the 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.

The main objective of conducting any audit is to enable the Controller and Auditor General express an independent opinion on the fairness of the financial statements of the Public Authorities and Other bodies for the year 2012/2013 and whether they have been prepared, in all material respects in accordance with an accepted financial reporting framework. Particularly, the audits covered audited accounts of the periods ended, 30th September, 2012, 31st December, 2012 and 30th June, 2013. This report also, includes outstanding and unimplemented audit recommendations made in previous years' audit reports and significant matters from the individual audit reports which were not reported in the previous year's general report.

1.2.2 Applicable Auditing Standards

The National Audit Office (NAOT) is a member of the International Organisation of Supreme Audit Institutions (INTOSAI), the African Organisation of Supreme Audit Institutions (AFROSAI) and the African Organisation of Supreme Audit Institutions of English speaking Countries (AFROSAI-E). I therefore, applied in my audit procedures, 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).

The National Audit Office has a unique responsibility of ensuring that there is a proper public accountability, financial discipline and transparency within the country. Further, NAOT has a unique responsibility of issuing timely and good quality audit reports on how best public resources have been put into use.

1.3 Responsibilities of the Board of Directors and Chief Executive Officers

The individual Boards of Directors and management of Public Authorities and Other Bodies are responsible for the preparation and fair presentation of financial statements in accordance with the International Financial Reporting standards (IFRS) or the 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. The preparation and submission of PA&oBs financial statements for audit purposes is a legal requirement as per individual Public Authorities and other Bodies enabling Acts, the Companies Act of 2002 and the PAA No. 11 of 2008.

International Financial Reporting Standard (IFRS1), International Accounting Standards (IAS 1) and International Public Sector Accounting Standards (IPSAS 1) specify the types of financial statements to be prepared. Public Authorities and other Bodies in Tanzania are required to prepare their financial statements in compliance with International Financial Reporting Standards (IFRS) or the International Public Sector Accounting Standards (IPSAS) depending on the nature and objectives of the Public Authorities and other Bodies in question. This is in line with the decision taken by the National Board of Accountants and Auditors (NBAA) and endorsed by the Government that effective from 1st July, 2004 reporting entities in Tanzania shall embrace International Financial Reporting Standards framework while auditing will be conducted in accordance with International Standards on Auditing (ISA), and shall also be guided by standards and guidelines issued from time to time by the National Board of Accountants and Auditors (NBAA).

Public Authorities and other Bodies annual reports provide information which assists the general public to assess the performance of these entities and hold them to account for their performance in the use of public resources. Timely provision of information is necessary for this to occur. This is the whole essence of accountability and transparency in the use of public resources.

1.4 Internal Control System

Internal controls refer to all means by which public resources are directed, monitored, and measured. Internal controls play an important role in preventing and detecting frauds/misappropriations and protecting the public resources, both physical and intangible. At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal controls refers to the actions taken to achieve a specific objective (e.g. how to ensure that payments to suppliers and service providers for valid goods and services rendered).

1.5 Responsibilities of the Treasury Registrar

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, states 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.

1.6 Submission of Financial Statements to CAG for Audit

Section 31 of the Public Audit Act No.11 of 2008 requires Public Authorities and Other Bodies to submit their financial statements to the Controller and Auditor General for audit purposes within three months after the end of the respective financial year to which the accounts relate.

1.7 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, I decided to use the constitutional powers vested on me and contracted out some of the audit of Public Authorities and other Bodies 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 divulge 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.

In executing this responsibility, the office either singly or jointly did the audit of the Public Authorities and other Bodies while the majority of such audits were wholly outsourced. These outsourced audits were subjected to the quality review process of NAOT.

Out of the 179 Public Authorities and other Bodies, 21 Public Authorities and other Bodies equivalent to 12% were wholly audited by the staff of the National Audit office while 18 entities equivalent to 10% were jointly audited by staff of NAOT and private audit firms. Public Authorities and other Bodies whose audits were wholly outsourced to private audit firms were 140 equivalent to 78%.

The above information can be presented in a histogram as follows:

Figure 1: Allocation of Audit Assignments of PA&oBs in 2012/2013

The small percentage of (12%) PA&oBs wholly audited by the CAG is an indication of how severe under staffing the CAG's office is. The CAG needs greater capacity in both the number of staff and skills in order to be able to handle the huge and very challenging audit assignments of PA&oBs.

During the year under review, NAOT engaged 51 private audit firms which are registered with the National Board of Accountants and Auditors (NBAA) as Certified Public Accountants in Public Practice to carry out audits of PA&oBs as shown in Appendix I to this report.

CHAPTER TWO

BASIS AND TYPES OF AUDIT OPINIONS

2.0 Introduction

International Standards on Auditing (ISA) 200 stipulates that the objectives of conducting an audit is to enable an auditor, to express an independent opinion as to whether the financial statements were prepared in all material respects according to 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 misstatements whether due to fraud or errors. That assurance is important because it enhance the degree of confidence of the users of the financial statements.

During the financial year 2012/2013, the Chief Executive Officers of 177 out of 179 Public Authorities and Other Bodies submitted to my office their financial statements for audit purposes. Two Public Authorities and Other Bodies which are UDA and Marine Service Company did not submit their financial statements for audit purposes. A peculiar case was for UDA which did not submit financial statements due to uncertainty of its ownership.

Of the submitted financial statements, 103 audits were concluded and their reports issued to the respective PA&oBs as at 7th March, 2014. Out of the concluded audit reports, 93 were issued with audit opinions while 10 audits were concluded but lacked Boards of Directors to adopt the financial statements. The remaining 74 accounts were at various stages of completion due to different reasons including late submission of financial statements, while other entities failed to convene board meetings on time as required by law and failure of some of the PA&oBs to respond to the raised audit observations on time. Detailed audit status of the completed as of 7th March, 2014 is as shown in Appendix II.

2.1 Types of Audit Opinion

2.1.1 Unqualified Opinion

An unqualified opinion is expressed when the auditor concludes that the financial statements give a true and fair view (or are presented fairly in all material respects) in accordance with the applicable financial reporting framework. In the year under review, 51 unqualified opinions were issued to PA&oBs.

2.1.2 Unqualified Opinion with Emphasis of Matter(s)

An auditor's report may be modified by adding an emphasis of matter paragraph(s) to highlight a matter affecting the financial statements which is included in a note to the financial statements that need attention to users of financial statements in making economical decision. Those matters include going concern problems and significant uncertainty whose outcome depends on future action or events not under the direct control of the entity. The addition of such an emphasis of matter paragraph(s) does not affect the auditor's opinion. The auditor may also modify the auditor's report by issuing an emphasis of matter paragraph(s) to report matters other than those affecting the financial statements like material inconsistency in audited financial statements which the entity refuse to make amendments. In the year under review 41 unqualified opinions with Emphasis of matters were issued to PA&oBs.

2.1.3 Qualified Opinion

A qualified opinion is expressed when there is material misstatement in the financial statements and the auditor concludes that, an unqualified opinion cannot be expressed but that the effect of any disagreement with management or limitation on scope is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion to be issued. During the year under review I did not issue any qualified opinion to PA&oBs.

2.1.4 Qualified Opinion with Emphasis of Matter

A qualified opinion with Emphasis of Matter is expressed when the auditor concludes that an unqualified opinion cannot be expressed. The effect of any disagreement with management or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. The audit opinion is added an emphasis of matter by reporting matters other than those affecting the financial statements. A qualified opinion should be expressed as being "Except for" the effects of the matter to which the qualification relates. In the year under review 1 qualified opinion with emphasis of matter was issued to one Public Authority.

2.1.5 Disclaimer of Opinion

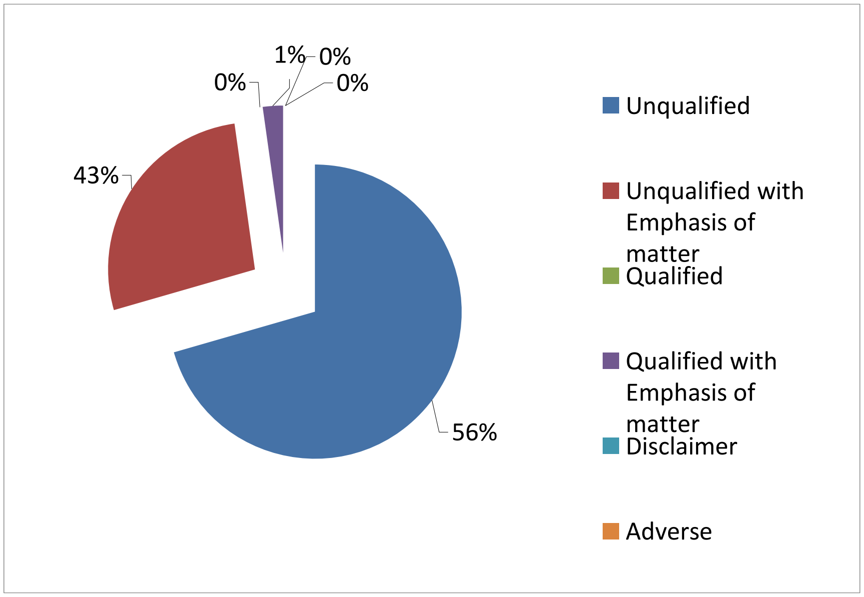
A disclaimer of opinion is expressed when the possible effect of a limitation of scope is so material and pervasive that the auditor has not been able to obtain sufficient, appropriate and reliable audit evidence and accordingly is unable to express an opinion on the financial statements. During the year under review I did not issue any disclaimer opinion to any Public Authority and Other Bodies.

2.1.6 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. During the year under review, I did not issue any disclaimer opinion to any Public Authority and Other Bodies.

Analysis of the audit opinions issued in the year 2012/2013 is shown in the below pie chart and a detailed analysis of audit opinion is as shown in appendix III.

Figure 2: Types of Audit Opinions in the Current Year



Analysis of the trend of the audit opinions issued to Public Authorities and other Bodies for the 4 consecutive years from 2009/2010 to 2012/2013 was as follows:

Table 1: Trend of Audit Opinion

Category of Opinions	Annual General Report Year			
	2009/2010	2010/2011	2011/2012	2012/2013
Unqualified	92	84	62	51
Unqualified with Emphasis of Matter	12	12	23	41
Qualified	10	7	2	0
Qualified with Emphasis of Matter	7	4	7	1
Disclaimer	1	0	1	0
Adverse	0	0	0	0
Total	**122**	**107**	**95**	**93**

2.2 Basis of Audit Opinion Issued

2.2.1 Reports issued with Unqualified Opinion with Emphasis of Matter Paragraph

Unqualified opinions with Emphasis of matters have been issued to 41 Public Authorities and Other bodies for which they have deteriorating financial performance attributed by consecutive losses/deficits and liquidity problems hindering the PA&oBs in honoring their current liabilities as and when they fall due. Detailed analysis of liquidity position and deficits has been provided under Appendix IV.

Attention also has been drawn to PA&oBs that had contingent liabilities arising from several pending law suits whose preliminary hearings and investigation proceedings were in progress of which the ultimate outcome of the matters could not be determined. Contingent liabilities and other issues which lead to expression of opinion with emphasis of matters are shown below;

Tanzania Cotton Board had a contingent liability of Tshs.1.36 billion being subsidy on excess cotton output for the financial year 2009/10. Also the Institute of Social Work as at the year end, had pending law suits filed by its former employees demanding payment of Tshs.2,040,695,233. In addition, TANAPA had contingent claims arising from ten (10) pending legal cases amounting to Tshs.285 million (2011/2012:Tshs.186 million) and Tshs.33 million (2011/2012: Tshs.5 million) in respect of legal cases filed by its former employees.

The Tanzania Ports Authority has litigation proceedings filed before the court of law by M/s Mvita Construction Company which could result in the Authority suffering material losses of approximately Tshs.337.7 billion (a proposed sum in arbitration). In addition the Authority has other pending law suits in various courts of law of Tshs.20.6 billion (2011/2012 Tshs.20.05 billion) the outcomes of which are not certain. Also the Authority has unresolved disputed corporation Tax Assessments pending at Tax Appeals Board amounting to Tshs.75.5 billion.

Dar es Salaam Water and Sewerage Authority revenue comprises lessor's tariff billed to customers by the Operator and lease rental fees payable by the Operator. The Authority recorded tariff revenue relating to water charges amounting to Tshs.16.296 billion, which represents revenue generated from 47% of the total water produced during the year. Further, the authority recorded water not accounted for in proportion of 53% of the total production which is 28% higher than an industrial allowable bench mark of 25% approximated as Tshs.8.947 billion. The Authority attributes the large proportion of unaccounted water to illegitimate or unregistered connections, registered connections that are incorrectly treated as inactive or disconnected hence not billed. The Authority also incurred a loss of Tshs.17.159 billion (2012: Tshs.21.052 billion) and as of 30th June, 2013 its current liabilities exceed current assets by Tshs.19.624 billion.

National Economic Empowerment Council is facing a contingent liability of Tshs.980,232,464 due from defaults by 26 SACCOS to pay CRDB loans which the Council had guaranteed. This situation indicates the existence of material uncertainty that may cast significant doubt about the Council's ability to effectively carry out its operations without additional funding from the Government.

The Consolidated Holding Corporation had contingent claims arising from pending legal suits amounting to Tshs.274 billion. Also the Corporation had Ex-LART payables comprising of balances due to creditors in relation to Liquidation of Public Enterprises and Non Performing Assets formerly handled by LART. At the year-end the total amount of liquidation proceeds was Tshs.25.844 billion. The liquidation proceeds were not ring-fenced hence the Corporation may not have enough cash to discharge the liquidation liabilities when they become due.

It was also revealed that Tanzania Postal Bank financial statements shows the shareholding by the Government of the United Republic of Tanzania, Revolutionary Government of Zanzibar, Tanzania Posts Corporation and TP&TC Savings and Credit Society to be at 80.4: 4.1: 11.8: 3.7 respectively which is different from the required ratio of 41:10:30:19 set out in section 12 (1) and (2) of the Tanzania Postal Bank Act No.11 of 1992. This is a non-compliance with the Tanzania Postal Bank Act No.11 of 1992.

In reviewing the financial statements of Public Service Pension Fund (PSPF) basing on Actuarial Valuation carried out in 2010, the Fund has an actuarial deficit of Tshs.6.49 trillion as I reported in my previous year annual general report. Also the Fund had recognized Tshs.107,843,083,000 used to finance the construction of the College of Education of the University of Dodoma as a loan. This is contrary to the contract terms which states that the project is in the form of Design, Build, Own and Transfer the building where by the Fund will in turn receive rent calculated on the basis of cost of investment and interest on investment i.e. 15% over a period of 10 years.

At the year end, Fair Competition Commission had various law suits approximated at Tshs.255,000,000 whose hearings and proceedings are in progress. A provision for liabilities of Tshs.166,000,000 had been made while Tshs.89,000,000 potential liability had not been provided for in the financial statements as the ultimate outcome for these cannot be sufficiently determined.

2.2.2 Reports Issued with Qualified Opinion with Emphasis of Matter(s)

During the year under review, I issued qualified Opinion only to one (1) Entity, Mtwara Urban Water Supply and Sanitation Authority. The qualified opinion was issued on the ground that the Authority had Receivables for water sales as at 30th June, 2013 amounting to Tshs.409,616,584 for which management made impairment provision of Tshs.108,460,969. The provision made was for whole receivables of 5 years old. The provision was not supported by the Authority's policy. Further, no provision of impairment was made for the remaining receivables and the entire process of arriving at the provision does not comply with the requirements of IAS 39.63; Financial Instrument, Recognition and Measurements.

It was also found that MTUWASA tariffs for water and service charges are based on the customer category. My review of the application of the tariffs to the customer categories revealed several customers including Primary School that are configured as domestic in the Smart Meter Billing System despite all indications including their names suggesting that they are not domestic. Estimated loss of revenue of Tshs.48.4 million as a result of not charging these customers as institutions was recorded. In the absence of a thorough review of customers and their categories to identify and correct inappropriately charged customers, I could not confirm the completeness of the reported revenue and receivable balance.

CHAPTER THREE

SUMMARY OF OUTSTANDING AUDIT RECOMMENDATIONS

3.0 Introduction

This chapter summarises the outstanding recommendations from the previous years' audit report of the Public Authorities and Other Bodies which were either partly implemented or not implemented at the time of preparing this report. Accountability and good governance will not be achieved if there is no individual effort from each PA&oBs in implementing all outstanding matters.

3.1 Responses on the Previous Years' Audit Report (2011/2012)

I have received the Government responses to my previous annual general reports vide the Permanent Secretary Treasury and Paymaster General's letter with Ref. No. EB/AG/AUDIT/12/VOL.I/53 dated 25th June, 2013. I wish to commend the effort deployed by the PMG in responding to the recommendations issued in respect of my report. Despite the Paymaster General's response, most of the outstanding recommendations are still not implemented. In this regard, the desired goals and objectives of the PA&oBs will not be achieved unless more efforts are devoted towards implementing issued audit recommendations.

It is my aspiration to express my concerns to the Government that the recommendations which I have been issuing from time to time are intended to ensure strong measures are taken to safeguard the collection and use of public resources. Further, the recommendations are meant to ensure all necessary precautions are taken to ensure expenditure of public monies are properly authorised and applied for the purpose for which they were budgeted for. By so doing economy, efficiency and effectiveness will be achieved in the use of public resources, while laws and regulations applicable to the relevant PA&oBs are dully observed.

In this regard, I would like to reiterate my previous recommendations which have not been addressed or partly addressed by the Government, Parliament, Boards of Directors and Chief Executive Officers of the Public Entities.

3.2 Outstanding Recommendations for the year 2007/2008

3.2.1 Provision of Capital to Undercapitalized PA&oBs

The Treasury Registrar (Shareholder) should ensure that the undercapitalized PA&oBs are provided with adequate working capital by establishing various sources of funds to inject in underperforming public entities. This will ensure smooth operation of their activities, hence provision of better services to the general public.

The Paymaster General's response is noted although the percentage of PA &oBs provided with capital is still small. For instance only four Public Authorities and other Bodies were given capital by the Government which are Tanzania Postal Bank, Mzinga Corporation, Tanzania Women Bank and Tanzania Investment Bank. The government should come up with action plan of implementing my recommendations.

3.2.2 Expanding the Role of POAC

In my previous reports, I advised the Honourable Speaker to consider expanding the role of the POAC to rename it as the Public Investments Committee and expand its mandate to cover all public enterprises including those in which the Government has controlling and non controlling interest.

Since the Honourable Speaker has decided that accounts of PA&oBs will now be discussed by PAC, it is advised that the scope of the reconstituted PAC should be substantially broadened including increasing its membership and giving it adequate resources in order for the Committee to be able to handle its substantially increased responsibilities.

The Paymaster General has responded on the part of retention of the previous members of POAC. However, I still recommend the increase of the number of PAC members to ensure that most of the PA&oBs accounts are tabled and discussed by PAC.

3.2.3 Appointment of Members of Boards of Directors and Chief Executive Officers

Best practice on corporate governance calls for Chief Executive Officers to be appointed by the Board of Directors instead of being appointed by the President. The President should be left with the responsibility of appointing Chairpersons of the Boards of Directors while the appointment of the Chief Executive Officers of PA&oBs should be the responsibility of the Boards of Directors. In such a situation the Board of Directors should hold the Chief Executive Officers of Public Authorities and Other Bodies more accountable for their performance. This will remove conflict of interest of which CEOs and Chairpersons of the boards are appointed by the same appointing authority.

3.3 Outstanding Recommendations for the year 2008/2009;

3.3.1 Apparent Conflict of Interest Regarding MPs Being Appointed Members in Boards of Directors of Public Authorities and Other Bodies

Parliament is the highest representative organ of the people charged with the responsibility of scrutinizing the performance (oversight role) of Parastatal Organizations through the oversight Committees. In order to avoid conflict of interest, members of Parliament should not be members of Boards of Directors of Public Authorities and Other Bodies for which they have an oversight role. This was also agreed during the Parastatals Accountability Conference held on 23rd -24th January, 2009. This practice of Members of Parliament being in the Board of Directors of PA&oBs is neither applicable in any Regional countries in which Tanzania is a member such as EAC, SADCOPAC, SADC, AFROSAI-E, AU nor in any other country in the world. I reiterate this recommendation for the consecutive five years without been implemented by the respective authority.

3.3.2 Performance Contracts with Boards of Directors

The Government should enter into performance contracts with Boards of Directors of PA&oBs and set pre determined deliverables to be achieved during the tenure of these Boards which should be made public. The Paymaster General responded to the recommendations and issued directives through Treasury Registrar Circular No. 1 of 2012 with Ref. No. TYC/T/200/566/29 of 5th January, 2012. Nevertheless, the circular has not yet been operational. The Government should come up with a mechanism of ensuring that Boards of Directors of Public Authorities and Other Bodies sign performance Contracts and those Boards which will not sign the contracts should be subjected to disciplinary action.

3.3.3 A Need for the Establishment of a Public Investment Fund

In Tanzania, most of the public entities face the problem of under capitalization which hinders those entities from meeting their operational objectives.

The Government should establish a Public Investment Fund to be able to meet these challenges. Parliament should on yearly basis appropriate funds to this Fund while dividends realized and donor support received in this direction may also be deposited in this Fund to enhance its liquidity. Such funds should not be used to finance recurrent expenditure but would best be utilized to finance capital expenditure such as new investments, increasing capital structures and extending finances to the existing PA&oBs.

The government should speed up the process of establishing the Public Investment Fund as responded by the Paymaster General.

3.3.4 Unequal Management and Use of Public Resources

Board of Directors and Management of Public Authorities and other Bodies serve the same purpose for the public entities which they represent. In this regard, there is a need of standardizing and harmonizing the benefits enjoyed by the Boards of Directors and managements of Public Authorities and other Bodies (i.e. sitting allowances, directors' fees etc) since all resources consumed belong to the public. In the course of reducing these differences within the PA&oBs it will enhance efficiency and accountability through the use of public resources. The response of the Paymaster General is noted, however, implementation is yet to be evidenced despite the establishment of Salaries and Remuneration Rationalization Board.

3.3.5 PSPF Loan Tshs.58 Billion to HESLB and Students Loans Repayments Tshs.51.1 Billion

Government intervention in decision making is among the factors which are contributing to liquidity problems for the Pension Funds in the country. Loans borrowed from the Pension Funds by Public Institutions under Government guarantee become overdue while the Government is reluctant to enforce repayment. I am of the view that the Government should put strong measures to ensure that the outstanding loan both principal and interest borrowed from PSPF are repaid to avoid any further costs in terms of interest and penalties. In regard to non repayment of student's loans amounting to Tshs.51.1 billion, the Board is advised to take legal action against employers and individuals who are refusing to cooperate as per the HESLB Act.9 of 2004 to ensure the recovery of the outstanding amounts.

3.4 Outstanding Recommendations for the Year 2010/2011

3.4.1 Assets Management

National Social Security Fund spent a sum of Tshs.234.1 billion in the construction of some of the buildings of the University of Dodoma (UDOM), under contract terms of Design, Build, Own and Transfer after 10 years. Other Funds such as PSPF, LAPF, NHIF and PPF together spent a total of Tshs.181.3 billion in the construction of those buildings under the same terms of contract. The constructed buildings are neither in the books of the University of Dodoma nor in the books of the Pension Funds. This has been caused by different understanding of the parties concerned. Pension Funds understand that the amount used to construct the buildings were loans to the Government while on the other hand, the Government understanding is that these are investments by the Pension Funds. Pension Funds should act in line with the agreement signed between them and the Government to allow fair presentation of these buildings in their books of accounts.

3.4.2 A Need to Have a Database for Members of Board of Directors in PA&oBs

In consideration of the fact that the expiration of the Boards of Directors' tenure occur on different dates, it may not be possible for the appointing authorities to monitor these dates. In that regard, I am of the view that the Treasury Registrar should develop a database for Boards of Directors which shall have a feature of alerting the date of expiry of each particular Board of Directors in order to enable the appointing authorities to have updated information to facilitate timely appointment of new Boards of Directors.

Despite the response from PMG that they have developed a database which alerts the appointing authority six months before expiry of the tenure of the Board of Directors the database seems to be unhelpful since there is still delay in the appointment of Boards of Directors as observed in NCAA, TEMDO, TAWIRI, TAFORI, Tanzania Sisal Board etc.

3.4.3 Assured Sources of Financing Investment

Tanzania as a developing nation should come up with a strategy of making available sources of finances at an affordable cost. There is a need for the Government to pass a law requiring potential Companies in Tanzania to be listed in the Dar es Salaam Stock Exchange such as Mining Companies, Mobile Phone Companies, Cement Companies, Beverage Drinks Companies etc.

Further, the Government should institute a law which will require public institutions to surrender unclaimed assets to the Treasury as government revenue as in the case of deposits that have remained unutilized for more than 5 years which are likely not to be reclaimed by respective depositors. Such unclaimed funds could be deposited in the proposed Investment Fund and be used as a source of investment finance. Other income could be generated from dividends realized from public investments and proceeds from sale of government properties could also be deposited in this Fund to enhance its liquidity.

3.5 Outstanding Recommendations for the year 2011/2012

3.5.1 Procurement Transactions Made Under Emergency Basis without Obtaining Approval from the Paymaster General

I noted that Tanzania Ports Authority through PMU procured various equipment worth USD.810,000 and EURO 13,915,783 under emergence basis without obtaining approval from PMG. At Mzumbe University, management engaged a contractor for construction of a five storey building at Dar es Salaam Campus at a contract sum of Tshs.1,987,136,449.20 under emergency basis of which the approval from PMG could not be obtained.

3.5.2 Inappropriate Tender Award at NSSF

It was reported that NSSF Tender Board approved an award of contract for Air conditioning installation for the proposed construction of NSSF commercial building at Kaloleni in Arusha Municipality to a supplier at Tshs.430 million. The awarded price of Tshs.430 million was Tshs.230 million above the engineer’s estimates of Tshs.200 million (about 87% increase). When asked of this variation management responded that the estimates were of 2009 and the lapse of three years has experienced increase in material and labour cost. This could not justify the increase of more than 87% as stated clearly on the evaluation committee’s memo submitted to the TB on 29/02/2012. Under normal circumstances the deviation of the lowest evaluated bidder's price from engineer's estimate should be within 10%.

3.5.3 Mismanagement of Contract for Design and Construction of Jetties at Lake Tanganyika

Tanzania Ports Authority entered into contract with M/s Modspan Enterprises Ltd on 20th November, 2009 to design and construct Jetties at Lake Tanganyika (Logasa, Kyala, Karema and Kirando) at a contract price of Tshs.4,870,121,016 VAT inclusive. The duration of the contract was 18 months ending July, 2011 from the date of signing the contract.

My review further revealed that the contractor M/s Modspan Enterprises Ltd was not fully committed to the project as a result, it took much time for the Authority's engineers to supervise the project which led to the procurement costs to increase unnecessarily. Despite all the weaknesses noted on the performance of this contractor, management granted additional works to the contractor costing the Authority Tshs.647,865,000 which increased the contract price from Tshs.4,870,121,016 to Tshs.5,517,986,016. By the time I was concluding the audit of the financial statements for the year ended 30th June,2012, a total amount of Tshs.3,126,564,912.47 (equivalent to 56.6%) of the total contract price had already been paid to the contractor while the completed work was assessed at 34% of the contracted work to be accomplished.

3.5.4 Termination of Contracts Leading to Nugatory Expenditure at TPA

Tanzania Ports Authority (TPA) entered into a contract with M/s Oceana Advanced Industries Ltd in November, 2008 for maintenance and dredging of berth 1-11 and KOJ at Dar es Salaam Port. The agreed contract price was Tshs.4,633,940,315 VAT exclusive and it was agreed to be completed on 11th May, 2009. My review of this contract noted that the project was not completed as agreed hence necessitating extension of completion period for four (4) months to August, 2009. This was due to management's failure to hand over berth No.7 as agreed in the contract. This resulted into an additional works to the contractor costing USD 753,807.60.

On 15/5/2010 the Authority decided to terminate the contract with M/s Oceana Advanced Industries Ltd for the reasons that there was a congestion of ships at DSM port which created inconveniences to the contractor to continue with the work. This termination of the contract made the Authority to pay Tshs.1,656,951,883 being standby charges of the equipment which were idle at the time the Authority failed to handover berth No.7. Out of standby charges (Tshs.1.65 billion), only Tshs.641,843,640 was timely paid to M/s Oceana Advanced Industries Ltd. The remaining balance of Tshs.955,337,748 was settled in April, 2011 nine (9) months later due to prolonged discussion by management on settlement of the final payments. This delay caused another charges of interest to the Authority amounting to Tshs.584,634,002. According to my review this contract was not properly managed to the extent that it led to an expenditure of Tshs.2,241,585,885 for which TPA did not get value (nugatory expenditure).

3.5.5 Remittance of Statutory Deductions to Social Security Funds

At the Open University, Management did not timely remit their statutory deductions of Tshs.2,481,335,718 to the respective Pension Funds. The same scenario was also seen at Mtwara Urban Water Supply and Sewerage Authority, TEMDO, DAWASA, CARMATEC, Institute of Adult Education, CMSA and Singida Urban Water Authority.

According to the Treasury Circular with Reference No C/BA 54/ 328/01/15 dated 19th July, 2011 all public offices were informed on the new procedures for deducting and remitting pension and national health care contributions. Under the Circular, the Treasury on behalf of the respective employers was to take responsibility for the payment of the employers' portion of pension contributions to - PSPF, LAPF, PPF, NSSF, and GEPF as well as NHIF.

3.5.6 Non Compliance with Government Circular to Pay Pension to Contract Employees by NSSF

Government circular with reference number C/AC.45/257/01/Temp./26 of 1st December, 2009 requires employees who are under contract for a specified period of time to be paid gratuity when the contract ends and not pensions. Employees who are under unspecified period of time are required to be paid a statutory percentage of contribution as per the requirement of specific employee scheme and not gratuity. During the year 2011/2012, I observed that NSSF did not comply with the Government circular by paying Tshs.13,062,476 to contract employees and Tshs.1,965,035,779.91 to permanent employees as gratuity. These are ineligible expenses and liabilities due to non compliance with Government directives.

3.5.7 Inappropriate Appointment of Board of Directors and Management of Kariakoo Market Corporation by the City Director

Section (5) (2) (a-b) of the establishing Act of Kariakoo Market requires that the Chairman of the Board of Directors be appointed by the President of URT and other Board members to be appointed by the responsible Minister.

I observed that the Corporation has been running without a properly constituted Board of Directors since year 2000 whereby the Advisory Council was appointed by the Dar es Salaam City Council. Also, the General Manager who is supposed to be appointed by the President was appointed by the Minister contrary to Section 5 (4) of the same Act.

3.5.8 Liquidity Problems at the Tanzania Broadcasting Corporation

In my previous report I noted that, Tanzania Broadcasting Corporation (TBC) had reported an operating loss of Tshs.1,589,611,168 (2011:Tshs.3,547,006,716). Also I noted that the Corporation is technically insolvent with a net liability position of Tshs.2,737,723,752 (2011: Tshs.1,135,630,509) and largely depends on Government's financing in meeting operational needs and its obligations as and when they fall due in the foreseeable future. These conditions cast significant doubt about the Corporation's ability to continue as a going concern entity.

3.5.9 Deteriorating Going Concern Status of PSPF

In my previous report, I observed that the last actuarial valuation that was undertaken during the year ended 30thJune, 2010 was done by Genesis Actuarial Solutions Limited, an independent firm of actuaries and consultants. The outcome of the valuation indicated that the financial position of the Fund continued to deteriorate where the valuation revealed an actuarial deficit of Tshs.6.487 trillion as at 30thJune, 2010.

I also noted that the Government made a commitment initially in year 2011 to refund the benefits paid by the Fund from year 2004 to 2010 amounting to Tshs.716 billion. The amount was to be paid on annual installments of Tshs.71.6 billion over 10 years starting from year 2011. As at 30thJune, 2012 the overdue amount relating to 2011 and 2012 was Tshs.133 billion.

3.5.10 Increased Poaching Incidences at TANAPA

In my previous report I noted from quarterly reports of the protection department of TANAPA that poaching activities especially on elephants has substantially increased. According to the data extracted from seven parks a total of 110 elephants were killed during the year 2011/2012.

I also noted some measures taken by TANAPA in collaboration with Ministry of Natural Resources and Tourism and the whole government in preventing and combating poaching activities in the country like Operation "TOKOMEZA', increase patrol man, involvement of police force, strengthening poaching intelligence unit, improving working tools, establishing rapid response team and others.

Currently poaching is a national and international outcry of which if not controlled in few coming years will endanger the survival of wildlife in Tanzania. In this regard, the government in collaboration with other stakeholders should find a mechanism to stop the situation which is a bad signal for wellbeing of wildlife in our country.

3.5.11 Two Containers of Library Books from Children International (Donors) not cleared at the Dar es Salaam Port Since 2009 by TLSB

In my previous report I reported that Tanzania Library Services Board has failed to clear the books consignment at Dar es Salaam Port since 2009. The library books were still at the Port at the end of financial year 2012/2013 pending settlement of custom duties and demurrage charges. According to TLSB management explanations, the cost stood at Tshs.147million.

Although the Paymaster General did to respond to this recommendation, I have noted some communication made by the Minister of Education and Vocational Training to the CEO of Tanzania International Container through his letter with Ref. PMU HA63/193/01/55 dated 8th January, 2014. The Minister applied for a waiver of storage charges of containers No MSKU 6144377 and MSKU 6775794 for Tanzania Library Services Board. As of 7th March, 2014 my recommendation is still outstanding as evidenced by feedback from TLSB management that the containers are yet to be cleared.

3.5.12 License Fees Paid to TCRA by TBC on Behalf of Star Media Tshs.618,300,000

I observed that Tshs.618,300,000 was paid to Tanzania Communication Regulatory Authority (TCRA) on behalf of Star Media (Tanzania) Limited in the financial year 2010 in respect of license fees. However, Star Media (Tanzania) Limited has a performance contract signed with Tanzania Investment Centre whereby Star Media (Tanzania) Limited has been exempted from paying license fee from its inception for a period of ten years and has thus disputed recognizing the amount as TBC's advance towards Star Media's share capital. Further, Star Media (Tanzania) Limited incurred a loss of USD 710,456 during the year under review (USD 1,463,253,158 for its first 18 months for the financial period ended 31st December, 2010). No recording has been made in the financial statements regarding the value of TBC's share of losses in Star Media (Tanzania) Limited.

3.5.13 Operating NDC Plot No. 2338 Mbezi Beach, Bagamoyo Road Without Rental Agreement

I observed that the NDC does not have a rental agreement with the current occupier of the property, Messrs Vignan Education Foundation (IMTU) whose agreement 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 Tshs.60 million determined by a professional valuer. The Pay Master General did not respond on this recommendation and hence I do not know the status of implementation of my recommendation as of 7th March, 2014.

3.5.14 House of the Sugar Board of Tanzania Occupied by the Former Minister of Agriculture

I observed that the Board has a plot No.482 along the Bray Road Masaki. For a long time the house has been occupied by the former Minister of Ministry of Agriculture, Food Security and Cooperatives. Despite efforts made by the Board to repossess the property from the occupant as per letter written to the Chief Secretary, and the latter's promise to return the same by December 2011, the property is yet to be returned to the Board. Continuing to hold the Board's property by former Minister of Agriculture, Food Security and Cooperatives implies that the Board is being denied the right to use its rightful property to yield income and this makes the ownership of the property by Sugar Board of Tanzania to be uncertain. The Pay Master General did not respond on this recommendation and hence

I do not know the status of implementation of my recommendation as of 7th March, 2014.

3.5.15 Usafiri Dar es Salaam (UDA)

(a) Sale of UDA Shares

CHC was the one mandated to authorise the sale of UDA shares and not UDA's Board of Directors as it was conducted. In July 2010, CHC advised the Board of Directors of UDA to seek Government approval before proceeding with the sale of UDA shares. The Board did not obtain such approval before the sale of the unalloted shares of UDA.

UDA was valued at Tshs.744.79 per share in October 2009 and Tshs.656.15 per share in November 2010. However, the Board of Directors of UDA gave a 60% discount on the value to the prospective investor (based on the October 2009 valuation) without any clear basis and the reason of doing so, thus yielded Tshs.298 per share from Tshs.744.79 as per the valuation report of October 2009 which automatically led to an apparent loss of Tshs.1,558,694,380 to UDA.

Further, the Board of Directors of UDA entered into a contract with the buyer(investor) to buy the un-allotted shares totaling 7,880,303 at a price of Tshs.145 per share for a total price of Tshs.1,142,643,935 instead of Tshs.744.79 per share as per valuation report that would have yielded Tshs.5,869,170,871. This in turn caused a loss to UDA amounting to Tshs.4,726,526,936. Therefore by using the price of Tshs.298 and Tshs.145 per share instead of Tshs.744.79 for all the shares it led to a loss amounting to Tshs.6,285,221,316 (Tshs.1,558,694,380 +Tshs.4,726,526,936) to UDA.

The buyer (investor) paid Tshs.145 per share thus paid a sum of Tshs.285 million against a valuation of Tshs.744.79 or Tshs.656.15 per share. The Board of Directors of UDA further approved the price of Tshs.145 per share on the unallotted shares, giving a further discount of 53% as compared to the earlier price of Tshs.298.

(b) Valuation Report of UDA Shares and Property

The valuation of share reports prepared on 30th October, 2009 and 15th November, 2010 covered the revaluation of property, plant and equipment performed in August 2009 but the revaluation did not consider the computation of Net Assets; and Liabilities totaling Tshs.473,241,498 that were reported to be taken up by the Treasury-Registrar.

(c) Confirmation of the Amount Paid by the Purchaser

The contract for share subscription dated 11th February, 2011 states that the investor (Buyer) was to pay a sum of Tshs.1, 142,643,935 in consideration for the purchase of all un-allotted shares of UDA; although the contract did not specify the bank account into which payments could be made. The investor paid a sum of Tshs.285 million in to account 01J1021393700 at CRDB Bank belonging to UDA. There have been no further payments by the investor in respect of the purchase of UDA shares. This payment is equivalent to 24.9% of the agreed sale price.

The investor claims to have paid the former Chairman of UDA Board of Directors a sum of Tshs.320 million as a commitment fee in late 2009. The Chairman admitted receiving Tshs.320 million in his personal account from the investor as '*consultancy fees'* for services he claimed to have provided to the investor which raises a serious conflict of interest issues.

CHAPTER FOUR

SIGNIFICANT MATTERS NOT REPORTED IN THE PREVIOUS YEAR'S REPORTS

4.0 Introduction

This chapter highlights significant matters considered worth reporting, which relate to the previous year's audit of some of the Public entities which were not included in my previous year's general report due to various reasons beyond my capability.

According to Section 31 of the Public Audit Act No.11 of 2008, all PA&oBs are required to submit their financial statements to CAG for audit within three months after the end of the financial year to which the accounts relate. Since there has been a considerable non compliance with this provision by PA&oBs, some of the audits have been going beyond the reporting period causing failure on the part of the CAG to report the same in the current year. It is important to understand that Public Authorities, whose audits has not been completed on the statutory due dates and therefore not reported in the current year's general report, will be included in the forthcoming annual general report.

At the time of writing last year's general report (2011/2012) which was submitted to the President towards the end of March, 2013, only 95 audits of Public Authorities were reported. The remaining 79 were in various stages of completion due to various reasons including late submission of financial statements, lack of Board of Directors to adopt the financial statements, failure of some of the auditees to respond to the audit observations on time etc.

Significant matters which were not reported in my previous year's general reports which are considered worth reporting in the current year's General Report includes:

4.1 Revaluation of Assets Not Done for More than Nine (9) Years at TAFIRI

IAS 16 Para 34 require assets of an entity to be revalued when the fair value of the assets differs materially from its carrying amount. Further, the standard requires the assets with insignificant changes in fair value to be revalued after every three to five years. However for Tanzania Fisheries Research Institute (TAFIRI), revaluation of PPE was not done as per the requirement of standards since the last revaluation done in 2003.

For that reason, TAFIRI reported some assets which are still in use at a very small value in the financial statements thereby causing material misstatement. For example, TAFIRI reported plant & machinery at only one shilling, Fishing Gears seven shillings and marine vessels at Tshs.1.45 million. Therefore management is advised to revalue its properties and equipment or reassess their useful lives for those assets being carried at cost model without further delay to enable fair presentation of the values of PPE in the financial statements.

4.2 Funds not Released According to Approved Budget

The objectives of Export Processing Zone Authority include attracting and promoting EPZ and SEZ investments for fast tracking industrialization process, to provide efficient facilitation services to EPZ and SEZ investors, to encourage value addition of local raw materials, to create and increase employment opportunities and to increase foreign exchange earnings. The foresaid activities can be accomplished if there is availability of adequate funds.

Audit review on the annual performance report of EPZA for the year ended 30th June, 2012 noted that EPZA failed to achieve its planned activities due to insufficient funding from the Government. The approved budget during the fiscal year 2011/2012 was Tshs.4.8 billion. Out of the approved budget, EPZA received only Tshs.959.9 million equivalents to 19.8% leading to under release of funds by

Tshs.3.9 billion equivalent to 80.2% leaving most of the activities not implemented as planned.

Medical Store Department (MSD) is an autonomous body under the Ministry of Health and Social Welfare that operates on a commercial basis. MSD is responsible for its own self sustainability on financial matters. The main objective of MSD is to provide the nation with good quality drugs and medical equipment at accessible prices. MSD provides services through approved government and non-government agencies.

I noted that the disbursement of funds by the Ministry of Health and Social Welfare to MSD for the services rendered to government hospitals is not reliable and predictable. For example, during the first and second quarter of 2011/2012 the Ministry disbursed to MSD a total of Tshs.4.3 billion equivalent to 13% of the MSD budget of Tshs.32 billion. This may not only result to non achievement planned activities, but also difficult for MSD to plan for procurement of medicine and hence leading to stock out.

4.3 Procurement without Competitive Bidding

Reg. 71 of the Public Procurement (goods, works, non-consultant services and disposal of Public Assets by tender) Regulations GN. No.97 of 2005 states that "A procuring entity may procure goods, services or minor works directly from a supplier, service provider or contractor when the cost does not exceed the limit of minor value which is Tshs.10,000,000".

I noted that VETA procured items worth Tshs.109.4 million without using competitive bidding process. Moreover, the procurements were not approved by the Authority's Tender Board contrary to VETA's financial regulations. Further, at Marine Services Company I noted direct purchases of stationeries of over Tshs.80 million through a petty cash voucher. With such a huge amount of money, the company ought to have considered giving tenders to stationery suppliers. This implies that, the authority missed an opportunity to obtain a reasonable and best economical price. This system creates loopholes for perpetrating fraud.

4.4 Delays in Payment of Service Charge by M/s Blue Pearl Hotel and Apartments Ltd to Ubungo Plaza Limited Tshs.139,100,000

Service Charge is an additional fee that property owners like UPL charge tenants to meet costs of servicing the building and running common services such as water, electricity, cleaning of common areas and security. These services are deemed to be consumed by tenants and are therefore paid separately from rent.

On 19th October, 2006, Ubungo Plaza Limited entered a contract to lease half of its building to M/s Blue Pearl and Apartment (BPHA). One of the agreements was for M/s Blue Pearl and Apartment to pay service charge at a negotiable rates as have been agreed. According to documents given by property manager, M/s Gimco Africa, BPHA was supposed to pay Tshs.223 million as Service Charge in 2011 in respect of their Hotel and Conference lease.

However, the amount reported to be paid by BPHA as service charge in the financial statement for 2011 was only Tshs.83.9 million equivalents to 37.6% of the amount they were supposed to pay in 2011 leaving Tshs.139.1 million unpaid. BPHA were seen to be paying service charge on time for other smaller leases but not for this main lease. Therefore UPL board of directors has to investigate the amount of service charge payable by this tenant under their main lease, not only because BPHA is the main user of these services i.e water, electricity but also because UPL is the one who bears the burden to top up the cost incase of any deficit.

4.5 Unutilized Assets at MPANDA Vocational Training Center Worth More than 1 Billion

VETA is an autonomous government agency established under the Vocational Education and Training Act No.1 of 1994 R.E 2006 (CAP 82). Following its establishment, VETA operates across the country through its 9 zonal offices and 21 centers.

During the audit for the year ended 30th June, 2012 I noted several heavy duty workshop machines worth more than 1 billion which have been abandoned. Further, I noted some parts of abandoned machines being missing during the physical inspection. I also noted that most of supplied machines to teachers of Mpanda VTC are new in terms of technology, yet no training was provided to the teachers on how to operate them. The examples of unutilized machines includes:- thicknessing planner machine, saw spindle machine, drilling machine, rolling machine, pipe bending machine, hand drilling machine, stone polishing machine, heavy duty photocopy machine etc.

Management of VETA has to plan to move the machines to other centers that can make use of the machines. Also management of VETA has to ensure all teachers in their centers are trained on how to use new equipment rather than leaving them unutilized in some centers after spending a lot of money in the procurement of the same.

4.6 Delays in Remittance of Statutory Deductions

Statutory deductions are sums of money that employers are required by law to withhold from employees' salaries and allowance. Some examples of statutory deductions are PAYE, SDL, NHIF, PPF etc. However some public authorities such as KMC and NARCO contravened this requirement of the relevant Acts, as they did not remit the statutory deductions as required.

Kariakoo Market Corporation reported payroll related statutory deductions for PAYE, SDL and PPF amounting to Tshs.297 million that are overdue. This matter was also reported in my previous year’s report, however the corporation has continued defaulting in the submission of statutory deductions to the respective entities.

As for NARCO, there was failure to pay statutory deductions on time. During the year ended 30th June 2012, the company reported payroll deductions payable of Tshs.777.9 million which increase year after year. In the previous year NARCO reported the unpaid payroll deductions amounting to Tshs.604.6 million. Delay in the submission of these contributions exposes the concerned authorities to huge penalties and interests. Also it might deny employees their benefits on retirement.

4.7 Delays in Disbursement of Loans to Student

HESLB is currently under the Ministry of Education and Vocational Training. The Board has been entrusted by the government with the responsibility of issuing loans to students pursuing Advanced (Higher) Diploma and Degree studies at accredited higher learning institutions within and outside the country. However, as at 30th June, 2012, I noted that there were loans which were required to be paid but had not been paid by HESLB to some universities. Examples of the institution which had not received student's loans include: MUCCoB'S Tshs.500.2 million, Mkwawa University Tshs.440.8 million, Ruaha University Tshs.89.2 million and Zanzibar University Tshs.70.6 million. This situation may create misunderstanding between management of respective universities and students who are entitled to the loans. Moreover, the undisbursed amounts may affect the performance of the students who are depending on those loans.

4.8 Discontinued and Postponed Students Granted Loan

Para 2.1 of the Lending Manual of HESLB stipulates the conditions for eligibility of students loans including funding for continuing students. However, physical verification in few higher learning institutions, noted that, some discontinued and postponed students were granted loans amounting to Tshs.214.5 million (Universities in Algeria and Cuba Tshs.132 million, Dodoma University Tshs.43.9 million, IFM Tshs.28.9 million and Peoples Friendship University in Russia Tshs.9.6 million).

The students were granted loans without considering outcome of their examination as stipulated in the Board's financial regulations hence denying eligible students opportunities to acquire loans. This might fuel misuse of funds by Universities and loss of public funds due to failure by the Board to recover this money from these beneficiaries.

4.9 Deteriorating Financial Performance at Kariakoo Market Corporation

Kariakoo Market Corporation (KMC) is a corporate body to manage and control Kariakoo market and establish other markets in the city of Dar es salaam. In exercising its function of control, management shall have regards to political, economic and social aspirations of the people of the United Republic of Tanzania and general welfare of the public including Health.

However, the corporation has been incurring losses continuously for the past six years which has been accumulated to Tshs.1.4 billion as at 30th June, 2012. The going concern of the Market is highly threatened, as for the year ended 30th June, 2012, current assets Tshs.135.2 million, which were not adequate to cover current liabilities of Tshs.613.7 million. The Corporation's current ratio was 0.22:1 instead of the ideal ratio of 2:1. These conditions may cast significant doubt about the corporation's ability to continue as a going concern.

4.10 Poor Condition of Dormitories and Water Sanitation Infrastructure at TIA

Tanzania Institute of Accountancy was established under the Executive Agencies Act No.30 of 1997. The institute carries out academic activities, research and consultancy in areas of accounting, procurement & supplies, and other related disciplines.

The Institute has upcountry campuses at Mbeya, Singida and Mtwara. These campuses are headed by managers who report directly to the CEO. The main objective of the

Institute is to improve the quality of education, increase number of graduates passing professional exam i.e NBAA & NBMM and expanding accommodation facilities enough to accommodate more students.

During the audit I noted that, Mbeya Campus dormitories were built in 1972 with the intention of each room to accommodate two students. However, during the site visit done at Mbeya campus in January 2013 we noted that each room accommodates four students due to the high demand of student accommodation. Despite the dormitories being overpopulated but are also not in good condition. We observed roof leakage, water and sanitation infrastructure were dilapidated and were not conducive for serving the growing population.

4.11 Absence of Legal Ownership on Landed Property in Some Public Authorities

Title deeds are the legal documents showing ownership as well as obligations or mortgages on the properties. A title deed confers certain rights and privileges on the person who holds it. Such title deeds are also necessary in situations where an entity needs credits/loans from banks as they can be used as collaterals.

During the physical verification of the landed property of some Public Authorities and Other Bodies, I observed that some of the properties reported in the financial statements of the companies for the year ended 31st December, 2011 and 30th June, 2012 lacked legal ownership. The companies whose landed property lacked title deeds include:- Reli Assets Holding, KMC, VETA, NARCO, TAFIRI, TIRDO, TNBC and TPC. The implication on the problem addressed is that, the said public entities may loose rights over the assets and will have no basis for claiming them incase of disputes.

4.12 Funds Released to VETA for Capital Development Expenditure not Spent

During the review of budget of VETA against actual results, I noted that development funds which were released during the year ended 30th June, 2012 were not spent as budgeted. For example KIHONDA RVTSC budgeted for capital activities of Tshs.175 million but only Tshs.48.3 million was spent on partly implemented activities leaving Tshs.126.7 million unspent equivalent to 72.4%. For DAKAWA RVTSC, the full amount budgeted for development expenditure and current assets was Tshs.49.8 million of which only Tshs.13.7 million was spent on the partly implemented activities, leaving unspent Tshs.36.1 million equivalent to 72.4%.

4.13 Quality of Shinyanga Inland Container Depot (ICD)

Reli Assets Holding Company was incorporated in Tanzania under Tanzania Companies Act, 2002 with Certificate No. 60587. The objectives of the company includes; to develop, promote and manage rail infrastructure assets, identify and develop new railway projects and invest in railway infrastructure.

During the year ended 30th June, 2012 RAHCO made an investment worth Tshs.3.27 billion in construction of Shinyanga Inland Container Depot that was substantially completed as at the year end. As at that time management was awaiting for a certificate of completion from the contractor. However, I observed that the building had developed major cracks on inside walls. We also noticed several roof leakages suggesting that the construction work was sub-standard. Value for money in this project may not be achieved.

CHAPTER FIVE

PROCUREMENT AND CONTRACTS MANAGEMENT

5.0 Introduction

Tanzania embarked in a major undertaking of strengthening its procurement system which led into the enactment of the Public Procurement Act, 2001 which was later repealed by the Public Procurement Act No.21 of 2004. To ensure the existence of procurement compliance in Tanzania, Section 44 (2) of the Public Procurement Act (PPA), 2004 and Reg. 31 of the Public Procurement (goods, works, non-consultant services and disposal of the public assets by Tender) Regulations G.N No.97 of 2005 requires the auditor of each public entity to state in his annual report whether or not the audited entity has complied with the procurement law and its Regulations.

This chapter contains audit findings relating to procurements and management of contracts from the respective management audit reports of PA&oBs during the year under review. Audit of procurement contracts was conducted during the routine audit of the financial year ended 30th September, 2012, 31st December, 2012 and 30th June, 2013.

5.1 Compliance with Procurement Legislations

According to Section 3(a) of PPA, 2004, procurement means buying, purchasing, renting, leasing or otherwise acquiring any goods or works or services by a procuring entity spending public funds on behalf of a ministry, department or regional administration of the Government or public body. Procurement includes all functions pertains to the obtaining of goods, works or services. Also include description of requirements, selection and invitation of bidders, preparation and award of contracts. The following observations were raised during the audit of procurement;

5.1.1 Interference of Functions between Procurement Pillars

Section 37 of the PPA, 2004 requires all tender evaluations to be conducted by an evaluation committee, which reports to the Procurement Management Unit (PMU). According to the Act, membership of the evaluation committee should be recommended by the PMU and approved by the Accounting Officer (AO) or Chief Executive Officer (CEO). Section 38 of the same Act requires the evaluation committee, PMU, AO, TB and user department to act independently in relation to their functions and powers.

Audit of procurements noted instances whereby evaluation committee consisted of members of PMU which may impair their independence. This weakness was identified during the procurement audit of Local Authority Provident Fund (LAPF), Moshi University College of Co-operative and Business Studies (MUCCoBS) and Ngorongoro Conservation Authortity Area (NCAA). In another instance I noted evaluation committee members were appointed by Head of PMU instead of being nominated by Head of PMU and approved by the Accounting Officer or CEO contrary to section 37(2) of PPA No. 21 of 2004.

At TANESCO tender No. PA/001/10/HQ/N/024 for establishment of disaster recovery data at KIDATU hydro station valued Tshs.1.8 billion (USD 1,225,703.37), the user department interfered the procurement process by issuing a memo No. CITO/GEN/120 that suggested the method of procurement and the supplier M/s Infratech Ltd and Comfix & Engineering Ltd; Further, Senior Manager within the user department suggested a supplier M/s Total (T) on tender No.PA/001/11/HQ/G/121 for supply of lubricants (CAPRANO SPECIAL 30) at USD.711,139 (Tshs.1,137,822,400) for Thermal Generation through Memo No.CMTG/ Procurement dated 21/9/2011. Furthermore, on tender No PA/001/10/HQ/W/033 worth Euro 1,172,741 the user department Senior Manager Thermal Generation through memo No.SMHG/SPECS/PAN/02 dated 11/06/2010 suggested restricted tendering to be used. By so doing it impaired and interfered the functions and power of PMU.

5.1.2 Unapproved Procurements Following Ineffective Annual Procurement Plan

Section 45 of the PPA 2004, requires the procuring entity to plan its procurement in a rational manner and in particular (a) avoid emergency procurement wherever possible;(b) aggregate its requirements wherever possible;(c) make use of framework contracts wherever appropriate to provide an efficient cost effective and flexible means to procure works, services or supplies that are required continuously or repeatedly over a period of time. My review of procurement procedures regarding preparation and use of Annual Procurement Plan noted that some of PA&oBs prepared their APP but the same were not advertised in the website and in newspapers within the country as required by Reg. 24 of the Public Procurement (Selection and Employment of Consultants) Regulations, 2005 G.N. No.98 of 2005. This non compliance was noticed at Mtwara Urban Water and Sewerage Authority (MTUWASA) and Tanzania Telecommunication Company Ltd (TTCL) where management failed to prepare effective annual procurement plans for the financial years 2012/2013 and 2011/2012 respectively.

At Ngorongoro Conservation Area Authority (NCAA), I noted deficiencies in the preparation and implementation of Annual Procurement Plan for the year 2012/2013 which was not fully integrated with the expenditure budget such that, three procurements made during the year were not in the plan. These are; tender No.AE/055/2012-13/HQ/G/05 for Transportation of 900 tons of maize from SGR Arusha to NCAA Masai residents at a cost of Tshs.69,957,500, purchase of server Soft Ware – Citrix Xen APP costing USD 12,300 and consultancy services for preparation of application forms to detailed proposal for Laetoli – Ngorongoro Geopark project at a contract price of Euro 15,000. Further, the APP was not updated to include the actual procurements carried out and most of the planned procurements were not implemented.

5.1.3 Lack of Goods Inspection and Acceptance Report

It is the requirement of PPA, 2004 and its regulations of 2005 that the goods procured by procuring entities should be inspected to confirm whether they meet the required specifications and needs of users. In this regard therefore, Reg.126 of G.N No.97 of 2005 requires the goods delivered by the supplier to be inspected, sampled and tested by the receiving entity and that goods shall not be accepted unless they comply with the provisions of the contract. My review of procurement procedures at TPA revealed that the Authority procured 25 units of motor vehicles from Toyota (T) Ltd but the relevant quality assurance procedure was not performed contrary to the above regulation.

5.1.4 Non Preparation of Monthly Procurement Reports

Section 35 (o) of the PPA, 2004 requires the PMU of the procuring entities to prepare monthly procurement reports for the TB to facilitate the control and management of the procurement processes. Procurement audit at TPA revealed that the Authority's PMU did not prepare monthly procurement reports which would have facilitated the quick review of the procurement process. At the College of Business Education (CBE) it was reported that the PMU did not prepare the monthly procurement reports as per the requirement of the law while at Ngorongoro Conservation Area Authority, the PMU delayed submission of the reports for 8 months (July 2012-February 2013) for unexplained reasons. This weakness caused slow implementation and progress of various procurement activities at the Authority and it is contrary to section 35 (o) of PPA 2004.

5.1.5 Prolonged Time for Procurement Processes

According to the third schedule of the PPR, 2005 (GN 97), the standard procurement processing time on National Competitive Tendering is 123 days while on International Competitive Tendering is 130 days.

Review of procurement procedures for some of PA&oBs noted significant delays in the procurement process of various tenders contrary to the requirement of the law. At

Tanzania Ports Authority I noted that DSM Port planned to carry out 44 tenders which took an average of 12 months (more than 490 days) to process tenders. This period is longer than the required time taking into account the procurement method used.

At TANESCO, the procurement process for tender No.PA/001/10/HQ/N/024 worth USD 1,225,703.37 (Tshs.1.8 billion) made under restricted tendering method took 21 months (July 2010 to March 2012); Tender No.PA/001/11/HQ/G/121 USD 711,139 (Tshs.1,137,822,400) for supply of lubricants under single source took 8 months; Tender No. PA/001/10/HQ/W/033 for installation of operational station at New Pangani falls under restricted tendering took 10 months. This period is longer than the required time.

5.1.6 Splitting of Procurement Lots-to Favour the Use of Quotations

According to the second schedule of the PPR, 2005 (GN 97) procurements using a quotation method are only limited up to a value of Tshs.80,000,000 for goods, Tshs.100,000,000 for works and up to Tshs.50,000,000 for non consultancy services.

Further, section 59 (1) of the PPA,2004 states that, a procuring entity engaging in the procurement of goods, works or services or disposal by tender shall apply the relevant competitive tendering procedure.

During the audit of TPA, I noted that the Authority procured goods worth Tshs.4,594,524,000 by splitting the procurement lots into small orders to suit the use of quotations contrary to requirement of the second schedule of the PPR,2005 (GN 97) and section 45 (d) of PPA, 2004.

5.1.7 Inadequate Staffing Under PMU

In the review of the functions of PMU it was revealed that some of PA&oBs had insufficient number of staff in their Procurement Management Units contrary to the law.

According to section 34 (2) of PPA of 2004, the PMU in order to efficiently discharge its functions it must be staffed to its appropriate level at technical and managerial levels. The insufficient number of staff at Procurement Management Units was noted in the audit reports of DAWASA and BUWASA.

5.1.8 Inefficiencies in the Management of Contracts

The audit of STAMICO accounts for the year ended 30th June, 2013 revealed outstanding invoices amounting to Tshs.228,375,000 issued to Tanmin Mining & Explore Ltd (Option holder) after the company returned prospecting licenses it acquired from STAMICO under an agreement signed on 30th July, 2010. My review noted that the mining company did not transfer the prospecting licences into the name of STAMICO contrary to Tanzania Mining Act.

I also noted that STAMICO on 1st September, 2010 entered into an agreement with the Ministry of Energy and Minerals whereby, the Ministry agreed to issue a loan of Tshs.200 million to support establishment of equipment under hire purchase scheme for Lwamgasa small scale miners in Geita District. Under this agreement the Ministry disbursed Tshs.60 million (30%) to establish and operate the Centre for the scheme and a balance of Tshs.140 million (70%) for the procurement of mining and processing equipment. According to the condition of the loan, the Centre was required to pay 6% interest on the loan in 54 equal installments starting six months after the disbursement from the Ministry was done. Until the time of writing this report March, 2014 no equipment had been procured and no repayment had so far been effected by STAMICO.

At Tanzania Ports Authority, it was reported that the Authority contracted M/s Canopies International (T) Ltd to construct a Jetty at Kiwira –Lake Nyasa at a price of Tshs.1,578,875,000. This contract was planned to be completed after twelve (12) months from the date of signing the contract on 2nd August, 2012 but up to the time of writing this report March, 2014, the contractor had not yet finished the construction. I also noted weaknesses in enforcing the terms to this contract whereby the contractor was required to deliver a brand new one unit 4WD Double Cabin Pick-up and to supply and fix a new generator at a water tower building. These working tools could not be supplied by the contractor despite its cost being included in the contract price. The weaknesses in management of contracts was also reported in the tender for construction of a security fence at Kiwira Port costing Tshs.418,132,413 contracted to M/s Alutech Engineers (E.A) LTD who failed to discharge his duties as per agreement.

The audit of Medical Store Department (MSD) reported significant delays in the delivery of drugs/goods after call-off orders have been placed whereby among the call-offs issued, only 36% were delivered on time. My review noted that the penalties stipulated in the respective contracts for late deliveries were not charged and no action has been taken by management to suppliers.

At Ngorongoro Conservation Area Authority (NCAA) significant delays were reported in contract implementation by the contractor. These delays caused the slow implementation of strategic objectives of the Authority. In all these scenarios, no penalties were imposed to the suppliers/contractors in line with regulation 121, 122 and 123 of GN.No.97.

Audit of TANESCO noted delays in renewal of contract for security services at Mara Regional Office stations costing Tshs.43,282,400 VAT inclusive. This contract expired on June 2012 and the request for renewal or hiring a service provider was sent on the same day to TANESCO HQ but was not acted on up to the time of concluding the audit May 2013. That being the case, TANESCO Mara region continued to receive service for 8 months (June 2012 to February 2013) and pay the service provider without any contract until when the new contract was signed in February 2013.

The company also was noted to have used USD 1,711,939 to compensate one contractor for an unnecessary idle time the contractor spent before starting the project and land owners M/s MGS International (T) Ltd Tshs.1,638,111,700 and M/s MPS Oil (T) Ltd Tshs.1,175,419,500 at Kurasini due to lack of due diligence and lack of ownership of the land where to implement the project. Also I noted that the consultant increased consultancy fee from EURO 1,702,181 to EURO 2,551,091 an increase of about EURO 848,910 without the authority from the tender board. There were no reasons given by management for not conducting due diligence before commencement of the project.

On 26th October, 2012 TANESCO entered into another contract with East African Fossils under emergency procurement for supply of 4,536,000 litres of Gas Oil for Agreko generating power plant at Tegeta and Ubungo costing Tshs.10,115,280,000. In this tender, the Company had the knowledge in advance about expiry of the contract in October 2012 but no action was taken. Instead an emergency procurement method was opted without justifiable reasons as stipulated under Reg. 42 of the Public Procurement Regulations of 2005.

5.1.9 High Tendering Procurement Transaction Costs at NCCA

According to Section 58(2) of PPA No.21 of 2004, all procurement and disposal of public assets shall be conducted in a manner to maximize competition, and achieve economy, efficiency, transparency and value for money. One way of achieving economy and value for money is through reducing procurement transaction costs. It is the responsibility of the Chief Executive Officers to ensure that transaction costs are reduced and to hold responsible employees who do not strive to ensure that value for money is achieved in all procurements carried out by their entities.

Further, Section 89 of the Act gives PPRA mandate to issue guidelines from time to time for better carrying out of its objectives or any functions under the Act. Using this mandate, PPRA on 7th July, 2007 issued a guidance through circular Ref. No: PPRA/CPR/253/41 to PEs on reduction of procurement transaction costs.

My review of compliance to PPRA circular on procurement transactions cost at Ngorongoro Conservation Area Authority noted that the Authority incurred Tshs.268,730,596 as compared to Tshs. 182,571,530 in the previous year which is an increase of 47%. The analysis shows that the tendering process at NCAA took an average costs of Tshs.7,678,017 per single procurement done.

5.1.10 Procurement of Goods and Services without Tender Board Approval

My review on the compliance with Section 30 of PPA, 2004 relating to approval of tenders by the tender board noted that some of the PA&oBs engaged in procurement of goods and services without prior approval of their tender boards. I noted this weakness during audit of PSPF procurement processes whereby tenders for supply of air tickets from M/s Antelope Tours and Travel Services Ltd were not approved by the tender board and there was no contract for the provision of this service between PSPF and the supplier. I also noted that the Fund procured fuel from Petals International Co. Ltd and SUPCO station and carried one service of its motor vehicles at Toyota Tanzania and PATEL Trading Company at a total costs of Tshs.128,853,916 that were not approved by the Fund's Tender Board. This is contrary to section 30 (a)-(g) of PPA 2004 and Regulation 80 (1) -(7) of G. N. No. 97 of 2005.

In this year's review it was also reported that Tanzania Coffee Board (TCB) contracted a firm to decorate the Morogoro and Dodoma Nane Nane Pavilions for Tshs.36,426,500 without TB approval. At Morogoro Urban Water and Sewerage Authority (MORUWASA) the authority procured computers and hardware costing Tshs.23,498,600.00 without going through competitive tendering process. At Mtwara Urban Water and Sewerage Authority it was noted that the Authority procured goods worth Tshs.17,976,030 without following procurement procedures such as approvals from TB. This was also the case with Mbeya Urban Water and Sewerage Authority where, some of the procurements were made from suppliers not approved by Authority Tender Board.

Audit test on sampled procurements at National Housing Corporation (NHC) for the year under review revealed that most of the floated tenders were not properly approved by the Corporation's Tender Board. These non compliances were also noticed at Tanzania Postal Bank, Tea Board of Tanzania and Ngorongoro Conservation Area Authority where Tshs.75,252,000; Tshs.8,315,470 and Tshs.2,033,526,382 respectively were used to acquire goods and services without tender board approval contrary to section 31(1) of PPA, 2004 and Reg.54 (1) of G.N.No.97 of 2005.

5.1.11 Procurement of Services from Unapproved Suppliers at TPA

Section 46.(1) of the PPA,2004 states that in order to participate in procurement proceedings, suppliers, contractors and consultants have to qualify by meeting appropriate criteria set out by the procuring entity and, where appropriate, by the approving authority for those particular procurement proceedings. Further, section 47 of PPA,2004 gives an option for a procuring entity to engage in pre-qualification proceedings with a view of identifying suppliers, contractors or consultants either prior to inviting tenders for the procurement of goods, works or services, or after taking part in any other procurement proceedings.

Following the dissolution of the Dar es Salaam Port Tender Board at TPA and shifting of the functions of this delegated TB to TPA-HQ, the Port engaged in procurements using quotations from various suppliers. We noted cases whereby the suppliers from which procurements were being made, were not in the approved suppliers' database.

5.1.12 Procurement Made without Competitive Bidding

Audit of CARMATEC procurement records revealed that the Centre paid Tshs.121,181,000 to M/s Mngara General

Enterprise of P. O. Box 5388 Tanga being cost for supply of raw materials for M/s Rural Energy Agency (REA) project to be delivered to Shinyanga and Kasulu – Kigoma. This tender was not advertised and before awarding the tender, there was no mechanism to evaluate reasonableness/ competitiveness of the prices quoted. It is logical to assume that appointing a supplier from Tanga to deliver goods to Kasulu and Shinyanga will inevitably involve higher prices because of the distance considering the fact that the procurement was made using a single source procurement method.

At Ngorongoro Conservation Area Authority (NCAA), I noted deficiencies in selecting procurement methods whereby, procurements costing Tshs.1.6 billion were made through single source without justifiable reasons as stipulated in the procurement law. Further, audit review noted that the Authority used biased specifications for purchase of some goods that were prepared in a manner that limits competition and favours one supplier. In this scenario, I noted the use of brand names instead of neutral specifications in the procurement of motor vehicles contrary to the requirements of Reg. 8(5) of the Public Procurement (goods, works, non consultant services and disposal of public assets by Tender) Regulations of 2005. Procurements in question were on purchase of a New Ford Ranger costing Tshs.63,537,900 and two new Land Rover Defender at a cost of Tshs.209,447,141.

5.1.13 Inadequate Documentation of Procurement Records

During audit of procurement procedures, we noted some inadequacies in record keeping for procurement documents in some of the PA&oBs. At TANAPA we noted existence of an improper record keeping system with regard to filing procurement records contrary to Sec 56 of PPA, 2004 and Reg.19(1) of GN. No 97 of 2005. This was also the case with Bukoba Urban Water and Sewerage Authority (BUWASA), Kahama Urban Water and Sewerage Authority (KUWASA) and Medical Stores Department (MSD).

5.1.14 Lack of Contracts and Supporting Information for the Procurements Made at TPA

The audit of Tanzania Ports Authority revealed procurement of fuel worth Tshs.2,805,380,348 from M/s PUMA Energy that was made without having any valid contract with the supplier. Follow up on the matter noted that, the PMU at Dar Port was only provided with a copy of the contract from TPA HQ which forms 1/8 of the entire contract signed on 18/1/2011 running for 2 years on a framework contract basis. The full contract document could not be availed for review. This review also revealed an expenditure of Tshs.364,499,473 paid to M/s Southern Engineering Co in respect of contract for Dry Docking for Berthing Tug Elizabeth Luhigo. Another payment of Tshs.584,634,002 was paid to M/s B. M. BENMAR Marine LTD for repair and maintenance of Berth 1-11 and KOJ at DSM Port that were not supported with the contract between the Authority and the Contractors.

5.1.15 Procurements Made out of the Procurement Plan and Budget

Regulation 46(9) of GN No. 97 of the PPR of 2005 states that the procuring entity shall draw up procurement plans for those requirements which have sufficient funds in the current vote sub head, or if payment will be due in a subsequent financial year, have been budgeted.

Review of the procurements made during the year by National Housing Corporation (NHC) noted that goods and services worth Tshs.127,349,426 were procured without being provided for in the corporation's budget and procurement plan. This weakness was also reported at Ngorongoro Conservation Area Authority where six procurements in the financial year 2012/13 were conducted outside the budget set by NCAA. This deviation led to additional costs of Tshs.1,297,989,446 to the Authority.

5.1.16 Overlapping of Tenure of Appointment for Some of the Tender Board members

Clause 3(1) of the second schedule to the PPA No 21 of 2004 states that the chairman and members of the board shall be appointed for a period of three years and shall be eligible for reappointment for a further three years period. However, my review of membership of the Consolidated Holding Corporation (CHC) Tender Board noted that some of the tender board members have overlapped the required tenure of appointment without justifiable reasons contrary to PPA, 2004 and its Regulations of 2005.

5.1.17 Wide Advertisement of Bid Opportunities not Complied to Procurement Law

While reviewing compliance with the Public Procurement Act 2004 and its Regulations of 2005, I observed that some of the PA&oBs did not advertise their bid opportunities in the mass media as required by the law. This was noted in the audit of the Gaming Board of Tanzania whereby bid opportunities were not advertised in widely circulated media as required by Regulation 80 (5) of the G N No. 97 of 2005. Non disclosure of various tender opportunities was also observed during the audit of Ngorongoro Conservation Area Authority (NCAA) which did not issue and publish a General Procurement Notice (GPN) to inform the public on the various tender opportunities available during the year under review. The same weakness was reported in the audit of Mtwara Urban Water and Sewerage Authority where public advertisement for bid opportunities was not done during the year.

5.1.18 Inconsistency Between Contract Price and Award Price at TANESCO

TANESCO entered into contract on 29/08/2012 with M/s SAFT AB LTD for supply of batteries for grid substations. During the review I noted that the bid document submitted by M/s SAFT AB LTD together with the award letter showed a price of EURO.176,358 while the price on the contract signed on 29th September, 2012 was EURO 210,283. This difference was explained by management that it was caused by a typing error despite the fact that the advance payment to the contractor was made basing on the erroneous figure of EURO 210,283.

5.1.19 Extra Cost of USD 5.9 Million (Tshs.9.5billion) Due to Inadequate Feasibility Study

In my review of contracts management at TANESCO, I noted that there was inadequate feasibility study carried out regarding environmental impact assessment of a project for the supply of heavy fuel by M/s SEMCO Maritine AS and Rolls Royce Maritime AS which did not satisfy the guarantor (World Bank). This situation led to an extra assessment that delayed the project for 10 months and resulted into an incremental contract price by USD 5.9 million (Tshs.9.5 billion).

5.1.20 Procurement Processes Exceeding Threshold under Single source and Restricted Tendering at TANESCO

(i) Review of tender No.PA/001/10/HQ/N/024 on disaster recovery plan which was awarded to M/s Infratech Ltd and Comfix & Engineering Ltd at a contract price of USD 1,225,703.37 (Tshs.1.8 billion-VAT exclusive) noted that the contract price exceeded the threshold limit of restricted tendering which is Tshs.200 million for non consultancy. In this review it could not be evidenced that the Company sought a permission or notified PPRA within 14 days of the procurement as it is required under section 31 (3) of PPA, 2004.

(ii) I also observed that, there was inconsistency in the evaluation criteria for this tender where the selected bidder was not the lowest evaluated bidder as its price of Tshs.1.8 billion VAT exclusive (2.124 billion VAT inclusive) was higher than the other supplier M/s Techno brain who quoted Tshs.1.9 bill VAT inclusive but it was rejected on the ground that its price was too high compared to price quoted by M/s Infratech Ltd and Comfix & Engineering Ltd Tshs.2.124 billion (VAT inclusive).

(iii) In another case, the Company entered into a procurement contract under single source with M/s Itron Measurement and Systems (Pty) Limited on 31st October, 2012 for the supply of Eclipse Manager and EVG license at a contract price of EUR 665,967 (Tshs.1.3 billion). This transaction exceeded the threshold limit for single source method stipulated in the 2nd schedule of PPR of 2004 which is Tshs.100 million. There was no evidence as to whether the Company notified the PPRA within 14 days of the procurement, as per the requirement of Section 31 (3) of the PPA of 2004.

(iv) TANESCO exceeded the threshold on tender No.PA/001/11/HQ/G/092 which was for the supply, installation and commissioning of two (2) 90 MVA, 132/33 KV. The contract price was USD 4,570,195 and Tshs.238,663,239 respectively under restricted tendering method. The threshold for this procurement method is Tshs.400,000,000 for goods.

(v) On tender No.PA/001/11/HQ/G/121, it was revealed that TANESCO entered into a single source contract with M/s Total Tanzania Limited on 27th August, 2012 for the supply of lubricants (CAPRANO SPECIAL 30) for ABC-12 VDZC engines at a contract price of USD711,139 (Tshs.1,137,822,400) inclusive of EWURA Levy and VAT. My review revealed that the contract price exceeded the limit for single source as stipulated in the Second Schedule of PPR GN No. 97 of 2005 which is Tshs.500 million for single source of goods and was not communicated to PPRA contrary to Section.31 (3) of PPA of 2004.

(vi) On tender No.PA/001/10/HQ/W/033 for installation of operation stations at Pangani, TANESCO incurred Euro.1,172,741 under restricted tendering which exceeded the threshold of Tshs.1,500,000,000 (works restricted tendering).

(vii) Tender No.PA/001/12/HQ/N/034 for transportation of 11 transformers in Dar es Salaam and Shinyanga under restricted tendering awarded to M/s Usangu Logistics Tanzania Ltd valued Tshs.256,710,000 of which its limit is Tshs.200 million for consultancy tendering and Tender No.PA/001/11/HQ/G/125 for supply, installation, testing and commissioning of 2 transformers worth Tshs.7,879,897,851 exceeded the threshold of Tshs.400,000,000 for goods restricted tendering stated under section 31(3) of PPA No.21 of 2004.

5.1.21 Weaknesses Noted on the Tender for Supply and Installation of Optical Fibre Cable Free Span-TANESCO

My review of tender No PA/001/11/HQ/W/023 for supply and installation of Optical Fibre Cable Free Span between Switch Yard and Dam Site at Kidatu Hydro-Power Plant awarded to M/s Supertech Limited at a contract price of USD 91,655.50 (Tshs.148,481,100) revealed that the secretary to the tender board vide memo No. SMP/MP/PMU/31/59 dated 27th January, 2012 requested to the Tender Board to approve re-evaluation of the tender by including other two bidders, namely M/s Misiga Communications and Primetech Offices & School Solutions with a reason that they also comply with the requirements and that they had quoted a lowest price compared to the recommended bidder (M/s Supertech Limited).

The Tender Board in its meeting held on 13th February, 2012 approved the re-evaluation to be conducted before award of the contract. However, there was no proof that the re- evaluation was done as recommended before the tender been awarded to M/s Supertech Limited. I did not find tender board minutes for the award of this tender which is contrary to section 30 (a) of the PPA of 2004. This situation creates doubts for the justification made to award contract to M/s Supertech Limited.

5.1.22 Emergency Procurement Exceeding Authorisation Limits not Approved by Pay Master General

My review of Tender No.PA/001/12/HQ/N/027 for an urgent repair and service of damaged transformers (15,000k VA) at TANESCO revealed that the method used did not get approval from the PMG. This tender was awarded to M/s ABB Ltd at a contract price of Tshs.264,320,000 under emergency procurement method but the requirement of Reg.42 of PPR GN.97 of 2005 was not observed.

5.1.23 Inappropriate Use of Restricted Tendering Method at TANESCO

TANESCO awarded M/s Usangu Logistics Tanzania Ltd a tender for transportation of 10 transformers from Kurasini main store to Dar es Salaam sub stations and 1 transformer to Shinyanga for Tshs.256,710,000 (VAT inclusive). This contract was under restricted tendering and was signed on 5th August, 2012 to be completed within 7days. My review of procurement processes revealed that the first ranked supplier M/s SARAM who quoted Tshs.10 million was disqualified on the reason that the company did not have experience in transportation business despite restricted tendering method was used. This is contrary to Regulation 67 of PPR No.97 of 2005 which requires procuring entity to shortlist a supplier/contractor who has already been prequalified.

5.1.24 Supply, Installation, Testing and Commissioning of 2 Transformers Costing Tshs.7,879,397,851

Review of this tender noted that, subsequent to the selection of 12 suppliers (10th November, 2011) and notifications to shortlisted suppliers made on 16th December, 2011, the Deputy Managing Director Transmission submitted to the tender board the name of the additional supplier namely M/s Shandong Taikai Power Engineering on 20th December, 2011 which was approved by TANESCO Tender Board on the same day. This review could not get the legitimacy of accepting a bidder after the closure date for submission of bids.

Further, review noted that the evaluation report concluded that M/s Shandong Taikai Power Engineering was non-responsive both technically and financially. The reasons being none-submission of the bid security document and that it did not quote a portion of the work to be done which was against the requirements. However, the re-evaluation conducted on 14th February, 2012 recommended to the Tender Board the award of the tender to M/s Shandong Taikai Power Engineering.

During the final negotiations held on 21st February, 2012 TANESCO agreed to visit M/s Shandong Taikai Power Engineering in China to see the manufacturing process before the decision to award the tender was reached. Contrary to that TANESCO issued the award letter to the supplier on 24th February, 2012 before the officials from TANESCO visited China. As a result two (2) months before the completion of the contract (October 2012) M/s Shandong Taikai Engineering Ltd wrote a letter to TANESCO requesting for changes in the material to be used and resulted into additional scope of the work and increase in price by Tshs.3,707,456,952.

Basing on the processes above the Tender Board made unfair decision to award the contract to M/s Shandong Taikai Power Engineering that did not benefit the Company.

CHAPTER SIX

ASSETS MANAGEMENT

6.0 Introduction

An asset is a resource controlled by an entity as a result of past transactions or events from which future economic benefits are expected to flow to the entity. The future economic benefits embodied in an asset are potential in contributing, directly or indirectly, to the flow of cash and cash equivalents to the enterprise. Asset management is a systematic process of operating, maintaining, upgrading, and disposing off the assets in a cost effective way.

Management of assets is very important for discharging functions of the PA&oBs. The success of the PA&oBs in the achievement of their establishing objectives highly depends on the efficiency of that entity in the management of its assets. During the audit, I observed issues relating to mismanagement of assets in some of PA&oBs. This chapter therefore, summarizes significant findings on management of assets emanating from the individual audit reports of various PA&oBs. The following issues have been highlighted to provide stakeholders with general understanding of the results of the audits and in making right decisions:

6.1 Inappropriate Utilization of TCB and EWURA's Resources

Tanzania Coffee Board (TCB) owns a building known as Pamba House at Plot No. 21 Pamba Rd, Dar es Salaam which has six (6) floors. However, audit review noted that only four (4) floors are currently being used. The 4^{th} and 5^{th} floors have not been in use for more than 5 years due to leakage. Non-occupancy has made TCB to lose revenue which would have been received on these two floors amounting to US$ 155,000 per annum or US$ 775,000 for the past 5 years. In addition, TCB has also declared rent revenue of Tshs.1.689 billion instead of Tshs.1.796 billion causing understatement of Tshs.106.9 million. Understatement of revenue by Tshs.106.9 million might fuel fraudulent practice at TCB.

At EWURA, I noted that, MoW has allocated a plot to the authority for the construction of its own office buildings. However, EWURA is still renting the office space at Harbour View Towers at an increasing cost of Tshs.1.2 billion in FY2012/13 (Tshs.1.1 billion in FY 2011/12.) In the absence its own office accommodation, EWURA will continue to incur huge rental cost which would have been avoided by developing its own office building.

6.2 Inefficient Cash Management

Cash is ready money in the bank or in the operation of the organization, but very prone to theft and fraud more than any other asset. Prevention and detection of fraud/misappropriations of public resources need proper management by instituting internal control system that covers a broad area of finance involving the collection, handling, and usage of cash. Nevertheless, during my review of various PA&oBs, I noted various weaknesses which if not properly addressed might lead to fraud and other irregularities.

Example, SOUWASA suffered a financial loss of over Tshs.314 million during the year through alleged fraudulent practices by some employees. This was attributed to the failure of preparation of bank reconciliation statements on a regular basis. I also noted that, TEA suffered an aggregate cash loss of Tshs.652,650,000. The fraudulent transactions were perpetrated by a Senior Accountant of the Authority who had managed to steal by fraudulently submitting counterfeited cheques. Also, audit review of TPB noted that, included in assets write off account was an amount of Tshs.105,701,228 relating to Western Union fraud. Even though the incident involving Western Union fraud has been reduced in magnitude from the reported cases of Tshs.510,000,000 in the year 2010 to the currently reported amount of Tshs.105 million, the problem still persists. This could be an indication of lack of strong internal control system within the Authority regarding Western Union operations.

I further noted that, MTUWASA did not prepare bank reconciliation statements for NBC general account. For other accounts, it was noted that, there were some reconciling items which could not be traced. IRDP bank reconciliation for account number 01J1082678700 indicated a collection of Tshs. 9.6 million which was not credited in the bank statement. The bank reconciliation for account number 01J1082678700 indicated bank collections of Tshs.21 million which were not recorded in the cash book.

Bank reconciliations for the projects (Chololo and NICHE) were not prepared monthly. NICHE bank reconciliation indicated some mathematical errors and timely action was not taken to clear these reconciling items. Tanga UWSA had un-credited cheque deposits which has remained outstanding for unduly long time for lack of effective follow up.

I noted that, NPC has Tshs.90,000,000 cash balance lying in its current bank account for more than a year from a sale of its shares after the termination of the Rhino Lodge joint venture contract. If it had been deposited in FDR, it could have been earning interest income of not less than Tshs.7,200,000 at an interest of 8% per annum for the time the Council was waiting for better investment.

Lack of proper management of cash may lead to fraud and embezzlement of public funds.

6.3 Capital Grants from the Republic of China Worth USD 300,000 not Recorded in the TLSB Books of Accounts

Our review of minutes of the management meeting held on 06/11/2012 revealed that on 24th September, 2012 TLSB received capital grants of 1000 Library books, 20 Computers and furniture worth USD 300,000 (equivalent to Tshs.450,000,000 at an exchange rate of Tshs.1,500=USD 1). However, the values of the capital grants were not posted/ entered in the books of account leading to understatement of total assets. Without proper records, assets movement cannot be easily traced. TLS should consider recognising these assets in the financial statements.

6.4 Long Outstanding Receivable and Prepayments

Receivables are Money owed by individuals or corporations to another entity in an exchange for goods or services that have been delivered or used, but not yet paid for. Receivables usually are due within a relatively short time period, ranging from a few days to a year. On a public organizations' statement of financial position, accounts receivable is often recorded as an asset because this represents a legal obligation for the individuals or corporations to remit cash for its short-term debts.

Opposite to receivable, Prepayments are amounts of money that is paid before the services is being delivered. Audit review of the financial statements of some PA&oBs revealed that there are significant outstanding receivables and prepayments in many organizations.

For instance, a review of the financial statements of DMI noted that USD 76,000 was paid by DMI as a down payment to Dalian Maritime University in China for the purchase of a Simulator. The sale contract of USD 360,000 made in June 2009 was supposed to be concluded by late 2010 after the payment of outstanding amount. DMI had failed to pay the outstanding amount to date. There are possibilities of losing USD 76,000 paid in advance as the sale contract seems to have been expired.

MWAUWASA had an outstanding receivable balance of Tshs.3.5 billion as at 30th June, 2013 being due for more than three years. Balance receivables as per Billing System (SBM) was in disagreement with the amount reported on the Authority's financial statements as per Pastel Accounting System by Tshs.41,157,238. KAUWASA had receivable of Tshs.510,469,145 outstanding for more than 3 years, whereby Tshs.478,850,285 of the total outstanding receivables related to water bills. MTUWASA had receivables of Tshs.409,616,584 from sale of water; I further noted that, management of MTUWASA has made provision of impairment to the tune of Tshs.108,460,969 which is a full provision for all receivables of 5 years old.

However, the decision was not supported by any Authority's policy or IAS 39.63 Financial Instruments, Recognition and Measurement. SOUWASA had a total oustanding debt of Tshs.1,027,634,103. At UTT Staff debtors grew by Tshs.654,391,903 during the year which was considered to be a significant growth compared to the interest generated by the revolving fund which was Tshs.44,740,000.

6.5 Failure to Implement Computerized Accounting System at the ISW, TPA and IRDP

Accounting software is a type of computer software used by accounting professionals to manage accounts and perform accounting operations. It is used to process accounting transactions within functional modules such as accounts payable, accounts receivable, payroll, trial balance etc. It is accurate, speedy, efficient and cost effective.

Audit review noted that, ISW acquired an accounting package called Pastel almost two years back. The contract to supply, install and implement the package was signed on 30/9/2011 which was expected to begin on 1st October, 2011 and be completed by 31st December, 2011. It is about two years now since the package was acquired but the Institute is still using manual system despite the fact that the supplier is being paid an annual maintenance and support fee. It was further noted at TPA that, an out dated accounting system (COBOL) which has no significant difference with manual system is still in use to date. The Authority entered into a contract with M/s Soft Tech Consultants on 14th July, 2010 of Tshs.694,142,960/ for a period of five (5) months to install, train and commission integrated payroll, human resources, accounting and stores system. However, to date, the system has not been installed despite the supplier having been paid in full. IRDP has since 2009 acquired and Installed Vote Book

Management Information System to cater for among other things, financial data capturing and processing financial information and reports. However, our audit revealed that the Institute is still heavily reliant on manual systems.

Use of manual system is prone to errors and manipulation of financial information.

6.6 Abandonment of Flow Meters at TPA

A flow meter is an instrument which is used to measure linear, non-linear, mass or volumetric flow rate of a liquid or a gas. It is a quantification of bulk fluid movement.

TPA procured eight (8) flow meters for inventory control, custody and transfer of liquid product at Tshs.2,458,101,678 from M/s FMC Energy System. Flow meters were installed at Tanga and Dar es Salaam Ports purposely to control loss of revenue from oil consignments which enter the country. Flow meters were procured and installed after the Government demanded such meters for accurate readings of volumes for the purpose of appropriate taxation. However, these flow meters have been abandoned for a number of years allegedly to be stopped being used by the Commissioner of Weight and Measures (WMA) because they do not meet the required standards. Rejection and condemnation of the flow meter was made by WMA through their letter Ref.No.BA/84/221/01/26 dated 2nd February, 2011.

It is not clear why WMA stopped operations of the flow meters since initially they are the ones who approved the same before they were put into use. Innitially WMA approved and sealed flow meters as being correct for use through its letter Ref.No.HB.111/597/01/111 dated 27th December, 2004 whereby certificates for correctness were issued to TPA.

After failure to resolve the issues raised by WMA, TPA has opted for a manual way of measuring the volume of fuel i.e. dipping a measuring stick, the situation which has impact to TRA in regards to taxation as well as TPA in terms of its operations.

6.7 Absence of Sufficient Supporting Evidence for Payment Made By CHC and MSD

During the year under review CHC received funds from Ministry of Finance amounting to Tshs.1,824,076,269 in respect of payments due to M/s Alexander Forbes (Insurance compensation) on behalf of ATCL. While reviewing payments to suppliers, we could not obtain evidence to satisfy ourselves that the relevant tendering proceedings were observed. Also there was no evidence to prove that the services being paid for were actually supplied to ATCL. This implies that the control system over payments made to suppliers is weak and hence might give room to fraudulent expenditure.

Further, during the audit of MSD, I came across an expenses amounting to Tshs.55,397,669 which were not supported by third party documents. I could not ascertain whether such expenditure actually occurred or/and the transaction was recorded at the correct amount. Payments might be made for goods or services which were not delivered or rendered.

6.8 Non Verification of Performance Bond of Tshs.362,350,919 by MUCE

A performance bond is a surety bond issued by an insurance company or a bank to guarantee satisfactory completion of a project by a contractor. If the holder of the bond fails to fulfill all the terms of a specified contract, the bank will be responsible for any loss sustained.

Audit review noted that, management of MUCE had engaged a contractor M/s MNM Engineering Services Limited for the construction of a Library and Lecture halls. The contract required the contractor to present a performance bond of Tshs.362,350,919. MNM Engineering

Services Limited submitted a counterfeit of the performance bond No.2010/100 which seemed to have been issued by KCB Bank which however denied to be acquainted with that bond. Non verification of the performance bond has exposed the College to a risk of losing Tshs.362,350,919 after MNM had failed to honor the contract. Management of MUCE was supposed to verify the performance bond before the contract was signed with the contractor.

6.9 Failure to Integrate Related Systems

Modern business practice require organizations to have an integrated management system that is capable to accommodate accounting function, procurement function, human resources management and other necessary applications into one park in order to realize full potential of the ICT based packages. My review noted that, there are some PA&oBs that have different ICT systems in place which do not interface with other systems since they are operated as standalone system. PA&oBs noted with these anomalies are MORUWASA (Payroll, Billing and Accounting Systems), MWAUWASA (Smart Billing and Pastel Accounting Systems), MTUWASA (MIS and Accounting Records), ISW (Admission, Registration and Exam Package), TFDA (Payroll, MIS and Accounting Systems), BMAF (Accounting and Payroll) and TPA (Payroll, Human Resources, Accounting and Stores System).

6.10 Population not Supplied with Clean Water at Bukoba

Establishing objectives of BUWASA include supplying of clean water to the people of Bukoba living within 55KM2. However, my audit noted that, the Authority managed to supply clean water to residents of Bukoba living within 25KM2 which is 45.4% leaving the rest of the population of people residing at 30KM2 without clean water. The number of people demanding water services is 128,796 out of which 73,280 are supplied clean water by the Authority's. 55,096 people equivalent to 43.2% of the whole population are not supplied with clean water by the Authority.

This implies that, the Authority had not utilized the available opportunity to expand its water services. The small coverage affects social and economic activities of the area not covered by the water supply.

6.11 Loss of Water and Revenue in BUWASA and MBEYA UWSA

Un-accounted for water includes commercial and technical losses such as illegal connections, meter by pass, inaccurate customer meter readings, leakages, water overflows, excess water usage for un-metered customers, old infrastructures which cannot sustain the ever growing population.

During the audit, I noted that BUWASA annual water production was 3,146,937M3, out of which only 1,365,996M3 were billed during the year equivalent to 43.3%. The unbilled water (non revenue water) was 1,780,941M3 equivalents to 56.6%.

Further, in MBEYA UWSA the ratio for unaccounted for water for the past four years has been increasing. It was 31.2% in year 2009/2010 which increased to 31.4% in year 2010/2011 and later to 34.5% and 35.16% in year 2011/2012 and year 2012/2013 respectively. This trend indicates that there was very little improvement in management of unaccounted for water over the past 4 years. The recommended rate to be ultimately achieved as per the Memorandum of Understanding was estimated at 20%. The target set to be achieved during the period under review was 29% as against 35.16% actual achieved. Unaccounted for water contributes to loss of resources/revenue to the Authority.

6.12 Absence of Contract for the Financing Arrangement of Construction of Modern Diagnostic Center in Dodoma

NHIF audit review noted that, the construction of the Medicare Centre in Dodoma is ongoing without a valid contract in place for the financing arrangement. By the end of 30th June, 2013 a total of Tshs.29,539,370,000 had already been paid to the contractors. It was further noted that, the consultant for the construction of Modern Diagnostic Centre-Phase II (Teaching Hospital) at UDOM has already been paid Tshs.1,671,030,000 while the design is in progress. The detailed drawings and bills of quantities have already been submitted to the Fund for approval. In the absence of a contract, rights and obligations of both parties cannot easily be determined. Terms and conditions of the loan including repayment schedules could not be ascertained in the absence of a signed loan Agreement.

6.13 Breach of Shareholding Ratio – TPB

Following various bonus issues of shares as well as issues of fully paid shares to the Government of Tanzania, the shareholding of the Bank as at 31st December, 2012 stood at a ratio of 80.4: 4.1:11.8:3.7 for the Government of Tanzania, Revolutionary Government of Zanzibar, Tanzania Post Corporation and TP&TC Savings and Credit Society.

However, the Tanzania Postal Bank Act, 1991 stipulates that holdings by the shareholders should be in the ratio of 41:10:30:19 to the Government of the URT, the Revolutionary Government of Zanzibar, Tanzania Posts Corporation and TP & TC savings and Credit Society respectively. There is breach of the shareholding ratio contrary to the TPB Act which may lead into litigations during dividend distribution.

6.14 Lack of Proper Management of Rented Properties

6.14.1 Charges from M/s TANCOAL Energy Limited

Tanzania Port Authority entered into an agreement with TANCOAL Energy Limited on 15th August, 2012 effective from 1st October, 2011. This agreement was for lease of land and use of Port facilities, measuring 13,000 square meters at a rate of USD 0.3 per square meter per month at Kiwira Port and 20,000 square meters at a rate of USD 0.2 per square meters per month at Ndumbi Port. The amount was supposed to be paid on a quarterly basis. However, the

Lessee (TANCOAL Energy Limited) defaulted to pay rental charges which has accumulated to Tshs.225,742,500 by August 2013 where the lessee paid part of this amount leaving an outstanding balance of Tshs.105,421,204. Despite such delay, the Lessor (TPA) did not impose any liquidated damages as required by clause 7.1.1 of the agreement. Also there is no insurance cover as stipulated in clause 3.3.1 of the lease agreement.

I further noted that, there were five tenants at TPA-Kigoma office premises who have occupied rooms from July 2012 and other from January 2013 without any contract, and four (4) of them were not paying their rental charges except M/s. SNCC. These were; ANOR, CARTEEN, FULGO and ABS MARY. In addition, there was no tenant register and no invoices were raised during the year to book the related rental income in the books of account of TPA.

In the absence of a register of tenants, signed contract agreements and the booking of rent invoices in the books of account, it was difficult to establish the correctness of the accrued rental income.

6.14.2 Outstanding Rent Amount from Tenants of TTCL

TTCL has leased a number of its properties to third parties as well as Government Ministries and Agencies. Although the contracts normally require that rent to be paid in advance, there were a number of lessees who did not comply with this requirement. As a result, there were significant amounts of rent remained outstanding for more than one year. Rent payments not made on time by tenants or non-payment leads to poor cash collections. Rent collections are of paramount importance given the liquidity problem facing TTCL. This implies that, the longer these balances remain unpaid the less the chances of recovering the amounts from the tenants. Examples of outstanding balances which should have been settled based on the contractual arrangement in the lease agreements are Airtel (Tshs.687,631,588), Ministry of Health and Social Welfare (Tshs.419,934,014), National Identification Authority

(Tshs.267,187,419), Universal Communications (Tshs.216,966,831), Ministry of Lands and Human Settlement Dev. (Tshs.213,125,305) and e-government (Tshs.211,359,169)

6.15 Lack of Legal Ownership of Landed Properties

Ownership of landed properties refers to legal ownership evidenced by title deeds or other recognized legal documents. Contrary to that, it signifies the entity does not have legal ownership of the assets in case third parties claim such ownership. Audit verification of landed properties revealed that some of them have no title deeds such as; DAWASA (25 Plots), MWAUWASA (5 properties), MSD (5 plots), IRDP (15 plots), Tanga UWSA (2 plots), SIDO (19 plots), TTCL (long term assets) and MTUWASA (water sources, lands and buildings).

Lack of title deeds might result in losing ownership of the plots in case of any dispute.

6.16 Lack of Code Numbers in the Landed Properties

Tracking of assets is an important concern of every organization. However, it has been a challenge for an organisation to track the location, quantity, condition, maintenance and depreciation status of its non-current assets. Without an accurate method of keeping track of these assets it would be very easy for a company to lose control of them.

Audit review of assets revealed that, many PA&oBs' have assets which either misses the code numbers or the coding exercise has not been done properly. For example in TLSB the codification was not done properly. The furniture and equipment in Head Office are coded with two identification marks noted as old and new. At MSD- Mwanza zone offices, assets are not coded. About 3,670 (35%) of items of PPE acquired during the period 2012/2013, and 2011/2012 have not been coded. At UTT the codification is done in the Fixed Assets Register but not recorded/marked to the respective assets hence it becomes difficult to link the asset with the FA register and trace the location of the total fixed assets which have a net book value of Tshs.994,065,000.

6.17 Dormant stock at TPA Container Terminal Tshs.1,597,964,414

During the stock taking exercise at TPA, I observed that, inventories of substantial values had been dormant in the Container Terminal Stores for more than fourteen (14) years. Management explained that items in question had been dormant since year 2000 following privatization of the Authority's container activities. Balances of dormant stock reflected in the stores ledger as at 30th June, 2013 are valued at Tshs.1,597,964,414. Continued maintenance of unutilized stocks results into uneconomic perpetual costs associated with storage. These include risks of obsolescence and pilferages as well as costs of handling and tying up resources.

6.18 Inappropriate Use of Software and Record Keeping of Assets

Proper record keeping of assets provide an easy way to track at reasonable accuracy, completeness and uniformity of assets. But, accuracy, completeness and uniformity are most likely to be compromised due to various weaknesses, including application of manual record keeping process, weak internal control e.t.c. That is the reason which makes some of PA&oBs jump into uses of computerised accounting system, strengthening internal control and many other measures. However, I noted a number of PA&oBs with inappropriate assets records inspite of them possessing computerised accounting systems and many other measures in force.

For example, MOUWASA who has in place SAGE Accpack accounting software but many mis-postings errors were generated. Further, fixed assets register has not been updated and therefore it was not possible to compare the results with the general ledger control account. IRDP has Vote Book Management Information System which is not adequately and reliably helping in processing transactions as expected. KUWASA had several customers in the systems who are not being billed due to incorrect configuration in the system. MWAUWASA had 438 customers who were not billed. This implies that, meter reading exercise may not be adequately controlled, or accuracy of meter reading is not reliable. MTUWASA manages the certificates and payments for construction projects through Management Information System (MIS). However, information as per MIS reports does not reconcile with information as per the accounting records. TTCL has Projects costing Tshs.262 million that have been completed but were never capitalized. In TPA-Kyela Port Master's office a building which is in use since 2008/2009 has not been recorded in the Port's financial records.

6.19 Unsupported Revenue Related to Bukoba Projects (Sale of Plots)-Tshs.663,570,422

Included in UTT financial statements is revenue generated from the sale of Bukoba plots Tshs.663,570,422. The basis of recognising the revenue is stipulated in the Memorandum of Understanding signed between UTT and Bukoba Municipal Council (BMC) being 60% and 40% of the profit to UTT and BMC respectively. However, management has not been able to provide the basis used to determine the profit used to determine the shared revenue recorded in the books.

Subsequently management has been able to provide the total revenue of Tshs.8,837,047,703 generated for the period ended 30th June, 2013 arising from sale of 3,389 plots allocated to users for different uses. However, the cost incurred in relation to construction of these plots was not availed. This anomaly makes it difficult to determine the profitability of the project hence casting a significant doubt on the completeness and validity of the revenue recorded.

CHAPTER SEVEN

HUMAN RESOURCE MANAGEMENT

7.0 Introduction

Human Resource Management is a strategic and comprehensive approach in managing people. It focuses on recruitment, management and provision of direction for people who work in the organization.

When effectively done, HRM would enable the employees to contribute effectively and productively to the overall company direction and the accomplishment of the organization's goals and objectives.

This chapter provides some shortfalls in achieving effective Human Resource Management revealed during the audit of the Public Authorities and Other Bodies.

7.1 PA&oBs Operating Below their Approved Staffing Levels

Staffing levels refer to having the right staff in the right place at the right time. This goes together with ensuring that, they have suitable knowledge, skills and experience to operate safely. Therefore, determining and maintaining optimal staffing level is critical to efficiency.

The audit review of the staffing of the audited PA&oBs revealed instances where some of them were operating below their approved staffing levels. These include the Capital Market and Securities Authority (CMSA) where out of 36 established staffing level only 21 positions (58%) were filled, SIDO has 66 vacant positions, some of which are for managerial positions and at IRDP out of 14 established accountants posts, only 8 posts were filled and at FCC it was found that Internal Audit Section staffing level is inadequate. Not only that, the Directorate of Finance at the Institute of Finance Management (IFM) has 9 staff against 24 required by their scheme of service. It was also noted that the manpower plan of TFDA is 182 of which only 84 positions were filled.

Further, audit review learnt that, in most cases the low staffing levels were due to delay in receiving employment permits from POPSM to fill vacant positions in these PA&oBs. Another reason which has caused failure to fill these vacant posts have been noted to be financial constraints in these PA&OB. Examples are Sumbawanga Water Supply and Sanitation Authority (SUWASA).

In addition to the above, my audit review, noted that some PA&oBs lack professional employees capable of handling professional challenges. A number of PA&oBs have been noted to lack or to have shortages of professional accountants to head Finance and Accounting Units. These PA&oBs are TBS, and MUCCoBs.

7.2 Lack of Succession Planning for Some PA&oBs

Succession planning is a process of identifying and developing eligible staff with the potential to fill key leadership positions in an institution. The planning increases availability of experienced and capable employees that are prepared to assume these roles as they become available.

Results of audit review during the year noted that, there are some PA&oBs which had not developed organization succession plans. For instance, the prepared seniority list of TANAPA showed that most of the staff in the top positions are about to retire from services. It was also noted that most of the remaining staff including the senior officers have less than the required qualifications to enable them to fill the positions in the managerial levels as successors of the outgoing managers.

It has been learnt that team work and participatory management are essential for attaining succession planning. However, it was noted while reviewing construction projects and minor works at TPA Mwanza Port that one person was overburden with the control and monitoring of all the necessary information leaving others unaware of the work processes. This indicates lack of succession planning which may consequently create a threat to business continuity once that person leaves the organization.

Moreover, review of the training programme of these PA&oBs revealed that, the issue of provision of training for the purpose of preparing future managers was not properly addressed. The above facts, portrays that human resources are not managed as per policies and best practices.

7.3 Shortfalls in Keeping Staff Records

It is a prudent practice in human resource management to ensure that each staff records are properly kept by the employer for safeguarding both employee and employer's rights. These records are supposed to be kept in the employees personal files. Just to mention a few, records which are to be kept include; job application letters, education certificates, employees curriculum vitae (CVs), employees particulars, job description, salary increments if any and performance appraisal forms.

In contrast, to the above practice, it has been experienced that some PA&oBs do not keep important staff records in their personal files. These were noted at ISW, GEPF and TPA whereby 58% of the reviewed personal files lacked job description. Review of staff records at NCAA also noted that, staff records were not well maintained as they lacked staff information such as CV, academic transcripts and job descriptions. At DUWASA, some employees lacked employment contracts and confirmation letter for employees. At Mbeya UWSA, most of the employees files missed employees photographs.

7.4 Staff Performance Appraisal

Performance appraisal is a process of reviewing and discussing employee's performance of the assigned duties and responsibilities. The appraisal provides a way to help identification of areas for performance enhancement and to help promote professional growth.

The Government through Standing Order D.62 for the Public Service of 2009 directed the performance appraisal to be done through Open Performance Review Appraisal System (OPRAS) to enhance transparency in the appraisal process.

Audit review revealed that some of the PA&oBs did not adhere to the requirement of the open performance review appraisal system. These anomalies were noted at TEMDO, Ardhi University, MTUWASA, UTT, BUWASA, Mbeya UWSA and TPA.

7.5 Shortfalls in the Financial Management Manual and Staff Regulations

Entity procedures manual are made to provide guidance and directives to staff while dealing with the day to day activities. Our review of financial management manuals and staff regulations including schemes of services revealed that some of Public Authorities and Other Bodies are having operations and procedures manuals which are missing important aspects and/or are outdated.

For instance at TIB, it was noted that, staff's benefits have been documented on different stand-alone documents, memos and approved board papers and minutes as a guide.

Inspite of the manuals being under preparation, I observed some aspects which could be considered for inclusion in the final document. Specific examples of operational policies not documented are the Performance Management Policy, Long Term Service Policy, Staff Credit Facility Policy, Medical Policy and Special and Extra Duty Allowance Policy.

The absence of a comprehensive procedures manual and financial regulations provides inconsistencies in the application of the entities procedures and may cause the staff not to be properly guided. It was further noted that at DUWASA, SUWASA and TEMDO operations procedures such as scheme of service and financial rules and regulations were found to be outdated and thus a need for improvement.

7.6 Shortfall in Delivering of Staff Training

The purpose of staff training and development is to improve employees and organizational capabilities in achieving organization's missions. Well designed staff training should be adequate supported by a training policy, be planned based on training needs assessment, properly monitored and evaluated.

A training policy is important as it acts as a guide to management in delivering trainings to its staff. The same is supposed to be emphasized by a training program which has been prepared based on training needs assessment. Audit results for the year revealed that some PA&oBs had encountered some shortfalls with regard to staff training and development, these include; Tanzania Ports Authority (TPA), MTUWASA, MWAUWASA, TANAPA, NCAA and DUWASA.

7.7 Delays in Remittance of Statutory Deductions

Employees are subjected to various deductions which are governed by certain laws and hence referred to as statutory deductions. These deductions are supposed to be withheld by the employers from the employees' salaries and remitted to the respective authorities.

Review of PA&oBs compliances on remittance of the statutory deductions noted that some of them did not submit these deductions on time, the consequence of which the concerned entities were subjected to penalties.

Example of organizations which did not comply with remitting statutory deductions on time was Mtwara Urban Water Supply and Sewerage Authority (MTUWASA) where during the year under review, there was outstanding unremitted pension deductions of Tshs.191,696,475 and PAYE of Tshs.35,493,994.

The above delay caused penalties of Tshs.1,791,325 by TRA, Shs.18,000,889 by NSSF and Tshs.4,507,767 by NHIF. These penalties have an effect of depleting cash that would have been used for operational functions of the Authority.

A significant delays in remittance of pension contributions have been noted at DAWASCO where PPF contributions amounting to Tshs.2,793,663,471 was yet to be remitted to the respective authority. This matter was reported in the previous year's report, however, there is still non compliance in respect of submission of statutory deductions.

Other statutory deductions which were not remitted by DAWASCO include Tshs.4,710,311 of PSPF, Tshs.174,460,071 for NSSF, Tshs.31,610,222 for LAPF, Tshs.3,346,273,000 for PAYE and Tshs.1,744,576,156 for SDL. Also Tshs.21,577,548 in respect of Education Students' Loans for employees which were submitted lately to the Higher Education Students' Loans Board contrary to HESLB Act, 2004.

Due to delay in remitting statutory deductions, DAWASCO paid penalties amounting to Tshs.18,465,163 for late remittance of PPF contribution for employees retired during the financial year. Also, DAWASCO paid a penalty of Tshs.161,644,040 for late remittance of PPF contributions during the year. Moreover, the Company has a potential liability of paying a penalty of Tshs.5.6 billion as at 30th June 2013. The said potential liability has not been provided by DAWASCO.

Other Public Authorities which did not comply in remitting statutory deductions on time are SOUWASA where up to the end of the year the Authority had not made total payment of Tshs.363,616,435 as pension contributions and PAYE. Other PA&oBs which did not remit statutory deduction on time are BAWASA, BUWASA and Tea Board of Tanzania.

7.8 In adequate Controls Over Maintenance of Payroll

To enhance proper control over payroll cost, it is of paramount importance to have a centralized payroll where all changes in the payroll will be done under one roof. Also whenever, the payroll of a particular PA&oBs is originating from the central government (UTUMISHI), periodic reconciliation between the individual PA&oBs and UTUMISHI should thoroughly be done as one of the control procedures.

Review of preparation of payroll processes at Tanzania Cotton Board noted that after receiving funds for salary payments from UTUMISHI, TCB Head Office prepares the payroll for Dar es Salaam staff only and passes on the rest of the amount to Mwanza Zonal Office for payment of salaries to staff based in Mwanza.

The above process, not only causes a threat to payroll controls but also creates unnecessary bureaucracy in the preparation of the payroll. The recommended practice is the centralization of the payroll function and paying the staff salaries through staff's bank accounts.

It was also noted at TCB that, there were mismatch of records of employees between Finance department and Human Resources department.

With regard to payroll controls, a number of irregularities were noted at TAFORI. Instances were noted where payroll from Treasury had wrong treatment of contributions on 42 employees. At TAFORI, 2 employees were having double check numbers, 4 retired employees were still in the Treasury payroll, 39 employees had their salaries understated and 10 employees did not appear in the Treasury payroll as they have not been given check numbers. All these anomalies were due to non–reconciliation of Treasury and TAFORI payrolls.

It was noted at BASATA that, the salary payments were not checked or approved by the Human Resource Department contrary to established procedures stipulated in section E.5 of the Standing Order for the Public Service, 2009.

7.9 Growing Trend of Staff Receivables Balances at UTT

UTT loan policy which was previously approved in 2009 is comprised of staff housing loans, staff transport loans and advances. The policy stated the source of fund as the provision of the revolving fund from annual budgets for three consecutive years from the date of approval of the policy.

Staff receivables have been growing significantly compared to the interest generated by the revolving fund and to the total receivables balance. As at the year end, staff receivables were Tshs.2,180,692,920 as compared with staff receivable of Tshs.1,526,301,017 in the year 2012 while interest income generated through revolving fund was Tshs.44,740,000 as compared to Tshs.15,147,366 in year 2012.

In comparison to total receivables of Tshs.4,352,696,921 for the current year and Tshs.5,455,078,680 for the year 2012, staff receivables attributes to 50% (2012:25%) of the balance. This growing trend will in future jeopardise the fiscal stability of the organisation in case monitoring measures of the staff loan and the revolving fund will not be put in place.

7.10 Need to have a Right Mix of Staff in the Audit and Investigation Department at NHIF

Our audit review at NHIF noted that the Internal Audit and Fraud Investigation Department does not have the right mix of staff to deal with medical related issues due to lack of a medical doctor or a pharmacist by profession in the department. All the current six staff are accountants by profession which creates technical challenges whenever they are conducting health insurance fraud investigations and preventive fraud audits.

The current arrangement of looking for medical doctors and pharmacists from other departments whenever the Internal Audit and Fraud Investigation department intends to conduct any preventive fraud and fraud investigations is not effective as it amounts to asking these operational staff to audit themselves.

7.11 Irregularities Noted in Payments of Allowances for CJIC, JIC and Master Workers Council Meetings at TPA

Workers Council are very useful in ensuring peace and harmony within an entity. They are important forums through which workers express their concerns about matters that affect them thereby fostering productivity and resolving unnecessary conflicts.

Examination of TPA expenditure in relation to Central Joint Industrial Council (CJIC), Joint Industrial Council (JIC), Workers Council, COTWU/DOWUTA and Master Workers' Council (MWC) revealed that TPA incurred a total expenditure of Tshs.3,276,700,343 in respect of these meetings. The expenditures were incurred during the period of July, 2012 to March, 2013.

I noted that payment sheets and related documents for sitting allowances of the above meetings were paid to members twice or thrice a day without clear justification. The meetings were categorized into sessions whereby a day was split into two to three sessions termed as sittings and members were paid depending on the number of sessions they participated per day. These multiple payments of allowances could not be backed up by policy or guidance on payment of allowances for CJIC, JIC, WC and MWC.

Further, review noted that the CJIC held three meetings during the year 2012/2013, one being a special meeting and two ordinary meetings. The recorded expenditure for the meetings amounted to Tshs.2,121,760,144. Analysis of the incurred expenditures revealed that, these meetings were spread in nine (9) months, from July, 2012 to March, 2013 instead of two months of September and December when the meetings held. This phenomenon depicts that apart from the multi payment of allowances in a day to cover for the same meeting, there was also spending of money which is not related to the meeting but coded as if the expenditures were made to cater for meeting expenses.

CHAPTER EIGHT

CORPORATE GOVERNANCE

8.0 Introduction

Corporate governance is a term that refers broadly to the rules, processes, or laws by which corporations are operated, regulated, and controlled. It involves roles and relations between the corporation management, board of directors, sub committees of the boards of directors, shareholders and other stakeholders. The main objective is to achieve accountability, fairness and transparency in the operations of the organizations. A sound corporate governance provides a structure that works for the benefits of everyone concerned by ensuring adherence to ethical standards and best practices as well as the governing laws.

Recently, globally the corporate governance has been placed high on the agenda due to various scandals which involve abuse of corporate powers and in some cases illegal criminal activities by some corporate officials. In Tanzania, the boards of directors and Councils have been entrusted by the President of the United Republic of Tanzania and the Ministers of parent Ministries to oversee the functions of Public Authorities and Other Bodies (PA&oBs) on behalf of all Tanzanians.

In this report, there are a number of corporate governance matters which were observed during the audit which are summarized in the following paragraphs:

Over a number of years, I have been reporting in this chapter various anomalies relating to corporate governance issues and provided recommendations to address them. Some of the anomalies identified in previous years were addressed by the government and respective Public Authorities and Other Bodies. I have noted with appreciation the plans and efforts being exerted by the government and the individual PA&oBs in implementing my recommendations on corporate governances as highlighted in the structured responses prepared by the Ministry of Finance. As a result of these efforts, some recommendations were either fully implemented or still under implementation.

Although there are notable improvements in the corporate governance of PA&oBs, I have noted with dismay that there are observations which were reported in my previous reports and are still recurring over the years. Some of the issues which were raised in previous years and are not resolved include Lack of Board of Directors Charter, interference in the independence of the Boards in directing the business of the PA&oBs, existence of the members of parliament on the boards of PA&oBs and inefficiencies in functioning of the Internal Audit departments, understaffing of Internal audit units in some PA&oBs.

While conducting this year's statutory audits of the PA&oBs, I observed matters which are not in accordance with good corporate governance principles and practices. Some of these matters are summarized here below:

8.1.0 Interferences from the Parent Ministries in Operations of the PA&oBs

8.1.1 Lack of Clear Guidelines from the Government on TANAPA Contributions to Other Institutions

Section 9 of the National Parks Act (Cap. 282) provides that funds and resources of trustees shall consist of such sums as may be provided for the purpose of the National Parks by Parliament either by way of grant, loan, subsidy granted to the trustees by the Government or any other persons, voluntary subscription, donation, bequest received by the Trustees from any member of the public for the purposes of national parks, fees or other moneys received or raised by trustees and any sum or property which may in any manner become vested in the trustees as a result of the performance by the trustees of their functions.

Revenue derived from the above Section of law was meant for the operation and welfare of the Tanzania National Park and not for other purposes.

While undertaking the annual statutory audit, I noted that TANAPA is subjected to numerous statutory payments, donations and other payments as directed by either the parent ministry, government through circulars or other laws enacted by parliament. Some Acts establishing PA&oBs state that source of their revenue will be a certain percentage of Tanzania National Park Authority's gross revenue. For example, Regulation 3(a) of the Tourism (Tourism Development Levy) Regulations of 2012 states that 3% of the Tanzania National Parks Authority's gross revenue will be collected and deposited in the tourism development account maintained by the Permanent Secretary Ministry of Natural Resources and Tourism.

For the period from 2010/2011 to 2012/2013, TANAPA paid the sum of Tshs.10,369,090,983 to the Government and various Public Authorities and Other Bodies. Of this amount, Tshs.2,200,000,000 was paid for direct contribution to Treasury, and Tshs.190,000,000 for Lusaka Agreement. The remaining Tshs.7,979,090,983 was paid to other PA&oBs for various activities. Regarding contribution to the consolidated fund, currently TANAPA negotiates and agrees with the Treasury Registrar on the amount to be contributed.

Among the beneficiaries of the contributions from TANAPA is the Tanzania Tourism Board which received Tshs.4,500,000,000 over a period of three years to 2012/13. On the other hand, TANAPA's strategic objective No.4 relates to development of tourism in the country, the role also played by Tanzania Tourism Board. This sounds like duplication of efforts where two separate entities are performing similar tourism promotion activities. If steps are not taken to protect the financial resources of TANAPA, there is a risk of TANAPA failure to achieve some of its strategic objectives due to insufficient funds.

8.1.2 Payments by TPA on Behalf of the Ministry of Transport

Ministry of Transport has been issuing various directives to TPA instructing the Authority to meet various expenditures for the Ministry contrary to good governance practices. For the year ended on 30th June, 2013, I noted that a sum of Tshs.44,319,750 was paid by TPA on behalf of the Ministry of Transport.

An amount of Tshs.18,156,200 was paid to Deputy Director of Human Resources at the Ministry of Transport to cater for travelling expenses for official trip to Accra Ghana. TPA received an invitation of four (4) persons to attend the Exhibition for Workers' Day in Africa held in Accra Ghana from 16th to 23rd June, 2013. The Authority nominated the Acting Director for Human Resources to represent TPA and Deputy Director for Human Resources Management was nominated by the Ministry of Transport to attend that Exhibition. The cost for both participants was borne by TPA.

Further an amount of Tshs.15,000,000 was paid to the Ministry of Transport on 25th March, 2013 to meet cost for Ministry's Workers Council which was held on 5th April, 2013. The directive to pay was quoted on a letter with Ref. No. JA 230/553/01 dated 25th March, 2013. In my view, such costs for the Ministry's workers Council were supposed to be met by the Ministry from its budget.

On 16th April, 2013 the Ministry wrote another letter with Ref. No. CB 94/436/01/69 instructing TPA to pay facilitation allowance to one of its officers to attend technical committee meeting on Finance Administration and Resource mobilization conducted by Intergovernmental Standing Committee on Shipping (ISCOS).

On 14th March, 2013 the Ministry of Transport wrote a letter with Ref: No. CB 230/364/01/A to request TPA to settle hotel bills of Tshs.11,163,550 at New Africa Hotel incurred by Ministry's Deputy Minister. This payment was effected by TPA management on 28th March, 2013.

It is my opinion that such financial interferences from the parent ministry diminishes the financial accountability of the Authority's board of directors.

8.1.3 Government Directives which Might Hinders TANAPA to Meet its Establishment Activities

The National Parks Act of 2002 (Chapter 282) stipulates that the core functions of TANAPA is to protect the natural resources, park facilities and tourists, Park management and development, Ecological and wildlife health monitoring, tourism development, and Community involvement in conversation efforts.

At its 177th ordinary meeting, TANAPA board of trustees was informed of the decision by the government through the Ministry of Transport to establish a new national airline to serve domestic, regional and international markets. The Minister for Transport and Minister of Natural Resource and Tourism with the Chief Executives Officers of selected institutions including TANAPA held a round table meeting in October 2012. The board affirmed the initiative to join with other stakeholders namely Ministry of Transport, Ministry of Natural Resources and Tourism, Ngorongoro Conservation Area Authority (NCAA) and Tanzania Tourist Board in the establishment of the new airline. On the other hand, the Ministry of Natural Resources issued a letter with Ref No. CGA.376/517/01/C/16 dated 29th November, 2012 instructing TANAPA Director General to submit a resolution reached on the establishment of a new National Airline.

However, although the establishment of a National Airline is a positive idea for social and economic development of the country, the idea initiated by Ministry of Transport and agreed by other stakeholders and the subsequent directives from the Ministry of Natural Resources and Tourism might have a negative impact to TANAPA and could lead to non attainment of its Corporate Strategic objectives which are vital for sustainability of the parks.

However, although the establishment of a National Airline is a positive idea for social and economic development of the country, the directive from the Ministry might have a negative impact to TANAPA and could lead to non attainment of its Corporate Strategic objectives for 2008-2013 which are vital for sustainability of the parks.

8.2.0 Ineffective Performance of the Internal Audit Departments and Audit Committees

8.2.1 Gaps in the Audit Committee Charter

The Institute of Internal Auditors in Tanzania issued a model charter to be used in preparation of the audit committee charter. From our review of the Audit Committee charter and comparison with the Institute of Internal Auditors' model Charter; I noted that there are series of gaps in audit committee charters of some of PA&oBs.

At NSSF, there was an audit committee charter which suffered numerous deficiencies. For example, the charter does not address the following issues: the number of members of the audit committee, the tenure of members, and existence of at least one financial expert on the board of directors. The charter is also silent on independence and financial literacy. With regard to appointment, compensation and the oversight of the work of the External Auditors, the charter is not aligned to the law by stating categorically that the statutory auditor of the National Social Security Fund (NSSF) is the Controller and Auditor General by virtue of Article 143 of the Constitution of the United Republic of Tanzania as amplified by S.30 (1) and S.30 (3) e of the Public Audit Act No. 11 of 2008.

At MSD, I noted that the internal audit charter and the audit committee charters had not been approved by the Board of Trustees. The charters could be functional and enforceable only when approved by the board.

8.2.2 Gaps in Internal Audit Departments

Strong internal audit departments are a key component for appraisal of the operations of the organizations. The strength of the internal audit rests on the position of the department, reporting lines, number and competency of staff in the department.

While reviewing the internal audit functions in the PA&oBs, I observed that most of the departments have insufficient number of staff for efficiently carrying out their functions. This situation was noted at Tanzania Engineering and Manufacturing Design Organization (TEMDO) where the department is staffed with one personnel. A similar situation was observed at Tanga UWSA where there is only one auditor. Given the size of these entities, one staff cannot satisfactorily perform the functions of the department. At MORUWASA, the unit is staffed by one person with a title of Senior Assistant Internal Auditor. The post of the Chief Internal Auditor is vacant. I also noted that at Dodoma Urban Water Supply and Sanitation Authority (DUWASA) there are two staff, namely the Acting Chief Internal Auditor and Assistant Internal Auditor. The post of the Chief Internal Auditor at DUWASA has remained vacant since 2009.

On the aspect of audit planning, I noted that most of the Internal Audit departments in the PA&oBs have no comprehensive annual audit plans. These plans are very important for internal audit functions as they detail the required resources, areas to be covered, timing of execution and reporting timelines. While discharging my statutory responsibilities, the internal audit plans are useful in the determination of the extent of my audit work. Weaknesses in internal audit plans were observed in a number of PA&oBs. Examples include NHIF and Mwanza

Urban Water Supply and Sanitation Authority (MWAUWASA) where the plans did not consider the risk registers contrary to requirements of International Professional Practices Framework (IPPF). Non consideration of risk register would lead to misallocation of internal audit resources. At Kigoma/Ujiji Urban Water Supply and Sanitation Authority the internal audit plans were not being reviewed by the audit committee for adequacy of coverage.

8.2.3 Delayed Actions on the Internal Audit Reports

Internal audit function is an important control tool for ensuring adherence to internal control system of an entity. The internal controls are a key feature for a sound running of entity and safeguarding of assets of the organization. The objectives of controls are to ensure operational effectiveness and efficiency, compliance with laws, regulations and policies and achieve the reliable financial reporting.

I have noted that some PA&oBs have well established units of Internal Audits which produce reports. However, the implementation of the recommendations on the reports of some entities is either delayed or not implemented at all. Examples of entities whose reports are either not responded to on time or not responded at all include CAMARTEC and MUCCoBs.

At CAMARTEC, the report which was issued on 8th October, 2012 was responded in January 2013 and the report issued in March 2013 was replied on 15th October, 2013. Nevertheless, there are issues in the report which were never responded to. These issues include Tshs.290,000,000 received from Ministry of Industry and Trade which was used for other activities than development expenditure and Tshs.156,285,085 received from Rural Energy Agency (REA) on 3rd July, 2012 was used for other purposes than REA project.

At Iringa Urban Water Supply and Sanitation Authority, I noted that reports for the two quarters were not reviewed by the Audit Committee.

8.3 Delays in Signing of Performance Contracts with Boards of Directors

Section 10 (2) (k) of the Treasury Registrar (powers and functions) Act of 2002 (Chapter 370) together with Public Corporation Act of 1992 amended in 2010 requires the Treasury Registrar to enter into performance contracts with Boards of Directors of PA&oBs. The objectives are to increase efficiency on execution of their obligations. The performance agreements on the other hand, are useful in enforcement of accountability and good governance as well as providing the framework for monitoring and evaluation of work performed by the board members.

In my previous audit reports, I recommended implementation of performance contracts in the PA&oBs although this recommendation has not been executed in most of the PA&oBs. I noted the government efforts through Treasury Registrar Circular No.1 of 1st January, 2012 reminding Public Organization to effectively comply with Treasury Registrar Act of 2002 and another reminder letter with Ref. No. CNA.114/572/01/8 dated 13th February, 2014. Despite these efforts, lack of performance agreements between the Treasury Registrar and boards of directors has been observed in a number of PA&oBs during the current year's audit. The typical examples include NACTE, NCAA and MORUWASA. Absence of these performance agreements makes the boards to lack benchmarks against which their performance and the overall accountability for the results can be measured.

I still urge Boards of Directors of PA&oBs to speed up the process of complying with Treasury Registrar Act.

8.4.0 Irregularities in the Functioning of Boards of Directors

Board of Directors is a body of elected or appointed members mandated to perform the oversight function and in directing the organization towards achieving its corporate goals. The Board's functions are determined by the powers, duties and responsibilities that are delegated to it by the appointing authority. There are laws or bylaws which specify the number of members of the board, procedures for their appointment and the number of times the Board meets. The Board is a pillar of a Public Authority's existence and prosperity.

8.4.1 Appointment of TPA staff to be a Member of Board of Directors

According to section 6(2) of Tanzania Ports Authority Act No. 17 of 2004, the Minister of Transport is mandated to appoint five (5) TPA board members to team up with the Chairperson appointed by the President to constitute the TPA Board of Directors. While performing statutory audit for the year ended on 30th June 2013, I noted that a staff representing Dock Workers' Union of Tanzania (DOWUTA) was appointed to be a member of the Board of Directors. On reviewing his academic qualifications, I noted that this board member has acquired only primary education and has never assumed any position at managerial level either in private or public sector. In my view, this is against best practice and good corporate governance which requires the board of directors to discharge responsibility of directing the corporation and oversee management functions. This may create conflict of interest and inefficiency of the board of directors. This member of the board on one hand is accountable to management of TPA as a full time employee at the same time is accountable to the board of directors of TPA.

8.4.2 Gaps in MORUWASA Board of Directors

Board meetings are an important aspect of the functioning of the Boards of Directors. It is at such meetings, where deliberations are made regarding pertinent issues for directing the corporation on various issues. The decisions made at the meetings are recorded by way of board meeting minutes.

While reviewing the board meeting minutes for MORUWASA, it was found that the minutes for the 76th and 77th board meetings were missing. I also noted that the minutes for the 83rd meeting were not signed by both the Chairman and the Secretary to the board. In view of this, follow up actions on board deliberations from records of proceedings may be missing; hence implementation of board directives may not be achieved.

8.4.3 Board Fees Paid Without Proper Approval at MORUWASA

While reviewing expenses incurred by MORUWASA, I noted that Tshs.5,000,000 was paid for each board member who were ten (10), all totaling to Tshs.50,000,000 as golden hand shake at the end of their tenure as per Memorandum of Understanding (MOU) signed between MORUWASA board of directors and Ministry of Water contrary to section 4.4 (d) of the MOU. The Managing Director, vide his letter dated 1st July, 2013 with reference number UWSA/M/4/Vol.V/166 communicated to the Permanent Secretary MoW requesting ratification of the payment. These board fees had been paid to MORUWASA board members before they obtained an approval from the Ministry of Water as required by section 4.4(d) of the memorandum of Understanding (MOU).

8.4.4 High Travel Cost for Use of Road Transport for NHIF Board Members

During review of cost incurred by the Fund for travelling of board members, I noted that value for money was not considered when arranging for board members to attend the NHIF board meetings. NHIF incurred travel costs amounting to Tshs.2,880,000 to pay one board member as mileage allowance for an official trip to Mwanza and back to Dar es Salaam. Rationally, NHIF would have opted for a return air ticket to Mwanza which would have costed Tshs.450,000. On the other scenario, the board member who resides in Mwanza was paid Tshs.5,520,000 as mileage allowance from Mwanza to Dar es Salaam to Torino and Morogoro on official duty. This trip would cost the Fund Tshs.900,000 had the Fund used air transport which is fast and reliable thereby recording a saving of Tshs.7,050,000.

8.4.5 Improper Succession of MORUWASA Board Seats

As per section 11 of Water Works Ordinance- 1949 (Rev: Act 12 of 2009); appointment of board members is done by the Minister responsible for Water. While reviewing board minutes, we noted that one of the board members resigned and in his letter of resignation he recommended one candidate to replace his seat as board member contrary to section 11 of Water Works Ordinance 1949 (Rev: Act No. 12 of 2009. Self reference for the appointment of board members defeats the best corporate governance practices as well as section 11 of Water Works Ordinance- (Rev: Act No. 12) of 2009 on the appointment of board members. The appointment of board members is the sole responsibility of the responsible Minister.

8.4.6 Personnel Transferred from Ministry of Works and TANROADS to TPA without Approval of the Board

Public Service Act of 2002 under section 31 and section 8(2) of the Public Corporation Act of 1992 states that servants of the executive agencies and government institutions shall be governed by laws establishing the agency or institutions. The board of directors is given mandate to employ officers and employees of the corporation.

I noted that, several positions at TPA were filled by the Parent Ministry of Transport without participation of the board of directors.

For example Ministry transferred quantity surveyor from the Ministry of Transport to be the head of Procurement Management Unit at Dar es Salaam Port. The officer does not possess any procurement qualifications which is contrary to section 34 (4) of PPA of 2004 which requires the head of PMU to have sufficient academic qualifications and experience in procurement functions. The Ministry also transferred other officers to TPA including engineers, a procurement officer, a driver and a secretary.

According to the principles of good corporate governance, the responsibility of recruiting the staff in Public Corporations is vested with the Board of Directors.

8.4.7 Excessive Meetings for FCC Commissioners

The commissioners' meetings are a very important forum where business directives and strategic decisions are made. At Fair Competition Commission (FCC), the commission had planned to convene eight (8) ordinary and extraordinary meetings and 20 case hearing meetings during the year. However, the commissioners held 49 meetings during the financial year 2012/13. Of these meetings, five (5) were ordinary meetings, 36 extra ordinary meetings, two (2) case hearing meetings and six (6) case proceedings. These meetings had a budget of Tshs.113 million. With increased meetings, during the year under review, the commission spent Tshs.174 million on sitting allowances which exceeding the budget by Tshs. 61 million (35%).

The Board of Commissioners when exercising their oversight function, they should adhere to the budget they had themselves approved.

8.5 Delays in Appointment of Members of the Boards of Directors

The appointing authority of the chairpersons of the boards of the PA&oBs is the President of the United Republic of Tanzania. The rest of the board members are appointed by the responsible ministers of the parent ministries of PA&oBs. In my prior years' reports, I reported delays in appointment of the boards of directors. The structured responses by the PMG pointed out that the Government issued Circular No. SAB 55/204/01/159 in September, 2010 directing the Accounting Officers to propose new boards six months prior expiry of the tenure of the existing boards. Similar to prior years, there are still delays in appointment of the new boards of directors of PA&oBs.

In the course of my review of corporate matters of various PA&oBs, I noted that the tenures of some boards had expired without being replaced by new ones. The delay in appointing new Board of Directors results in hampering deliberations of corporate issues for the respective PA&oBs. The examples of the PA&oBs which had no boards or governing councils include TAWIRI, TEMDO, NCAA, KUWASA and MWEKA.

The delays in appointment of new boards continued to exist although expire of the board was communicated to the Treasury Register prior to expiration of the tenures as required by the government circular No.SAB 55/204/01/159 of 8th September, 2010. For example, TEMDO board's tenure expire was communicated to Ministry of Industry and Trade on January 2012 a year prior the board tenure expiration in January 2013. Ngorongoro Conservation Area Authority (NCAA) board expired on 5th October, 2012 and was communicated to the Ministry of Natural Resources and Tourism despite the fact that up to December 2013 the new board had not yet been appointed.

Non appointment of the boards results in management carrying out activities of the PA&oBs without directive from the boards which are charged with the role of directing and oversight functions of PA&oBs. I also noted that on the 25th August, 2012, College of African Wildlife Management (CAWM) Mweka made an advertisement to fill six vacancies for members of the Governing Board. However, up to December 2013 the college's governing body was not in place.

As reported in my previous reports, the delay in appointment of boards of directors has a negative impact on the performance of PA&oBs. Among the things affected by the lack of boards of directors include appointment of senior management level personnel, approval of budgets, making strategic decisions, monitoring of integrity of financial reporting and adoption of the audited financial statements.

8.6 Excess Legal Fees Charged on NSSF Contracts with External Lawyers

NSSF has various contracts with external lawyers to defend the Fund in the courts of law for various cases**.** I noted that for only four (4) cases, which were signed by the Chief Legal Secretary, NSSF was charged Tshs.100,000,000 representing 18.9% of amount involved to defend the Fund against the cases with total claims of Tshs.527,990,000. All these contracts were not signed by the Director General but the Chief Legal Secretary. However, management believes that signing all contracts by Chief Executive of the fund regardless of the nature could be a tedious task. In my opinion, the amount charged for these contracts (of 18.9%) is on the higher side compared to the amount involved in these cases. The signing of contracts by the legal secretary without involvement of the Director General or his delegated personnel could lead to conflict of interest by taking into account that Chief Legal Secretary is a personnel from the user department.

8.7 Restrictions for TPA Staff to Apply for Senior Management Posts

During reforms which took place at TPA, most of the posts at senior management level became vacant. The Board of Directors of TPA advertised these posts to eligible Tanzanians including staff at the Authority. At the Board meeting which was held on 9th July, 2013, the Acting Director General proposed to the Board that the posts of staff who will show interest in the advertised jobs, their posts should also be advertised. The Acting Director General issued a directive to staff to this effect as evidenced by the correspondence with members of the board on letter with Ref: DG/3/5/01. In my opinion, this is against good governance and laws because it refutes the principle of equal opportunity to all Tanzanians for these vacancies. Such a recruitment process limits competent personnel with relevant experience to apply.

8.8.0 Implicit Government Ownership of Corporations

8.8.1 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) 34.8%, Parastatal Pension Funds (PPF) 30.1%, Public Service Pension Funds (PSPF) 17.2%, Local Authorities Provident Fund (LAPF) 14.2%, East Africa Development Bank Limited (EADB) 2.3%, Staff and other minority shareholders with 1.4%.

The Pension Funds collectively own 96.3% of the paid up share capital of Azania Bank Limited. This implies that the Pension Funds have the controlling interest over the operations of this bank. On the other hand, all the Pension Funds are owned by the government through the Treasury Registrar. By virtue of this relationship, Azania Bank is owned by the government through Pension Funds. However, this bank was initially established as a private bank registered under Companies Act and therefore no Act of Parliament for its establishment. For this reason, this bank is not in the list of the corporations maintained by the Treasury Registrar and therefore had never submitted financial statements to my office for audit pursuant to Article 143 of the Constitution and Section 9(a) iii &iv of the Public Audit Act No. 11 of 2008.

8.8.2 Tanzania Women Bank Limited

Tanzania Women's Bank (TWB) was incorporated and registered in 2007 as a limited liability company. According to the Treasury Registrar statement for the year ended 30th June, 2013, share holding of the bank are 99% owned by the government and 1% private individuals and entities. The total paid up capital of the bank as at 31st December, 2012 was Tshs.6,732,002,970. By taking into account the percentage owned by the government, the Tanzania Women Bank qualifies to be a Public Organisation despite the fact that it was incorporated as a limited liability company.

Sections 30(1) and S.30(3) (e) and (f) of the Public Audit Act stipulates that every public authority or body in which the government is the majority shareholder or receives more than half of its income from public money, shall have to submit its financial statements to the Controller and Auditor General for audit. However, the Tanzania Women Bank Ltd has never submitted its financial statements to CAG for audit.

8.8.3 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 establishment of this entity was to provide credit to small and micro entrepreneurs in Tanzania. The main source of funding was from NORAD under a bilateral agreement between the government of Tanzania and the Royal Government of Norway. The government of Sweden joined as donor from 2001.

According to the Treasury Registrar's statement of government investments and public interest as at 30th June, 2008, all shares of PRIDE Tanzania were being owned by the Government of Tanzania. As of that date, PRIDE Tanzania had a share capital of Tshs.2,301,085,800 and other shareholders fund of Tshs.2,198,325,955 resulting to total equity of Tshs.4,499,411,755. It has come to my notice through statement of Treasury Registrar for the year ended 30th June, 2012 that PRIDE Tanzania was deleted 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. The government has not responded to my letter with reference No.CB.27/31/63 of 20th June, 2012 requesting the Treasury Registrar to clarify on the legal ownership of this entity.

Furthermore, pursuant to Section 31 of the Public Audit Act No.11 of 2008, any public authority or body shall submit its financial statements to the Controller and Audit General within three months after the end of the financial year to which it relates. PRIDE Tanzania has never submitted its financial statements for audit as required by the law.

CHAPTER NINE

GOVERNMENT INVESTMENT POSITION AND A POST PRIVATISATION AUDIT OF PRIVATIZED PUBLIC ENTERPRISES

9.0 Introduction

This chapter highlights on matters regarding investment position of the Government in its parastatals and other entities and the process in the privatisation for the year ended 30th June, 2013 as per the Treasury Registrar Statement. In addition, the chapter gives highlights of the findings resulted to the post privatization study of ten privatised public entities carried out by M/s TANSCOT Associates on behalf of the Controller and Auditor General.

9.1 Government Investments and the Privatization Progress

The TR statement of investments shows the investment position of the Government in different Parastatals, Institutions and other entities as shown below:

9.1.1 Investment in Foreign Companies

For the year ended 30th June, 2013 the Government held investments with a value of Tshs.222.8 billion in nine foreign companies. The position of the investment has increased to Tshs.145.9 billions when compared to the year ended 30th June, 2012. The shareholdings held by the Government in foreign companies are constant and have remained almost the same in all companies. However, the value of investment has increased due to exchange rate fluctuations, revaluation of reserves and profits from operation in some of the companies.

9.1.2 Investment in Local Companies

As at 30th June, 2013, the Government held shares and other shareholder funds in 215 Parastatals and Government institutions. The total Government investment in local companies has increased from Tshs.12.215 trillion as at 30th June, 2012 to Tshs.14.031 trillion for the year ended 30th June, 2013.

The increase in the local investment has been caused by increase in revaluation reserves and accumulated surpluses in other share holder's Fund, increase in number of Government institutions from 213 in 2011/2012 to 215 in 2012/2013. In addition investment in shares to some of the commercial entities and capital fund to non commercial entities has been increased.

9.1.3 Government Revenue

The total revenue collected by the Treasury Registrar in respect of dividends, loans repayment remittance and other proceeds from parastatals and other entities has decreased to Tshs.61.5 billion in the year ended 30th June, 2013 from Tshs.208.1 billion for the year ended 30th June, 2012, making a decrease of Tshs.146.6 billion equivalent to 70.47%. The planned budget for the year was Tshs.121.8 billion. The under collection was attributed to:

1) Some parastatals such as BoT, In Flight Catering Services Ltd, IPS, Airtel and TDFL did not perform well. However, there were some parastatals and entities which achieved a good performance and ultimately paid dividend to the TR. These are TPC-LIMITED, NMB, PUMA Energy (T) ltd, TPPER and TCC.

2) Liquidation of liabilities by TPA to the Government which resulted into a decrease in amount of loan and interest paid from Tshs.1.8 billion in the year 2011/2012 to Tshs.1.1 billion in the year 2012/2013, making a difference of Tshs.703.4 million equivalent to 38.65%.

3) Non collection of arrears of loan repayment amounting to Tshs.94.3 billion due to the following reasons:-

- Non performing of public authorities which are under liquidation through CHC. The anticipated revenue collection of loan repayment from these parastatals may be recoverable from liquidation proceeds.

- Public entities like TANESCO, TRL (now Reli Assets Holding Company (RAHCO) and TTCL have been financially constrained to repay their loans.

- There are an-unpaid arrears in respect of Zanzibar Government loans which is not yet decided by the two governments on how they should be treated.

9.1.4 Government Outstanding Loans to Public Entities

This paragraph shows the position of indebtedness of public authorities and other bodies to the Government. As at 30th June, 2013 the amount collected from loans as principal and interest has decreased by Tshs.506.7 million, that is, from Tshs.2.1 billion in the year ended 30th June, 2012 to Tshs.1.6 billion in the year ended 30th June, 2013 which is equivalent to 24%.

Out of total outstanding arrear Tshs.20.7 billion was for Zanzibar Government, Tshs.50 billion for RAHCO and Tshs.21.3 billion for TANESCO. These institutions account for 95.23% of total arrears which was supposed to have been paid as per terms of contract.

SONGAS had also an outstanding loan amounting to Tshs.238.3 billion which is equivalent to 51% of total outstanding loan. According to the contract, SONGAS repayments are supposed to come from the proceeds which TANESCO repays to SONGAS from protected gas sales. Incase TANESCO defaults due to liquidity problems has led SONGAS not to service its loan.

The opening balance of loan outstanding as at 1st July, 2012 of Tshs.467,925,202,046 differ with the closing balance for the year ended 30th June, 2012 due to DUWASA loan amounting to Tshs.1,376,212,145 which was not included in the statement.

Further, the loan balance outstanding as at 30th June, 2013 has decreased to Tshs.466,548,989,900 in the year

2011/2012. The decrease was caused by loan repayments made by Tanzania Automech Ltd, Kilimanjaro Airport Development Co. Ltd, Tanzania Airport Authority, Tanzania Civil Aviation Authority (TCAA), Tanzania Portland Cement Company (TPCC) and DUWASA. These corporations have been servicing their loans according to their loan repayment schedules.

There are also other loans issued to private companies as follows; De Lauw Cather International, Ginaac Industries Ltd, Mansons Ltd and African Marble Co. Ltd. Also other loans were issued to Revolutionary Government of Zanzibar.

9.1.5 Government Guarantee

The statement of government guarantee issued to various parastatals and other entities up to 30th June, 2013 shows that, the total outstanding guarantees was Tshs.485,734,521,138 compared to Tshs.498,670,466,525 for the year ended 30th June, 2012.

The grouping of these guarantees is as follows;

(a) Parastatals which are not operating and are under receivership such as Tanzania Sisal Authority, State Motor Cooperation, SUKITA and General Tyre East Africa. These account for Tshs.33,129,626,468 (6.82%) of the total guaranteed loans;

(b) Parastatals whose repayments have been rescheduled are Friendship Textile Mills. A balance of Tshs.25,781,394,289 (5.31%) is outstanding under this group.

(c) Parastatals which are under financial constraints. These are Higher Education Students' Loans Board with a government loans guarantee of Tshs.121,607,477,900; Air Tanzania Company Limited – USD equivalent to Tshs.29,100,000,000 and Mara Cooperative Union –

Tshs.8,502,977,181. These guarantee of Tshs.208,033,956,193. This accounts for 42.83% of the total outstanding guarantees.

(d) Parastatals whose loans are being serviced are; the syndicated loan to TANESCO with a current balance of Tshs.203,000,000,000 and University of Dar es Salaam for Faculty of Commerce loan with a current balance of Tshs.789,544,189. These loans amount to Tshs.203,789,544,189. This accounts for 41.95% of the total outstanding guarantees.

(e) Parastatals whose loans were not settled through liquidation process include State Motor Corporation. The loan balance is Tshs.3,065,026,923 which accounts for 0.63% of the total outstanding guarantee.

(f) Guarantee of Tshs.15,000,000,000 was issued to NBAA to secure a loan for construction of the Accountants and Auditors Professional Centre. This accounts for 3.09% of total amount guaranteed.

As it has been noted that, the total amount of outstanding loan guarantee as at 30th June, 2013 has decreased by Tshs.12,935,945,387 (or 2.59%) from Tshs.498,670,466,525 in 2011/2012 to Tshs.485,734,521,138 in 2012/2013. The balance arises from accruing interest and penalties, exchange rate fluctuations/adjustments.

9.2 Post Privatisation Audit of Privatised Government Entities

9.2.1 Background

Privatization of public enterprises was aimed at reducing the burden of parastatals to the government by improving economic efficiency of the enterprises and their contribution to the national economy, boosting the growth and development of the private sector and mobilising more foreign and domestic investments.

However, there has been public dissatisfaction on how the divestiture exercise of public enterprises was carried out as evidenced by poor performance of some of the divested enterprises. Some of these entities never commenced businesses contrary to terms and conditions in their sale agreements.

In view of the above, the Controller and Auditor General commissioned a study to M/s Tanscot Associates to carry out a post privatisation of ten (10) privatized public enterprises, with a view to establish whether the relevant laws, privatization procedures and criteria were complied with and whether the wider privatization objectives for the economy were achieved.

9.2.2 Findings and Observations from the Audit

Findings arising from the post privatization review have been summarized as general and specific findings as follows:

9.2.3 General Observations

9.2.3.1 Privatization Process Decision Making

The privatization process decision was not expedited as intended resulting in long delays that may not only have frustrated potential buyers but also led to further deterioration of assets on sale with consequent loss in value; especially because assets being sold were left lying idle, with little maintenance.

The following is a table summarizing some cases of delay in the privatization process.

Table 2: Cases of delay in the privatization process

Corporation	Gazetted as Specified/ GN no.	First Advertised/ Initiatives taken	Sale Concluded	Period (yrs)
NMC- Head office	1996/ GN 23	1996	7th May, 2001	5
NMC- Kurasini Wheat Complex	1996/ GN 23	1997	16th November, 2005	8
Kiwira Coal Mine Ltd.	1997/ GN 543	April 1999	8th -Aug-05	6
Morogoro Canvas Mill Ltd.		April 1994	5th October, 1998	4
Mufindi Paper Mill Ltd		1991- before PSRC	16th January, 2004	12
Ubungo Farm Implements Ltd		1996	20th December, 2003	7
General Tyre			Ongoing	
Tanganyika Packers Ltd- Kawe		1993 (under LART)	not concluded although the Assets Sale Agreement was signed on 19 April, 2002	19
Tanganyika Packers Ltd- Shinyanga		1993 (under LART)	15th October, 2007	14

Source: CHC privatization records and consultant review

9.2.3.2 Conflicting Responsibilities between CHC and the Central Government

Section 22(1) of the Public Corporations (Amendments) Act, 1993 provides for mandates, authority, powers and responsibilities of PSRC/CHC in the implementation of privatization policy. According to the Act, PSRC/CHC was mandated to implement the privatization process and reform programme in consultation with relevant ministries. However, several cases were noted where the central government through respective ministries spearheaded the privatization process contrary to the Act. For example;

privatization of Kiwira Coal Mine Limited, Kilimanjaro Hotel Limited and Tanganyika Packers Limited – Kawe yet to be sold.

9.2.3.3 Inadequate Monitoring/Evaluation and Implementation of Sale Agreements

Sale Agreements contain the Buyer's undertakings to revamp the enterprise through investment in plant and technology. These investment plans contain implementation timelines. It has been noted that there has been inadequate monitoring and evaluation framework to enable the PSRC/CHC to effectively monitor the implementation plans of privatized enterprises. Further, the post privatization study could not obtain evidence whether or not PSRC/CHC took action to enforce relevant provisions/covenants in the sale agreements. This signifies that appropriate actions were not taken in regard to enforcement of the relevant provisions/covenants.

From the review done, investments which were not adequately monitored include NMC – Head Office, NMC – Kurasini Wheat Complex, NMC – Tabora Rice Complex, NMC – Shinyanga Rice Complex, NMC Isaka Rice Complex, Kiwira Coal Mine Limited, Morogoro Canvas Mill Limited and Mufindi Paper Mill Limited just to mention a few. Up to the time of concluding the study, the above mentioned investments were yet to be verified by the Consolidated Holding Corporation (CHC).

It has also been noted that, the PSRC/CHC has not put in place a mechanism for periodic monitoring and evaluation of operational/financial performance of divested enterprises (at least for the duration of the investment plan) so as to evaluate and report on pre and post divestiture changes. Such monitoring and evaluation are necessary for an informed view on the results that were expected from parastatals sector reforms.

9.2.3.4 Review of Sale Agreements

A sale agreement should clearly define responsibilities of the Vendor and Purchaser. The agreement should also contain important covenant to ensure effective monitoring and enforcement of the agreement by both parties.

Key clauses/covenants in the sale agreement should include but not limited to agreed sale price and modality of payment, agreed investment plan with timelines, right of vendor to obtain information from Purchaser on implementation of the investment plan and operational/financial performance to allow for monitoring of post divestiture performance. It is also important to have a clause that emphasizing a need of undertaking by Purchaser to continue operating the purchased business in the same economic sector as at the time of privatization and/ or expand the business e.g. through forward and backward linkages, proper description of assets being sold so as to avoid disputes at later stage. Also upon termination of the sale agreement on breach by the investor, the business or assets should be repossessed by the Government of Tanzania without any due consideration of compensation to the investor. The clauses should also Prohibit the Purchaser or Investor to re-sale the business or assets to the third party.

In addition, each sale agreement should include a default clause setting out events and actions on non-performance such as failure to implement the investment plan as per agreed timelines and failure to make payment of sale price as per agreed terms and conditions. The failures should constitute default that empowers the vendor to terminate the sale agreement without having to pay compensation to the Purchaser.

In most of sale agreements reviewed we noted that termination clause focused only on non payment of sale price but silent on other key covenants such as failure to implement the agreed investment plan and discontinuation of business.

9.2.3.5 Supervision of Board and Management of Specified Public Corporations

Section 39 of the Public Corporation (Amendment) Act No. 16 of 1993 granted several oversight powers to the Commission (PSRC/CHC) in relation to specified corporations. These powers were intended to ensure operations and managerial control of public enterprises is maintained in a way that supports smooth restructuring.

Section 39 (2) states that " Without limiting the generality of subsection (1) the Commission may, in respect of any specified public corporation-.

(a) cause a detailed financial and operational analysis of the specified public corporation to be carried out;

(g) hold discussions with the members of the Board and officers and employees or their representatives of the specified public corporation with a view to achieve a fair, reasonable and harmonious restructuring of that specified public corporation";

Section 42 of the same Act states that: "Notwithstanding that a public corporation may be declared as specified public corporation; it shall be the duty of the Board of every public corporation:

(a) to ensure that the corporation continues to carry out its functions in accordance with its statement of corporate strategy; and

(b) to co-operate with and ensure that the officers and employees of such corporation co-operate with the Commission in order to facilitate the restructuring of such public corporation is successfully achieved".

These sections require that, the boards of specified corporations to ensure they continue with functions in accordance with the statement of corporate strategy and collaborating with management in the restructuring process.

Review of available documentation does not indicate that PSRC/CHC acted in accordance with section 39(2) (a) as stated above and thus caused the boards of directors and management not to comply with requirements of section 42 of the Act.

9.2.4 Specific Observations

Specific observations of the post audit study for the selected privatized public enterprises is as detailed in the paragraphs below;

9.2.4.1Failure to Conduct Presale Audit

The post privatization audit has noted that, the privatization of some of privatized enterprises was done without carrying out a presale audit to give an independent opinion as to the affairs of the company prior to sale. This is signified by the absence of evidence of the presale audit in several entities which were privatised. Examples of public enterprises where this anomaly has been noted are Kiwira Coal Mines Limited (KCML) and Kilimanjaro Hotel Limited (KHL).

9.2.4.2 Lack of Evidence of the Sale Process

The post privatization audit of the selected public enterprises noted lack of evidence of the process that led to the sale. Examples of the enterprises where evidence of the process of sale were not obtained include NMC – Kurasini Wheat Complex, TPL Shinyanga Meat Plant and Southern Paper Mills Limited (SPM).

9.2.4.3 Implementation of the Investment Plan of the Assets Sale Agreement

Review of the implementation of the investment plan noted some shortfalls as presented hereunder.

At Kiwira Coal Mine Limited (KCML), the purchaser undertook to invest Tshs.46.1 billions. However, the review of the study observed that the only capital investment reported by Kiwira Coal and Power Company Limited from June 2005 to 31st December, 2010 was Tshs.3.3 billion.

It has also been noted that at the Kilimanjaro Hotels Limited (KHL), the investor has not carried out investment in accordance with the Sale Agreement and the Vendor has not taken any action as provided for under the agreement.

It has further been learnt that although asset sale agreement of the NMC – Headquarters granted the vendor the right to obtain quarterly information on matters relating to the implementation of the rehabilitation plan proposed by the purchaser, there is no evidence that PSRC/ CHC enforced its rights under the agreement.

During the study visit to the factory site in September 2012, it was noted that the plant was not yet operational as it was still under rehabilitation and production had not started -five years after the sale was concluded and two years after the investment plan should have been fully implemented.

9.2.4.4 Post Privatization Performance

Review of the study on post privatization performance revealed the following;

At Kilimanjaro Hotels Limited (KHL), documents made available by CHC revealed that the company incurred cumulative losses of Tshs.26.2 billion between 2005 and 2010. Also Kilimanjaro Hotel Limited has not carried out a number of investments agreed in the sale agreement.

At NMC – Headquarters, the milling was said to be operational. However, data on performance were not obtained. Sales agreement of the NMC – Kurasini Wheat Complex grants the Vendor rights to obtain information annually on matters relating to implementation of the investment. However, we did not obtain evidence that CHC exercised its rights to ask for and act on such information. At NMC – Isaka Rice Mill Complex we noted that the site was abandoned.

Regarding monitoring of SPM, there was no evidence to prove that CHC/PSRC carried out any post privatisation monitoring of the implementation of provisions of the sale agreement of the Sothern Paper Mills Limited (SPM). Audit visit to the mill in September, 2012 revealed that the mill was operational, although management declined to provide any operational or financial data.

During a site visit at Morogoro Canvas Mills in September 2012, we obtained data indicating that though the company is operating, its performance has been on a downward trend.

While performing review of post privatization study at General Tyre East Africa Limited (GTEA), I observed that the company was completely shut down. However, ongoing rehabilitation to revive the company and the divestiture of GTEA has been handed over to NDC. At Kagera Sugar Limited (KSL) the data indicated that, although the company is operating, its performance has been on a downward trend.

9.2.4.5 Capital Market Development

Privatization and development of capital markets are symbiotic in nature. Privatization in practice enables companies to operate efficiently and profitably thus making them eligible for listing at the stock exchange. Dar-es-Salaam Stock Exchange (DSE) was established in 1998 in order to facilitate the reform process in the financial sector, encourage wider ownership of shares among Tanzanians and facilitate the privatization process. DSE started with only one equity product namely Tanzania Oxygen Limited (TOL). To date there are 17 listed companies, six corporate bonds and 17 government bonds. DSE market capitalization has increased from Tshs.161.0 billion in 1998 to Tshs.12,772.79 billion as at 30th June, 2012 (*DSE quarterly report 2012*).

Despite the notable growth demonstrated by DSE, only 8 out of 336 privatized firms have listed their stocks at DSE.

These are Tanzania Oxygen Limited (TOL), Tanzania Breweries Limited (TBL), Tanzania Cigarette Company Ltd (TCC), Tanga Cement Company Limited (SIMBA), SWISS PORT Tanzania Limited, Tanzania Portland Cement, National Microfinance Bank (NMB) and Tanzania Tea Packers Limited (TATEPA). The privatized enterprises account for 52% of the stocks listed on DSE.

In general, DSE is still at its infancy stage. Its main investment market segment has not been able to attract many potential companies for listing due to the fact that potential companies do not meet the stipulated conditions. In addition DSE has not been able to facilitate much of the privatization activities. Main challenges affecting DSE development include low volume of transactions and limited products.

Broadening ownership of parastatals by Tanzanians was one of the objectives of privatization of parastatals in Tanzania. However, the large number of big parastatals were privatized and sold to foreign multinationals.

9.2.4.6 Lack of full Involvement of PSRC in the Privatisation of Kiwira Coal Mines Limited

It has been noted that the process of privatization of Kiwira Coal Mine Limited was carried out by Ministry of Energy and Minerals (MEM) as opposed to the PSRC/CHC and as required by Public Corporations (Amendment) Act, 1993. The PSRC/CHC was only involved in signing the Joint Venture Agreement.

PSRC/CHC was formed for the purpose of implementing Parastatal reform programme and it was equipped with necessary resources required in restructuring of public corporations. Failure to utilize the skills of PSRC/CHC in carrying out privatization activities has the risk of leading to sub-optimal or irregular privatisation outcomes.

The Minister for Energy and Minerals wrote undated minute reference CDA48/171/01 requesting for a

Presidential approval of Tanpower proposal to proceed on a fast track basis. Our review did not establish that there was a competitive process in which TANPOWER emerged the winner.

Our review was also not able to establish the extent of involvement of PSRC in the process that concluded the signing of the Subscription and Joint Venture Agreement, except as a signatory to the Agreement, representing the Government.

9.2.4.7 Termination of the Subscription and Joint Venture Agreement

Clause 17 of the Subscription and Joint Venture Agreement deals with default and termination (of the agreement) and states in section 17.1 that:

" the Government may terminate this Agreement in case the Strategic Investor contravenes or fails to comply with provisions of the Business Plan which is an integral part of this Agreement (Annexure 7); and the Strategic Investor may terminate this Agreement in case the Government contravenes or fails to comply with any other obligation under this Agreement, provided that either the aggrieved party has given written notice thereof to the defaulting party, and the defaulting party has not, within a grace period of sixty (60) days thereafter, remedied the default or instituted a valid appeal against the aggrieved party's notice of default".

However, our review could not obtain evidence that TANPOWER achieved any of the planned investment and profitability as per the investment plan. Therefore, the company breached Clause 17.1 of the Subscription and Joint Venture Agreement by mid 2009, four years after signing the Agreement, when the issue of termination of the Agreement arose.

Following this breach of the Agreement, CHC/GoT had a legal and contractual right to terminate the joint venture agreement without any compensation to TANPOWER. On 18th October, 2009 Ministry of Energy and Minerals wrote to Consolidated Holdings Corporation (CHC) informing the latter of the decision of the government to repossess KCPL. However, I could not obtain evidence that Kiwira Coal and Power Company Limited has legally been handed back the company (Kiwira Coal Mines Ltd) to the Government of Tanzania (GoT).

Handover of KCPL to the GoT implies that Tanpower is divesting its 70% shareholding to the GoT. However, as a matter of principle it would be expected that shareholders of the company should decide the company's fate in line with relevant provisions of company law and the Subscription and Joint Venture Agreement. On acceptance of Tanpower's proposal to hand back its 70% stake to the GoT, the government's legal and contractual rights to terminate lawfully the joint venture agreement without compensation on account of Tanpower's breach of the joint venture agreement will be compromised.

9.2.4.8 Utilisation of Loans from CRDB, NSSF and PSPF by the Kiwira Coal and Power Limited (KCPL)

Kiwira Coal and Power Limited has three outstanding loans from NSSF, PSPF and CRDB bank, all of which have not been serviced (paid back) since they were taken and appear in the books of accounts as at 31st December, 2010 with the following outstanding balances:

Table 3: KCPL Outstanding loans as at 31st December, 2010 (Tshs.million)

Lender	Date of Loan	Principal	Interest	Total	Purpose
NSSF	10/07/2007	9,009	6,286	15,295	Bridging finance for working capital
PSPF	11/11/ 2005	5,422	4,204	9,626	Financing rehabilitation and expansion

Lender	Date of Loan	Principal	Interest	Total	Purpose
CRDB	11/11/2005 & 19/09/2006	2,508	1,569	4,077	Work of the coal mine and power plant
Total		**16,939**	**12,059**	**28,998**	

Source: KCPL Audited Accounts 31 December 2010

With regard to the above loan, it has been noted that KCPL has not serviced the loans resulting in accumulation of interest charges.

Further review of the KCPL audited financial statements failed to establish how much a substantial portion of the loans was spent, especially CRDB and PSPF loans that were meant for capital expenditure as the Company does not appear to have acquired assets anywhere before and after loan acquisition.

9.2.4.9 Government Guarantee Under the Export Credit Guarantee Scheme (ECGS) to the Kiwira Coal and Power Limited (KCPL)

The NSSF loan of Tshs.9.009 billion which was for "bridging finance and working capital" was guaranteed by government through the Bank of Tanzania under the Export Credit Guarantee Scheme (ECGS). Bank of Tanzania (BoT) provided a guarantee of Tshs.6.65 billion equivalent to 75% of the loan, although Kiwira Coal and Power Company Limited does not appear to qualify for government guarantee under the ECGS as the same do not fall within the rules of the scheme (ECGS Rules of 1993). The scheme covers Advances granted against firm export orders, Advances granted to supplier/producer/ manufacturer of goods against firm contract or agreement of sale with an exporter and Advances granted in respect of deemed export transactions. Eligible products are Tanzanian exports of goods and services, priority being given to high value and value added exports.

The duration of the guarantee is as follows or as shall be otherwise determined by the scheme;

- Pre-shipment Credit Guarantee 270 days,
- Export Production Credit Guarantee 70 days, or
- Post-shipment Credit Guarantee 60 days,
- Export Performance Guarantee 270 days.

It is evident that bridging finance and working capital do not fall among the export credit guarantee schemes as given under ECGS Rules of 1993.

9.2.4.10 A need to Take Immediate Action on the Special Audit Report by PKF

On 11th June, 2011, the CHC signed a consultancy service agreement with PKF Tanzania, a firm of accountants and business advisors, for the latter to carry out a special audit of Kiwira Coal and Power Limited (KCPL) from the date of takeover by TANPOWER Resources Limited up to 31stDecember, 2010.

This report raised a number of observations regarding management of KCPL and its state of affairs as of 31st December, 2010. The GoT/CHC needed to take proper measures on issues raised in the special audit report to ensure appropriate actions are taken before handover of Kiwira Coal Mine to the Government of Tanzania.

9.2.4.11 Review of Management Service Agreement

We could not obtain evidence of engagement of a foreign management team with requisite skills/expertise by TANPOWER to manage KCPL as stipulated in the management service agreement between TANPOWER and KCPL.

On 18th October, 2005, Kiwira Coal Mine Limited entered into an agreement with TANPOWER in which the parties agreed that TANPOWER would provide management services (as a “managing agent” to KCML (later KCPL). The agreement was meant to last for the life of the joint venture between TANPOWER, KCML and GoT or until the company is dissolved, whichever came earlier.

Section B of the Management Services Agreement stipulated that the agreement was entered into as per terms of the joint venture agreement. However, TANPOWER proposal of 4th January, 2005 for the joint venture (Annexure 7 to the joint venture agreement) states *"…..our proposal include taking over the management of the company. For this purpose, Tan-Power Resources Company Limited will engage a reputable foreign management team….."*

The management contract provided the duties to be carried out by the managing agent to include, but not limited to:

(i) general management of the company during project management stage,

(ii) undertaking feasibility and other technical studies for the expansion of the coal mine, the coal-to-power project and power transmission sub-projects,

(iii) raising funds by way of loans, equity or otherwise for financing of the operations of the company including rehabilitation of the mine and conducting feasibility and other technical studies as the managing agent shall deem fit to carry studies and implementation project.

Clause 3(i) of the contract states *"…as full compensation for the services to be rendered to the Company by the managing agent and for the expenses to be borne by the managing agent in carrying out its duties, during the ending four (4) years after the date of the contract, the Company shall pay the managing agent a management fee of US$ 2,400,000 (USD Two million four hundred thousand) per annum (calculated at $ 200,000 per month)*.

Sub clause (ii) of the management agency further provided the understanding of the parties to the agreement that the Company was not in a position to pay the management fees until at least the commencement of the production of coal. That the fees were to be recorded cumulatively, accrued and payable when the company is able to pay or, at the election of the managing agent, to be treated as advance towards share capital and in the event of the managing agent ceasing to be a shareholder in the company, the managing agent would be entitled to compensation for its equity investment based on the accrued fees.

As we could not obtain evidence that foreign management team with requisite experience and skills was employed by KCPL as stated in the management service agreement, there is no basis and justification for KCPL to pay accrued management fees liability of Tshs.19.477 billion as at 31st December, 2010 to M/s Tanpower Resources Company Ltd.

9.2.4.12 Management of the Privatisation Process of the Kilimanjaro Hotels Limited (KHL)

In the sale of the Kilimanjaro Hotel Limited, three advertising rounds were made between 1996 and 1999, but we were not able to obtain details of these advertisements and why none of these attempts resulted in a successful sale. Instead, the eventual investor in 2003 came on the scene through a different non-tender process which was not related to the PSRC initiatives.

Activities that led to a successful sale were initiated, overseen and concluded by the central government, with PSRC being called in to draft the sale agreement. This mode of operation blurs accountability between GoT and the PSRC/CHC as well as impinging transparency of the transaction.

9.2.4.13 Asset Sale Method/Strategy of NMC Headquarters not in Line with the Main Parastatal Reform Policy Objectives

The post privatization audit of public enterprises noted that the sale of NMC assets was not done in accordance with the proposed sale strategy where the investor was to hold majority shares of between 51% and 75% and minority shares to be held in local investors Trust including general employees and the public.

PSRC issued an Information Memorandum on NMC in which it stated Government intention as to look for partners willing to invest in the sector so as to improve technologies and expand the sector in order to meet domestic demand. The Government intended to form a new joint venture company with an investor based on NMC assets in Dar es Salaam as packaged for divestiture.

The government intention for the proposed sale strategy was in line with the main parastatals reform policy objectives that are to encourage a wider participation by the indigenous in the ownership and management of business. However, the sale was eventually on 100% investor owned basis contrary to recommended sale method to ensure government privatisation policy objectives are realised.

Although one of the reported bidders proposed a joint venture with government on 75% to 25% basis, with government holding a minority stake which appears to have been in line with government objective, PSRC concluded the transaction with a different bidder on 100% investor owned basis, a decision that have defeated the government privatization policy objectives.

9.2.4.14 Implementation of Assets Sale Agreement of the NMC Headquarters

Clause 8.3 of the Assets Sale Agreement granted the Vendor the right to obtain quarterly information on matters related to the implementation of the rehabilitation plan proposed by the Purchaser. There is no evidence that CHC has appropriately monitored implementation of the proposed investment plan.

The investment plan is a key feature of the agreement and plays an important role in evaluating/ determining the winning bid as it indicates to the Vendor whether the prospective buyer is likely to meet government policy objectives.

Inadequate monitoring of the implementation of the sale agreement leads to failure of CHC to track, evaluate and make appropriate recommendations to government on how the parastatal reform programme is fairing against stated objectives and what could be done to better align its implementation with policy objectives.

9.2.4.15 Payment of Sale Price by Debt Swap Contrary to Financial Proposal Submitted to the PSRC to Purchase NMC Kurasini Wheat Complex

According to the Financial Proposal submitted to PSRC, the Purchaser (21st Century Limited owned by Mohamed Enterprises) had offered cash settlement of the sale price and not debt swap. However, the actual sale was settled by debt swap. We could not establish under what circumstances settlement by debt swap came about.

Contrary to the proposed mode of payment by the bidder in the financial proposal, we noted that Clause 3.0 of the Assets Sale Agreements allowed for the full settlement of the sale price of US$ 6.2 million by way of debt swap approved by the Ministry of Finance vide letter with reference No. TYC/C/240/27/1 dated 16th September, 2005.

We also noted that settlement of sale price by way of a debt swap was not normal for the Commission. In line with section 22(3) of the Public Corporations (Amendments) 1993, the PSRC should have made prior consultations in writing with the Treasury, the responsible Minister (Agriculture and Co-operatives) and the Attorney

General. We could not obtain evidence that PSRC/CHC sought approval of the debt swap from Treasury, responsible Minister and Attorney General.

9.2.4.16 Monitoring and Evaluation of the Privatization of NMC Kurasini Wheat Complex

The Assets Sale Agreement does not contain details of performance evaluation indicators or targets for post privatisation performance monitoring and evaluation. The only reference to performance was to double mill capacity to 500 metric tons per day and enhance storage capacity by a further 12,000 metric tons at the end of phase II of the proposed investment of USD10.76 million which was scheduled to be completed at the end of year five of privatisation.

Although clause 7.3 of the sale agreement grants the Vendor rights to obtain information annually on matters relating to implementation of the investment, we did not obtain evidence that CHC exercised its right so as to be able to monitor implementation of this important clause.

I could not obtain evidence that PSRC/ CHC took steps to monitor implementation of the above key clauses of the sale agreement.

I were also not able to obtain financial data for both pre- and post- divestiture to enable me provide informed views on the pre and post privatisation operational and financial performance. This indicates that monitoring and evaluation of the privatization of NMC Kurasini Complex was not adequately done.

9.2.4.17 Assets Sale Agreement of the Isaka Rice Mill Complex

I noted that the sale agreement termination clause 13.1 provides for termination on non payment of sale price per payment schedule. The sale agreement should contain other relevant covenants such as implementation of the investment plan and other relevant financial performance indicators as factors that could lead to termination of agreement. Lack of these important covenants in the sale agreement implies that the Purchaser is not under any contractual obligation to carry out the proposed investment plan of Tshs.2.2 billion or keep the mill in the broad line of business as pre-divestiture.

Our audit could not be able to locate the Purchaser and so far, we have not obtained any information on post-divestiture developments of the mill. During our field visit to Isaka Rice Mill we found the mill idle, not operating. We could not establish for how long the mill has been idle. Efforts to contact the owner were not fruitful.

9.2.4.18 Implementation of Assets Sale Agreement of the Isaka Rice Mill Complex

I was not provided with any evidence to indicate whether the CHC has carried out any post - divestiture review of operations for this sale.

I have noted that the Assets Sale Agreement is completely silent not only on matters of monitoring the implementation of the sale agreement, but also it does not contain any major covenants that PSRC should have insisted on to ensure that post divestiture the Purchaser's conduct would be aligned to government policy objectives for the sale.

Lack of these important covenants in the sale agreement such as investment plan makes post privatisation monitoring by CHC ineffective as the purchaser is under no obligations to implement the investment plan and other covenants for successful privatisation that will ensure government privatisation policy objectives for the sale are achieved.

9.2.4.19 Timing of Sale Process of the Shinyanga Rice Mill

The sale of Shinyanga Rice mill took ten years to conclude and is reported to have been advertised and attracted bidders, on at least three occasions. Failure to conclude the sale on previous occasions was attributed to low bid offers compared to valuation report. It should be noted that the longer time interval between valuation and sale grows, the usefulness of valuation figures to influence the decision declines and becomes less trust worthy.

The effort to sell the mill started in 1995 when PSRC commissioned an asset valuation, but the sale was concluded on 20th April 2005- ten years later leaving assets idle for so long inevitably led to some physical deterioration and probably vandalism. This would not only have negative impact on the sale price but also reduce the importance of the valuation exercise in the overall decision making process.

9.2.4.20 Absence of Supervision/Situational Analysis and Post Divestiture Review of Operation of Specified Corporation - Shinyanga Rice Mill

Absence of closer supervision by CHC of entities earmarked for reform could allow management to take decisions unfavourable to the planned restructuring/ sale. During the final stages of the sale process, it came to the attention of PSRC that NMC had leased one of the godowns to Mohammed Enterprises (T) Limited with rental income going to NMC. The Ministry of Agriculture and Food Security was aware of the arrangement although this information was not communicated to PSRC.

The lease was entered into after the assets were advertised for sale thereby interfering the execution of the planned restructuring.

There is no evidence to indicate that CHC has carried out any post- divestiture review of operations for the sale of Shinyanga Rice Mill.

From our visit to the mill in September 2012, we were informed that the mill is owned by Mohammed Enterprises Limited, not Best Lint (Tanzania) Limited who purchased the same from the government and signed the Sales Agreement.

It has been noted that the Assets Sale Agreement is completely silent not only on matters of monitoring the implementation of the sale agreement, but also it does not contain any major covenants that PSRC should have insisted on to ensure that post divestiture the Purchaser's conduct would be aligned to government policy objectives for the sale.

The agreement lacked relevant covenants such as failure to implement the investment plan could be part of the agreement termination clause. However, the termination grounds include only non payment of the agreed sale price per schedule. In addition, the Sale agreement should contain relevant performance indicators and requirement for periodic performance reporting to ensure effective post monitoring and evaluation by CHC.

9.2.4.21 Implementation of Assets Sale Agreement - Privatization of Tabora Rice Mill

It has been noted that the Assets Sale Agreement is completely silent not only on matters of monitoring the implementation of the sale agreement, but also it does not contain any major covenants that PSRC should have insisted to ensure that post divestiture the Purchaser's conduct would be aligned to government policy objectives for the sale.

It is important to note that the Purchaser is not under any contractual obligation to carry out the proposed investment plan or keep the mill in the broad line of business as pre-divestiture. The Sale agreement does not contain enforceable clauses to hold the Buyer accountable for the implementation of the agreement.

The agreement lacks relevant covenants such as failure to implement the investment plan. The agreement contains only one ground for termination, i.e. failure to pay the agreed sale price per schedule. In addition, the sale agreement should contain relevant performance indicators and requirement for periodic performance reporting to ensure effective post monitoring and evaluation by CHC.

We were not provided with any evidence to indicate that CHC has carried out any post- divestiture review of operations for this sale.

9.2.4.22 Delays in Implementing Contractual Agreement for the Tanganyika Packers Limited Kawe privatization

Review of the sale agreement noted that, whereas the Purchaser has fulfilled his obligations under the agreement, the Vendor has failed to satisfy Conditions Precedent by not handing over to the Purchaser title deeds as per clause 2.2. By failing to fulfill Conditions Precedent, the Vendor has breached the sale agreement.

Even after its own admission of the breach, government has not taken effective steps to resolve the matter. The Vendor has thus created an unnecessary dispute which, under clause 11 of the Assets Sale Agreement could end up with arbitration under United Nations Commission on International Trade Law (UNCITRAL) Arbitration Rules.

This matter has remained unresolved for nearly ten years since the agreement was signed in 2002. Delays in implementing contractual obligations may result in costly claims and tarnish the national image as an investment destination.

9.2.4.23 Timing of Sale - Delay Between Valuation and Conclusion of Sale of the TPL Shinyanga Assets

Long delays between valuation and conclusion of a sale would likely make the valuation of little negotiating value to the Vendor and it also puts the assets at risk of loss and deterioration. We sighted a July 1998 Valuation and Survey Report by LET Consultants that determined Tanganyika Packers Limited - Shinyanga assets at Tshs.1.090 billion (maximum) and Tshs.732.95 million (minimum). In addition, we were availed another 1994 valuation report by M/s Feser Valuers which had the following assets values: Tshs.1.509 billion (replacement value) and Tshs.904.62 million depreciated value.

The Assets Sale Agreement was signed between PSRC and Triple S Beef Limited on 15th October, 2007- nine years after the valuation; for a sale price of Tshs.63.25 million, less than ten per cent of the 1998 minimum valuation.

9.2.4.24 Deficiencies in the Implementation of the Investment Plan – Tanganyika Packers Limited Shinyanga Assets

During a site visit to the Tanganyika Packers Factory in Shinyanga in September 2012, we noted that the plant was not yet operational. It was still under rehabilitation and production had not started -five years after the sale was concluded and two years after the investment plan should have been fully implemented.

We could not obtain detailed information regarding the amount of investment made up to the time of the audit. Also timelines for ongoing rehabilitation and expected date for the factory to commence operations were not obtained.

Although the Assets Sale Agreement granted the Vendor specific authority to monitor implementation of the Investment Plan (Clause 7) and provided its non-implementation as ground for termination, the Vendor did not carry out what was expected of him and the Purchaser has been left free.

The Plan envisaged investment of US$ 236.6 million over three years with investment plan showing that by January, 2011 the project would have been at full capacity.

9.2.4.25 Privatization of Southern Paper Mills (SPM)

The efforts to privatize SPM started in 1991 before establishment of PSRC. Those efforts were initiated and coordinated by NDC at the insistence of SPM's foreign financiers including SIDA, CIDA, KFW and World Bank. In 1992 the Government formed an Inter-Ministerial Task Force for privatization of SPM which engaged the International Finance Corporation (IFC) as advisor for SPM privatization process. In 1993 IFC contacted more than 160 paper companies and other investors worldwide to try to market SPM as an attractive investment opportunity. However, most prospective investors came up with unfavourable terms resulting in the government withdrawal from proceeding to serious negotiations. In 1994, IFC withdrew from the transaction advisory role and PSRC took over the privatisation process.

Under PSRC, in 1999 a set comprising of four (4) bids was received from M.A. Kharafi & Sons (MAK), MIDROC Ethiopia Pvt. Limited, Khoday India Limited and the AJ Group of companies. MAK, who emerged a successful bidder, was invited for negotiation although there was disagreement on the incentives, terms and conditions demanded by MAK. Consequently, SPM was sold to Rai Group from Kenya at a contract price of US Dollar Twenty Six Million (US$26.0m). However, there is a document dated 20th February, 2003 titled "Bid for Southern Paper Mills Ltd" from Rai Group of Kenya. It is not clear on how Rai Group of Kenya bid was solicited as there is no record of any privatisation steps taken by PSRC after the collapse of the negotiations with MAK in 2001.

The Assets Sale Agreement between PSRC and Rai Group was signed on 16th January, 2004. This agreement stipulated that the agreed price of USD.26 million shall be paid in the following manner; USD.1 million on the date of signing the agreement, USD 3 million to be deposited in the escrow account and USD. 22 million to be used by Purchaser to (i) invest in the Company in the first two years (USD 16.2 million) and (ii) USD 5.8 million in the third year. It was further agreed that the amount deposited at the escrow account was to be withdrawn by the investor upon making a cumulative investment of USD. 22 million.

Considering the fact that USD 3 million deposited in the escrow account is recoverable by the investor and USD 22 million will be invested in SPM, this leaves only USD1 million to be the actual Asset Sales Price for SPM. We noted that no consideration for SPM assets has moved to the government since the proceeds of the sale were re-invested in SPM. The amount of USD 22 million injected in SPM as part of sales price should have been regarded as government investment in SPM.

Furthermore, there is no evidence that indicate that PSRC/ CHC has carried out any post privatization monitoring of the implementation of the provisions stipulated in the sale agreement.

CHAPTER TEN

RESULTS OF SPECIAL AUDITS

10.0 Introduction

The Controller and Auditor General (CAG) is empowered under Section 29(2) of the Public Audit Act No. 11 of 2008 to undertake special audits upon receiving a request from a Person, Institution, Ministries, Departments, Agencies, Local Government Authorities and such other Bodies.

Pertaining to such provision in the Act, the Office of the Controller and Auditor General conducted special audits in six Public entities during the year under review which included: Tanzania Postal Bank (TPB), Shinyanga Urban Water Supply and Sanitation Authority (SHUWASA), National Ranching Company (NARCO), National Health Insurance Fund (NHIF), Cashewnut Board of Tanzania and Tanzania Trade Development Authority (Tan Trade).

Key findings of the special audits presented in this report are the summary of the audit observations; the detailed findings are available in the respective reports and can be obtained from the authority requested the special audit. Key findings from the special audits conducted are outlined below:

10.1 Tanzania Postal Bank (TPB)

The special audit of Tanzania Postal Bank (TPB) was conducted upon the Controller and Auditor General (CAG) receipt a letter from TPB employees alleging that there were an embezzlement of Tshs.185 million, Non compliance with Public Procurement Act of 2004 and its Regulations of 2005 in procurements, and unfair treatmentness in the recruitment procedures at TPB.

10.1.1 Renovation of the CEO Residential House

The special audit noted that contract for the renovation of the TPB's Chief Executive Officer (CEO) residential house on Plot No. 24 Block No.186157 – Ursino Estate Kinondoni Dar es Salaam, was awarded to M/s Kiaren Investment Ltd. The contract was signed on 15th November, 2011 with a contract price of Tshs.92,629,888 but the total amount paid to the company for the same contract was Tshs.104,572,141. Management of TPB could not clarify the additional payment of Tshs.11,942,251 paid in addition to the agreed contract sum. Restricted tendering method was used by TPB in this procurement in which five companies including M/s Kiaren Investment Ltd submitted bidding documents but none of the companies had met the predetermined conditions to be awarded the contract under restricted tendering method.

Management of TPB could not clarify procurement procedures adopted to engage M/s Aeroproject Tanzania Ltd and M/s Technician Image to design the structures and Bill of Quantities (BOQ) for the renovation of the CEO residential house.

TPB had no qualified personnel in place to supervise the renovation exercise of the CEO residential house. In this perspective an official from administration department supervised the renovation works. Besides lacking knowledge in construction works the officer advised the CEO for more additional works to be awarded to the Contractor although no site meetings were held between the Contractor and the Site Supervisor to determine the extent of the additional works.

Additional works for the renovation of the CEO residential house worth Tshs.71,136,831 were awarded to M/s Kiaren Investment Company. The special audit noted additional works were carried out by another company M/s Havillah Business Company, a company engaged by TPB without adhering to the procurement procedures. The Managing Director of M/s Havillah was also working for M/s Kiaren Investment Company. It was further revealed that M/s Havillah Business Company was not registered by the Contractors Registration Board (CRB). Payments of

Tshs.16,692,436 paid to this company included Value Added Tax (VAT) amount which was not remitted to Tanzania Revenue Authority (TRA) by the company.

VAT certificate used by M/s Havillah Business was the same used by M/s NACOD Enterprises Co. Ltd, a company that was also contracted by TBP and secured 50% of the total construction contracts of TPB for the period between 2011 to August 2013. The Construction works to M/s NACOD Enterprises were awarded without following laid down procurement procedures. M/s NACOD Enterprises Co. Ltd was paid a total of Tshs. 463,387,773 by TPB for the contract. VAT amount of Tshs. 61,851,059 was collected by the company but was not remitted to TRA because both companies (M/s Havillah Business and M/s NACOD Enterprises) used an identical forged VAT registration certificate.

10.1.2 Renovation of TPB Mkwepu Branch Building

M/s Kiaren Investment Ltd was awarded a contract for the renovation of TPB Mkwepu Branch Building without TPB adhering to laid down procurement procedures. The contract for this renovation was signed on 15th November, 2011 for a contract sum of Tshs. 86,343,786. The contract was also awarded through restricted tendering tender method in which none of the four companies that submitted tender documents met the conditions for restricted tendering tender method.

Additional works of Tshs.144,316,170 were awarded to M/s Kiaren Investment Ltd and to M/s Havillah Business Company, the modalities used to award the additional works to the companies were not in line with laid down procurement procedures. Further, there was no contracts signed between TPB and the companies for the additional works.

Bill of Quantities (BOQ) for the renovation of TPB Mkwepu branch was prepared by personnel from the administration department who was a member of the branch establishment committee, a member of the evaluation committee and project manager for the renovation works. The administration staff, also accepted additional works and advised the CEO to approve the award of the additional works to the Contractors without adhering to the normal procurement procedures. Payments made by TPB for the renovations to the aforementioned companies were made without submission of Interim certificates as required by the Public Procurement Act No. 21 of 2004 and its Regulations of 2005.

10.1.3 Employment Procedures and Human Resources Issues

i. TPB recruited 40 staff in different positions from July, 2012 to April 2013. The employment adverts were made internally through the use of internal emails which could only be accessed by TPB staff who had the passwords to log in the internal mails (Benki ya Posta Tanzania.all@ postalbank.co.tz and branches@postalbank.co.tz). In this regard there was no transparency in the employment procedures since Tanzanians outside the bank were denied the rights to access the available job opportunities. Employment opportunities were therefore prioritized to TPB Staff who could access the adverts internally, thus could call upon their relatives and friends to apply for the opportunities.

ii. There were three employees recruited to senior positions on permanent terms and were granted salaries contrary to TPB Scheme of Service. One Senior manager Treasury – Trading, recruited on 30th April, 2012 negotiated and agreed with TPB a monthly salary of Tshs. 3,600,000. According to TPB scheme of service, salary for the same position was between Tshs. 2,417,835 and Tshs.2,494,635. Another staff recruited on 2nd May, 2012 to the position of Senior Manager Treasury – Sales, negotiated and agreed with TPB a monthly salary of Tshs.5,000,000 while TPB scheme of service provides for salary of the same position between Tshs. 2,417,835 and 2,494,635.

I noted further recruitment of one Chief Manager Credit Risk on 10th April, 2012 who negotiated and agreed on a monthly salary of Tshs.5,500,000 while according to the TPB scheme of service salary to the same position was between Tshs. 3,370,072 and Tshs. 3,466,072.

The special audit revealed that the recruitment procedures of the three senior staff was not transparent and was not in conformity with TPB procedures. It was also noted that for those Senior Managers and Directors who were previously employed by the bank were paid salaries in accordance with the TPB scheme of service and their salaries were lower than the salary paid to the three newly recruited Senior Managers.

10.2 Shinyanga Urban Water Supply and Sewerage Authority (SHUWASA)

Shinyanga Urban Water Supply and Sewerage Authority (SHUWASA) special audit was carried out following a request lodged by the SHUWASA Board of Directors calling upon special audit for the year 2010/2011 to March, 2012.

The special audit noted the following:

(i) Government Institutions and Agencies (Government offices, Hospitals, Police and Colleges/ Schools) had accumulated debts of unpaid water bills to the tune of Tshs.147,419,692 as at 30th June, 2012. It was previously directed by the Permanent Secretary Ministry of Water in year 2000 that, the Authority should disconnect water from the Government Institutions that are not complying with payment of water bills as they fall due. The Authority has not been able to do so due to the fact that Management of such Institutions have been preventing the Authority to implement the directives from the ministry.

10.3 National Ranching Company (NARCO)

Special audit for NARCO was conducted following the receipt of letters from the Chief Secretary and Permanent

Secretary-Ministry of Livestock Development and Fisheries. Results of the special audit were as follows:-

(i) Statutory deductions from NARCO staff salaries such as Pay as you Earn (PAYE), NSSF and PPF contributions amounting to Tshs. 716,237,581 from June 1992 to July 2012 have never been remitted to the respective Authorities which are Tanzania Revenue Authority (TRA), National Social Security Fund (NSSF) and Parastatal Pension Fund (PPF). The company will be subjected to penalties for the delays in remitting the statutory deductions to the relevant authorities.

(ii) NARCO secured bank loans from Tanzania Investment Bank (TIB) and CRDB Bank amounting to Tshs.3.280 billion. Out of Tshs.3.280 billion TIB loan was Tshs. 2.860 billion and CRDB bank loan was Tshs. 420 million. The loans were meant for NARCO project to purchase and sale Livestock and to renovate the infrastructures within the ranches. The following anomalies were noted in the utilization of the bank loans by NARCO:-

TIB loan was issued with interest rate of 16% per annum and CRDB bank interest rate was 17% per annum, Interest charged from the loans were higher compared to the project pay out (returns). National Ranching Company has already incurred losses to the tune of Tshs. 325,900,503, from year 2011 to April, 2012 due to the interest and other bank charges from the loan.

(iii) The value of unsold Livestock purchased for the project are less in value compared to the amount of unpaid loan, a situation that exposes NARCO in a risk of selling some of the ranches and other assets (Collaterals) to repay the loan. The Livestock project financed by CRDB Bank loan had 380 Livestock balance worth Tshs.123,806,359 held in the ranches while the balance of the loan not paid was Tshs.149,139,331 as at April 2013. Therefore, the balance of livestock available is insufficient to repay the outstanding loan.

(iv) NARCO had no effective internal controls in place over the funds collected from the sale of livestock. A total of

Tshs.2,241,586,838 was collected from the project financed by TIB loan out of which Tshs. 1,820,091,788 were cash sales. The amount deposited into NARCO bank account was Tshs. 1,427,180,561, while the amount not deposited was Tshs. 392,911,227.50. The amount not deposited was claimed to have been used to meet expenditures for the project but supporting evidence for the expenditures were not availed to the auditors for verification. The practice was contrary to NARCO financial regulations part 4.3.1 which states that all funds collected shall be deposited into the bank account prior to being utilized to meet various expenditures.

(v) Further, the special audit noted that total livestock lost at Ruvu Ranch in the period between July, 2012 and April, 2013 were 376 worth Tshs. 224,650,000. The loss was due to improper record keeping and inadequate measures and procedures deployed during cattle grazing. Stock taking of livestock was not done by the Livestock Keeper and the Cattle Herder when livestock are taken out for grazing and when are returned back from grazing which paved a loophole for theft.

10.4 Cashewnut Board of Tanzania

Cashewnut Board special audit was conducted following CAG receiving a letter from Mtwara Regional Administrative Secretary (RAS), requesting examination of expenditures relating to the collection of export levy from sale of cashewnut and government subsidy issued for the purchase of cashewnut agricultural inputs.

Results of the Special Audit:-

(i) Existence of two controversial laws, Local Government Act No.9 of 1982 empowers the District Councils to benefit a share of 5% from the export levy of Cashewnut export sales. On the other hand, the Cashewnut Board establishment Act No.18 of 2009 empowers the Cashewnut Board of Tanzania to control the funds (5%) from the export levy, thus leading to endless conflicts between the cashewnut Board of Tanzania and Mtwara District Councils on the utilization of the export levy from cashewnut export sales. The Attorney General should be requested to intervene and offer the correct interpretation of the two laws in order to bring into an end the conflicts of the two parties in the implementations of the provision of the two laws.

(ii) The Cashewnut Board of Tanzania paid a total of Tshs.223,815,000 to two companies M/s Mukpar Tanzania Ltd and M/s Equatorial Africa Ltd for the supply of cashewnut agricultural inputs for the year 2009/2010. The amount was paid in full instead of 50% required as part payment in line with the purchase agreement. It was further revealed that the agricultural inputs were not delivered up to the time the special audit was finalized on 26th September, 2013. There were no efforts in place by the Board to ensure that the inputs are delivered.

(iii) On 30th April, 2009 Masasi District Agricultural Officer (DAO) approved the purchase of agricultural inputs of Tshs.292,375,000 from M/s Mukpar Tanzania Ltd and from M/s Equatorial Africa Ltd. The DAO also issued a letter on 20th April,2009 requesting the companies to accept part payment of 50% and the other 50% of the inputs be retained in the stores of the companies. It was further revealed that the District Agricultural Inputs Fund acknowledged the receipt of all agricultural inputs thus the Companies were paid the full amount of Tshs. 292,375,000 paid together with transport costs of Tshs. 2,880,000 while in actual fact some of the agricultural inputs were not delivered and were still under the custody of the companies.

(iv) The Cashewnut Board of Tanzania utilized Tshs.1,075,046,004 of the export levy from cashewnut sales in the normal office operating expenditures like salaries, electricity and renovation of buildings. The practice was contrary to the laid down rules that require such funds be used for boosting up Cashewnut growing in Mtwara.

(v) Cashewnut Board of Tanzania had not yet released Tshs.735,082,428 earmarked for the Cashewnut growers of Newala, Masasi and Nanyumbu District Councils. The Board could not avail evidences if the unreleased funds to the

District Councils were still held by the Board because there were no supporting documents to validate the existence of the funds. However, the Board explained that the funds were used to pay agricultural input liabilities for the District Councils; the practice was unfair to the District Councils who are the beneficiaries of the funds.

10.5 National Health Insurance Fund (NHIF)

The special audit at NHIF was carried out following a request received from the Board of Directors through a letter dated 11th July, 2013. The terms of reference required a special audit of claims processed by NHIF for the year commencing 1st July, 2012 to 30th June, 2013. This was in response to fraud allegations by NHIF officers stationed at major Health Facilities.

The findings are presented as follows:-

(i) NHIF was found to have incomplete information in the member's database. Member's data base misses crucial information for identity cards validation such as names, status, dates of birth and gender. Cards without names were 27, cards with default date of birth were 9,195, cards without date of birth were 29,221 while cards without status were 27 and cards without gender information were 25,873.

(ii) There were cases of non members using NHIF member ID cards to access the health services. We noted instances of claims that were processed and paid for non members who used registered NHIF member ID card to access health services contrary to the requirements of NHIF claim Procedure Manual.

(iii) Claims are accepted and entered in the Claims Management Information System (CMIS) for members not in the members' database. For those beneficiaries whose names are not in the members' database, data entrant would just enter names and other information are recorded manually and the claim was accepted for further process. From the sample of claims reviewed a total of Tshs.254 million of such claims were processed and paid during the period under review.

(iv) Payments of claims were not consistently approved by NHIF. There was no documentation of claim recommendation and approval for paid claims worth Tshs.520,117,164 paid to Regency Medical Centre on 20th December, 2012. Neither minutes nor Approval sheet was signed by the authorized officers to approve these payments.

(v) There were cases of non-adherence to NHIF pricing policy by both NHIF staff and health service providers as stipulated in the signed service contract. These instances were related to price adjustments that were repeatedly done by NHIF quality assurance officers. However, this has been continuing and the Fund did not take any deliberate actions to curb the situation from faulting health facilities. A total of Tshs.174,421,965 was price adjusted amounts by Regency Hospital, IMTU hospital, TMJ Hospital, Mission Mikocheni Hospital and Tumaini Hospital.

(vi) NHIF made payment of claims higher than what was claimed by the health facility or what had been adjusted as payable by the NHIF quality assurance officers. TMJ Hospital claims were overpaid by Tshs.1,097,633 by NHIF despite the fact that TMJ Hospital had claimed a lesser amount, also considering that the amount determined as payable by the NHIF quality assurance officers who reviewed the claim folios was lower as well. Another instance noted is that TMJ hospital claimed for drugs with more value than what was recorded in the hospitals pharmacy records. A total of Tshs.14,859,123 was paid in excess of what NHIF should have paid.

(vii) NHIF paid bills for unaccredited Regency Satellite Dispensary under the name of Regency Medical Centre. Included in the claims for Regency Medical Centre, were claims amounting to Tshs.99 million for Satellite Dispensary which is under Regency. The Dispensary is not accredited by NHIF. In addition to the dispensary not being accredited by NHIF, all bills for services provided by the Regency Satellite Dispensary were overcharged since all bills were charged at the special Package rate for national hospital instead of general package for dispensaries. I noted that Tshs.3,180,500 was paid in excess of what should have been claimed by Regency Satellite Dispensary for the month of March 2013.

(viii) Routine observations during dialysis sessions were billed as separate consultation fees by TMJ Hospital. In the month of October 2012, routine observations at TMJ Hospital by the doctor during dialysis sessions were identified as separate consultations and claimed for separately. Submissions by the Acting Director of Technical and Medical Services (DTMS) were that such routine observations are not supposed to be charged except cases that would require a special attention due to complications. The total amount of such billing in the month of October, 2012 was Tshs.20,375,000. Charges of this nature are deemed to be ineligible claim since routine observations are part of a dialysis session.

(ix) Absence of written approval of NHIF to Mission Mikocheni Hospital for admissions of more than 10 days in wards. An amount of Tshs.7,200,000 was claimed and paid in excess of the stipulated normal 10 days in wards and yet no approval was obtained from NHIF allowing the hospital to continue admitting the patients in their wards. No evidence of a letter written by the hospital to notify NHIF of the need to continue treating the patient for more than 10 days was availed to auditors. It was apparent from the review that such cases were not rejected by the quality assurance and claims officers at NHIF.

(x) There were payments of claims by NHIF that included patients who were not on the list submitted by health facilities. Monthly registers of patients treated by TMJ Hospital and Tumaini Hospital had some identities different with those of the claim sent to NHIF and processed. Total amount claimed for the patients whose claims were processed by NHIF but not in the registers of TMJ's and Tumaini Hospital monthly treated patients was Tshs.21,287,165 and Tshs.20,697,336 respectively.

10.6 Tanzania Trade Development Authority (Tan Trade)

The special audit at Tanzania Trade Development Authority (TanTrade) was conducted following a request of Board of Directors of TanTrade. CAG was requested to carry out the audit due to various claims that required examination of; existence of fake entry tickets to the trade fair grounds, examine debtors of TanTrade from year 2011/2012 to the first quarter of year 2012/2013, procurement of goods and services, ownership and collection of rents from pavilions and management of the Authority's assets.

The findings of the special audit are shown below:

(i) Forged Entry Tickets and Stickers During Exhibitions

The major part of TanTrade revenue is attributable from rent of pavilions and gate collections during the Dar es Salaam International Trade Fair (DITF). Sabotage from this exercise will definitely affect the Authority's revenue. There were sales of forged tickets and stickers which led to unsold 30% of the genuine entry tickets and 11% of unsold motor vehicle parking stickers during the 36th DITF exhibition. The forged entry tickets and vehicle stickers made TanTrade to loose a sum of Tshs.158,816,500.

(ii) Lack of proper controls of TanTrade Trade Fair Grounds

Management of TanTrade has not taken appropriate measures to safeguard the boundaries of the Trade fair grounds. In this perspective, the area surrounding the trade fair grounds was invaded by Pet Traders in one part and the other segment of the boundaries was taken by Mtoni Primary School. The front part was used by the government for the extension of Kilwa road.

(iii) Unrealistic Private Ownership of Pavilions in DITF Grounds

The special audit noted that there is no guidance, contracts or policy in place to govern procedures on the construction of self owned pavilions in the TanTrade grounds. The loop hole has paved way to individuals building pavilions in the grounds without laid down procedures. The practice has led to none collection of rent from some of the pavilions, for example Carnivore Bar and Restaurant. The pavilion is also being used by the owner as a function hall, but no rent is being paid to the Authority due to pending court proceedings regarding its ownership.

(iv) Review of the Authority's Creditors

The audit reviewed the Authority's creditors amounting to Tshs.184,338,698. Out of the reviewed liability, Tshs.108,486,658 was found to have shortfalls as follows; Tshs.22,088,500 was noted to be claims over and above the actual costs while claims of Tshs.51,500,000 were not confirmed to be actual creditors. Further, Tshs.15,099,853 was not supported by contracts whereas Tshs.14,098,305 had missing supporting documents and liabilities amounting to Tshs.5,700,000 were not supported by authority's legal documents.

It is important to note that the reviewed Authority's liabilities were a result of services offered to the Authority during various periods. However, some of the services that were said to have been delivered to the authority were not confirmed by the audit.

(v) Shortfall in Follow up of BIT and BET Assets

Merging of the functions of BIT and BET through Act No. 4 of 2009 demanded identification of all assets of the former BET and BIT in order to enhance proper management of the assets. The audit review revealed that, the identification of the assets that was supposed to be done before merging BET and BIT to form TanTrade was not done.

Some of the reviewed information shows sale of some of the assets of these Boards through Management Employees Buy Out (MEBO). However, there is no evidence to show any effort taken by TanTrade in following up the validity of the procedures used in the sale of these assets. Also there are assets which were owned by BIT and then transferred to Tanzania Building Agency as previous being caretaker. The Agency has confirmed to be responsible in managing these assets. However, the same were not followed up by TanTrade management.

(vi) TanTrade Vehicles not Received by the Authority After Registration

During the month of August and September 2012, eleven (11) vehicles deemed to be owned by the Authority were registered with private numbers. It was confirmed that, the vehicles were not received by the Authority after being registered. It was further learnt that, the Authority was not informed of the whereabouts of the vehicles.

In an attempt to verify the ownership and whereabouts of the vehicles, the audit team liaised with Tanzania Revenue Authority (TRA) and the Ministry of Industry and Trade. However, up to the time of finalising the special audit report in February, 2013 we had not receive any response from these institutions.

Tan Trade should confirm the whereabouts of the 11 motor vehicles and establish their ownership status.

CHAPTER ELEVEN

CONCLUSIONS AND RECOMMENDATIONS

11.0 General Overview

This chapter deals with conclusions and recommendations regarding matters that have been detailed in this report and which require attention and action of the Government, Parliament, Board of Directors and Management of the respective Public Authorities and Other Bodies. Most of the recommendations have been derived from audit results of individual management letters and audit reports which were communicated separately to the respective boards of directors of PA&oBs and other pertinent current issues which are of interest to the general public.

Section 12 of PAA empowers the CAG to make recommendations for the purpose of preventing or minimizing unproductive expenditure of public moneys, maximizing collection of public revenues, and averting loss by negligence, carelessness, theft, dishonesty, fraud or corrupt practices relating to public resources for the purpose of better service delivery to the public.

This general report covers financial years ended 30th September 2012, 31st December, 2012 and 30th June, 2013. By assuming the powers to make recommendations vested to me by law, I wish to make general conclusions and recommendations regarding the results of the audits of PA&oBs as follows:

11.1 Specific Recommendations

11.1.1 Basis and Trend of Audit Opinions

While finalizing this annual general report, I had managed to audit 103 PA&oBs out of 179 which submitted their financial statements for audit purposes. Out of the concluded audits, 93 audits were issued with audit opinions while 10 audited entities had no Board of Directors as at 7th March, 2014. Unqualified audit opinions were issued to 51(56%) audited accounts while 41(43%) audited accounts were issued with unqualified audit opinions with emphasis of matters. On the other hand, qualified audit opinions with emphasis of matter were issued to 1 PA&oBs representing 1%. During the year under audit, there was neither disclaimer nor adverse opinions that were issued to any of the audited PA&oBs.

Furthermore, the remaining 74 PA&oBs their audits were in various stages of completion due to different reasons including late submission of financial statements, while other entities failed to convene board meetings on time to adopt the audited accounts as required by law, failure of some of the auditee's to respond to the audit observations raised on time, failure of some entities to meet the reporting deadline etc. I therefore urge the responsible authorities to ensure that Boards of Directors are appointed on time once the existing boards' tenure lapses.

It should be noted that most of the emphasis of matters were issued on grounds of the deteriorating financial performance and liquidity problems of the concerned PA&oBs. The deteriorating financial performance has been attributed by consecutive losses/deficits and liquidity problems hindering them to honour their current liabilities as and when they fall due. These conditions indicate the existence of uncertainty which casts doubt as to whether PA&oBs can continue with their daily operations.

Board of Directors and Management of the respective PA&oBs should look on other sources of financing their operations by taking into account principles of maximizing revenue and minimizing expenses. Detailed audit opinions have been discussed in chapter two (2) of this report.

11.1.2 Implementation of the Previous Outstanding Recommendations

During previous years, I managed to issue several recommendations which required consideration and intervention of the Government, Parliament, Board of Directors and Executive Officers of the PA&oBs. Some of the recommendations have been implemented while others are still outstanding.

My office is committed to ensure audit recommendations issued add value to the nation. However, the commitment can only be enhanced if there is recognition of work done by my office through implementation of the audit recommendations. It is the responsibility of the Government and the stakeholders of PA&oBs to recognize the significance of the recommendations issued and come up with action plans for their implementation. It should be remembered that the recommendations made in my reports are meant to bring about changes in the effectiveness and efficiency in the operations of the Public Authorities and Other Bodies for the development of the country.

Moreover, I wish to acknowledge the receipt of the Government response to my previous General Report through the Paymaster General's letter dated 25th June, 2013 with Ref.No.EB/AG/AUDIT/12/VOL.I/53. Nevertheless the effort of the Paymaster General, in responding to the recommendations issued in the year 2011/2012. The implementation of the recommendations is not satisfactory since most of the recommendations have not been implemented at all while only a few have been partially implemented. I have noted that most of the observations originated from non adherence to principles of good governance and best practices in managing PA&oBs. I humbly request the Government and Parliament to intervene on the corporate governance issues I have been raising since they are of paramount importance for the PA&oBs to attain their planned goals and objectives.

There are recommendations in this report which are specific to particular Public Authorities and others are general. I call upon the Government through the Parent Ministries of PA&oBs, the Parliament and Parliamentary Oversight Committees, the Office of the Treasury Registrar (TR), Boards of Directors and Chief Executive Officers of the respective PA&oBs to ensure that the pending audit recommendations are implemented to enhance accountability of public resources in PA&oBs.

11.1.3 Significant Matters not Reported in the Previous Report

The management of VETA HQ should explore the possibility of moving the unutilized assets at Mpanda Vocational Center worth more than 1 billion to other centers which are in need of those machines. Further, management has to ensure all trainers in their centres are trained on using new equipment rather than leaving them abandoned after spending a lot of money in procuring them. Also, for the case of unspent funds released for development expenditure in KIHONDA RVTC and DAKAWA RVTC, I recommend that all activities budgeted for during the year 2012/2013 should be implemented so as to achieve the intended objectives.

11.1.4 Procurement and Contracts Management

The enactment of the Public Procurement Act No.21 of 2004 and its underlying Regulations of 2005 provided a legal framework governing institutional set up and processes of procurement in the public sector. Despite the existence of the law, some PA&oBs are still not complying fully with PPA of 2004 and its Regulations of 2005. I therefore conclude that, there is little awareness of Public Authorities and Other Bodies on the requirements of the law and its Regulations. This fact has been evidenced by audit findings summarized in chapter seven of this report. Further, audit of PA&oBs concluded that procurement process in some of the entities was not carried out in a transparent manner. It was observed that some of the PA&oBs did not properly administer procurement contract agreements. Generally management of PA&oBs are advised to change their attitude towards management of the contracts they enter with various suppliers. These contract agreements need urgent attention from the first day of implementation. A thorough review on the management of the contracts entered by PA&oBs should be enhanced to avoid loss of public resources.

Basing on the summary of findings reported in this report, I generally recommend that management of PA&oBs should ensure they fully comply with PPA of 2004 and its Regulations of 2005.

The procurement pillars (CEO, PMU, TB, EC and User department) should act independently in relation to their functions and powers stipulated under section 38 of PPA 2004. The Chief Executive Officers (CEOs) and Procurement Management Units (PMUs) of PA&oBs should ensure Annual Procurement Plans (APPs) are prepared and no procurement should be made without approval of Tender Board. Goods and services before being accepted should undergo quality assurance inspection. On prolonged time for procurement processes and high procurement transaction cost, I advice management of PA&oBs to observe circulars and guidelines issued by (PPRA).

I further recommend that the PA&oBs should always comply with the requirement of procurement law on the application of competitive bidding and selection of suppliers. Likewise the PMUs should ensure that all procurements made are within the approved budget and annual procurement plan as per requirement of Reg. 46(9) of GN No.97 of PPR 2005.

The procurement records should be kept properly to comply with section 56 of PPA, 2004 and Reg.19 (1) of GN.97 of 2005. It is my view that government organs responsible for the code of conducts for public servants will take appropriate actions to officers in PA&oBs who have been implicated with misuses of public resources through non compliance to the Public Procurement Act and its regulations.

11.1.5 Assets Management

It is important for the PA&oBs to manage their assets efficiently and effectively to obtain the best possible returns and to ensure consistency in provision of quality services to the public. Ineffective asset management leads to wastage of resources and insolvency problems. PA&oBs should make necessary efforts to ensure appropriate utilization of assets which will enhance generation of revenue.

Strict measures should be put in place to reduce the long outstanding receivables by adopting tighter credit policy and enhance follow up procedures to ensure outstanding amounts are repaid within the shortest time possible. The prepayments should also be made when it is certain that, goods and/or services will be received in the near future.

Cash and Bank transactions should be closely monitored and properly managed to ensure safety of the funds vested in PA&oBs. Idle cash lying in the bank account should be invested in other profit making undertakings to generate more income. These assets are prone to theft and fraud than any other asset. Bank reconciliation should be performed and checked regularly.

Proper measures should be instituted by the Board of Directors of EWURA by ensuring the allocated Plot at Ubungo Maji by the Ministry of Water is developed without further delay. By doing so, EWURA would save the amount of rent it pays to its current land lord which was Tshs.1.2 billion in the financial year 2012/2013 as compared to Tshs.1.1 billion in financial year 2011/12.

With respect to the condemned flow meters at TPA, all officials who participated in their procurement process should be held responsible for acquiring malfunctioning items. Also, disciplinary measures should be taken against officials of Weights and Measures Agency who initially recommended the use of the flow meters and later condemned them. It is apparent that there was no value for money from the expenditure of Tshs.2.5 billion used in acquiring the flow meters.

In regard to the dormant spare part stock at TPA worth Tshs.1.5 billion, the Authority should find a better way to use the spare parts and cranes since non usage of these equipments may lead to increase in storage costs and result into loss of value due to technological obsolescence.

11.1.6 Human Resources Management

As it has been pointed out in chapter seven of this report, Human Resource Management is an essential element in the development of PA&oBs as it contributes effectively and productively to the overall company direction and the accomplishment of the organization's goals and objectives.

To achieve the intended advantage of Human Resource Management, it is generally recommended that, all the observed shortcomings in Human Resources Management are addressed by the PA&oBs. In particular, PA&oBs should consistently ensure that, they are staffed to an appropriate level with a reasonable mix of skills. The PA&oBs should closely collaborate with relevant authority to ensure employment permits are granted on time to fill vacant posts when arises.

PA&oBs are also recommended to ensure that their operational manuals are periodically improved to suit the prevailing environment and statutory deductions are remitted on time. In order to control growing trend of staff receivables which may be uncontrollable, PA&oBs have to develop loan policy that will dictate the interest charged and stating loan limits to be disbursed to staff.

Further to the above, it is recommended that PA&oBs should improve controls over payroll preparation by performing regular reconciliation of Treasury payroll and their own payrolls.

Also as a view of enhancing control over expenditure and protecting public financial resources, TPA management should stop payment of the multiple allowances which were paid during the Workers Council meetings. Moreover, the Government through Treasury Registrar should issue a statement to all PA&oBs on the modality of payment of allowances instead of leaving every entity to decide on its own.

11.1.7 Corporate Governance

The successes of any organization largely depends on the prudence of governing it. Adherence to principles of good corporate governance is inevitable for curtailing the possibility of abuse of power that could be exercised by the corporate officers. It is important therefore to maintain a clear distinction of oversight and executives of the corporations.

Despite several recommendations made in my previous reports on weaknesses in the functions of Internal Audit Departments and Audit Committees in various PA&oBs, in this year also similar weaknesses were observed in some PA&oBs. I therefore would like to re iterate my previous years' recommendations that management of PA&oBs should consider strengthening their internal audit functions and audit committees by considering risks when planning for their audits. PA&oBs should also ensure adequate staff is in place in relation to their size. Preparation and approval of internal audit and audit committee charters should be fast tracked. PA&oBs should also ensure that internal audit plans are reviewed by the audit committees.

The guidance provided by the parent Ministries to some of PA&oBs which fall under their ambit is highly appreciated. There are some PA&oBs that receive various directives, circulars, policies which affect their operations. However, the relationship between the PA&oBs and parent ministries need to be restricted to policy related issues. The involvement of Ministries in operational issues of the PA&oBs intervene the responsibility and accountability that is vested in the PA&oBs through their respective boards of directors.

There is a need to review the Acts and regulations which entitles some PA&oBs on revenue as percentage of TANAPA's gross revenue or fixed amounts. In the long run this practice could have a negative impact on TANAPA in exercising the mandate for which it was established.

I also recommend that management of PA&oBs and their respective boards to ensure proper planning of the board functions and meetings to control unnecessary frequent meetings. This will result in better utilization of both financial and non financial resources.

On the aspect of appointment of new boards, I reiterate my previous recommendations on the need for the office of the Treasury Registrar to ensure that there is a register that shows the tenure of all Boards of Public Authorities and make proper planning for succession of the boards whose tenures comes to an end. It should be noted that the audits of PA&oBs which have no Boards could not be concluded, and therefore no opinion on financial accountability of the management of those PA&oBs.

11.1.8 Recommendation on Post Privatization Study of the Government Enterprises

Privatization of the public enterprises is governed by Public Corporations Act (amended) 1996. The Act provides for mandates, authority, powers and responsibilities of PSRC/CHC in the implementation of privatization policy. Since the post privatization audit noted a number of non compliance with the Act, I call upon the Government of

Tanzania (GoT) and CHC to always abide to the Public Corporations Act in order to avoid the conflicting responsibilities between the Government itself and other instruments entrusted to perform some of the duties contained in the Act. Also by abiding to the Act, monitoring and control of privatized public enterprises in view of determining adherence to the investment plans and asset sale agreements will be enhanced.

I would also wish to give my recommendation to the Consolidated Holding Corporation (CHC) to ensure that they strive hard to perform adequate performance reviews in all privatized public enterprises with a view of determining the status of their performance and compliance to the terms stipulated in the sales agreements. In connection to this, supervision by the Board and Management of Specified Public Corporations should be strengthened in order to ensure that the corporations continue to carry out their functions in accordance with statements of their corporate strategies.

A post privatization study on ten privatized enterprises noted that on 11th June, 2011, the CHC signed a consultancy service agreement with PKF Tanzania, for the latter to carry out a special audit of Kiwira Coal and Power Limited (KCPL) from the date of takeover by TANPOWER Resources Limited up to 31st December, 2010. The GoT/CHC needs to take immediate action on the issues raised in the special audit before handover of Kiwira Coal Mine to the Government of Tanzania.

On the aspect of capital market development, it should be noted that DSE was established in order to facilitate the reform process in the financial sector, encourage wider ownership of shares among Tanzanians and facilitate the privatization process, it is important for the Dar es salaam Stock Exchange (DSE) which is the only stock market in Tanzania to perform awareness programmes that will enable Tanzanians to understand operational activities of the stock market and thus be attracted to trade whenever opportunities to do so are available to them. On the other hand, the Government should ensure that investment policies and strategies that have been approved are honored and investment opportunities especially on enterprises which are yet to be privatized are availed to Tanzanians. Also privatized enterprises with poor performance should be repossessed. The Government should also get away from investment decisions which are contrary to its policy statement.

11.1.9 Results of Special Audit

In regard to the Tanzania Postal Bank (TPB), Management should comply with the Public Procurement Act of 2004 and its regulations of 2005 in its procurement proceedings. Registration certificates of companies employed by TPB should be properly checked and be certified from relevant authorities (CRB and TRA) before contracts are signed. Additional payments of Tshs.11,942,253 to M/s Kiaren Investment should be validated by management and the unpaid VAT amount of Tshs.61,851,059 to TRA by the companies be remitted. TPB is also advised to restructure the salaries of its employees to alleviate the gaps noted.

Management of the National Ranching Company (NARCO) is advised to remit accumulated statutory deductions of Tshs.716,237,581 to the respective pension funds to avoid possible penalties. Feasibility studies should be conducted before loans is taken. The motive should be to ensure that the loans are invested in viable projects. Management should ensure that all cash sales are promptly banked to avert the company from unnecessary expenditures. Appropriate measures to safeguard livestock should be instituted including proper maintenance of Livestock control books to track and monitor livestock movement.

In regard to the Cashewnut Board of Tanzania the Office of the Attorney General should provide directives on whether

Cashewnut Board Act superseded the Local Government Act of 1982. Masasi Local Government Council should ensure that Agricultural inputs held at the stores of M/s Mukpar are dispatched to the Cashewnut growers in Masasi to avoid the loss of Tshs. 223,815,000. Disciplinary measures be taken against the officers of Masasi District Agricultural Inputs Fund for not discharging their responsibilities in a proper manner, which led to none distribution of the inputs for a period of four years. The Cashewnut Board of Tanzania should consider refunding Tshs.1,075,046,004 utilized to meet operating expenditures and should pay back Tshs.735,082,428 as a share of revenue to Newala, Masasi and Nanyumbu that would be used to finance cashewnut growers**.**

Management of the National Health Insurance Fund (NHIF) should ensure that only claims of eligible beneficiaries and which are in conformity to NHIF claim policy are paid. Directorate of Operations should give priority to the exercise of members' validation as well as database clean up so as to reduce errors and fraud incidents which would eventually lead to significant loss of funds. Management should consider upgrading Claims Management Information System (CMIS) to enable claim verifiers to link claim from a certain pharmacy with its respective health service provider where the claim originated and avoid double payment of claims.

Management of TanTrade should do its best to rehabilitate the infrastructures and buildings within the trade fair grounds. The management should also design digital mechanisms in the issuance and collection of entry tickets and the use of surveillance cameras for improved monitoring in all entry gates. TanTrade Board of Directors should strive to restore the invaded boundaries of the trade fare grounds. TanTrade Management and the Board of Directors is advised to liaise with the Treasury Registrar

(TR), Consolidated Holding Corporation (CHC) and Tanzania Building Agency (TBA) to ensure that the assets formerly owned by BIT and BET which were transferred to TBA are returned to TanTrade to strengthen its efficiency in its work performance.

11.2 General Recommendations

11.2.1 Need for Enhancing Procurement and Contract Management

Procurement always consumes more than 70% of the government and PA&OBs budgets, hence proper control and management is very crucial.

For some years now, the country has experienced poor preparation and management of contracts. My review noticed that this deficiency is mainly caused by negligence of those charged with governance in various organizations that unknowingly or deliberately enter into contracts of which end up in loosing public resources. To avoid these continuous losses of public resources I recommend that:-

i. The government to strengthen capacity of the office of the Attorney General in terms of man power and financial resources to enable it to thoroughly review all contracts before they are being signed. The office will be responsible to ensure that all contracts protect the public interest and that any officer involved in the review shall be held responsible and accountable for all contracts which turn out not to be in the public interest.

ii. The government and its institutions to consider establishment of Procurement and Contracts Management Committees that will oversee the procurements and contracts undertaken by the Government and its entities. Such committees should be backed up with an appropriate legislation by amending the Public Procurement Act of 2011 and should be a subcommittee of the Board of Directors of PA&oBs. In the Ministries such committee should be under the Permanent Secretary while in the Local Government Authorities it should be a subcommittee of the Councilors.

Members of the recommended committee should include a member who has a detailed knowledge and skills in procurement and contracts management. The subcommittee will have power to review and rescind the decisions of the Tender Board in the event it has been established beyond reasonable doubt that its decision may result into major savings to the government or public entity without compromising the quality of the products or work done.

iii. The Accounting Officers, Board of Directors of PA&oBs and those charged with governance through the proposed Procurement and Contract Management Committees should always demand implementation reports of projects from management to ensure that these project/contracts are implemented according to the agreed terms and conditions of the original signed contracts.

iv. Although section 60 (9) of PPA No. 9 of 2011 and Regulation 59 of GN 449 of PPR 2013 has set the threshold for the contracts above Tshs.50 million to be vetted by the Attorney General, I am of the opinion that, this threshold is very small taking into consideration a number of contracts which are entered by the Government and its Institutions. There is a need to carry out a study with the aim of uplifting threshold to reduce burden of work load at the office of Attorney General and hence speed up the procurement process in the country.

11.2.2 Services Regulators' Fees and Levies as Percentage of Tariffs Charged by the Regulated Entities

Regulating Authorities like EWURA, TCRA, SUMATRA are very important to ensure smooth running of public institutions which are rendering services to the public. The government depends much on the strength of the regulatory institutions to ensure there is improved quality of service provided to its citizens by its institutions.

In Tanzania, there are various regulatory institutions some of whose incomes are received from charging a percentage of the revenues of the institutions they regulate. In such situations such funding arrangements result into creating a serious conflict of interest as it is to the advantage of the Regulator since if tariffs are increased, automatically it will increase income of the Regulator. This funding arrangement can entice the Regulator to encourage and support increase of tariffs at the detriment of the consumer who happens to be the citizen who is supposed to be protected by the Regulator.

Among other functions of the regulators, is to ensure that fair prices are charged by the players being regulated. In case the request for increase of tariffs is logged, the independence of such regulators with regard to approval of new tariffs will be impaired as they have a vested interest in the magnitude of revenues collected by the respective institutions. The set up of regulatory organizations earning income as a percentage of revenues of the regulated entities creates serious conflict of interest and therefore independence of the regulators is at stake.

In view of this, it is my opinion that all regulatory incomes should not be pegged to revenues of the institutions they are regulating. The government should commission a study on how best operations of regulatory institutions should be financed to avoid the conflict of interest dilemma currently facing our existing Regulatory Authorities.

11.2.3 Enhancing Efficiency and Effectiveness of Consumer Consultative Councils

It has come to my attention that the government has been establishing Consumer Consultative Councils (CCC) in the country to cater for consumer's rights in the industry of services oriented organizations. Different CCCs established have one goal of representing the same consumers which in turn has the cost implications that would have been reduced if all these CCCs would have been operating under one umbrella. Currently there are four CCCs namely EWURA CCC, SUMATRA CCC, Ngorongoro CCC and TCRA CCC.

I recommend the government to consider combining these Councils under one umbrella which will help to cut down operating costs by having only one Executive Director with directorates for each sector as they are all serving the same public interest.

Also by combining them, it will create synergy between CCCs and therefore help them to have a common platform for dealing with consumer complaints.

After establishing that entity, the government may have to look for a way of enhancing its financial independency by coming up with a better way of financing its operations instead of the current practice whereby these CCCs depend on the mercy of their regulatory bodies.

11.2.4 Unclaimed Assets

Unclaimed assets can be any financial asset/money being held on behalf of the rightful owners but for one reason or another it becomes abandoned for a reasonably long period of time.

It has come to my attention that these funds are lying idle and remain unclaimed in various institutions for a long period of time by the respective beneficiaries whom may not be traced. These funds may include; uncashed dividends, payroll, insurance proceeds, court deposits, pension & retirement benefits, trust funds, escrow accounts, dormant bank accounts and matured certificates of deposits, traveler's cheques etc. Principally these assets do not belong to the institutions in which they were deposited or which are custodians of these funds but to untraceable beneficiaries. If such assets are left without proper administration there is a risk of them being misappropriated or used for unintended purposes by the custodians of such funds.

Some of the factors which could lead to these funds becoming unclaimed include: statutory deductions in respect of terminated or deceased employees whereby Treasury continues to remit their statutory deductions to the Social Security Pension Funds; unclaimed bank deposits due to death of owners where in some cases relatives of the deceased are not aware of such deposits; minor accounts opened by parents where the children are not aware, these can remain unclaimed once the account holder (parent) dies and unclaimed dividends from the listed companies. Other factors may include deposits that might be abandoned by the owners after being alleged in money laundering, economic sabotage or political exiled persons.

The issue of unclaimed financial assets/funds has been recognized globally as an ethical, governance and development problem which needs urgent attention in the form of regulatory framework and sensitization of the public. Under the legal principle of *bona vacantia*, the Government is the bonafide custodian of such unclaimed property on behalf of the owners in any modern state. As such, many developed countries have explicit legal frameworks for the management of unclaimed financial assets/funds. Unclaimed assets can be an alternative source of funds of the government for financing its development activities.

According to the best practice and in order to secure unclaimed funds/assets when the efforts by the holder of such funds to locate the owners fail, the funds should be remitted to the department of revenue responsible for safeguarding public funds i.e. Treasury.

Currently there is no any law in Tanzania which stipulates how the unclaimed assets/funds can be handled. In that regard, there is a need for the government to carry out a study to establish the magnitude of the unclaimed assets and come up with a law which will require institutions holding those funds to surrender them to the Treasury since such funds do not belong to the holder of such funds. In case the rightful owner is traced at a latter time the claimant documents should be verified by the Controller and Auditor General for authenticity before the payments are effected.

Appendix I

List of Private Audit Firms Auditing of PA&oBs

S/N	Name of Audit Firm
1.	AA – Adolph Associates
2.	ABA Alliance
3.	AMAS Associate
4.	ABS Consultants
5.	ATEKAY Accountants and Auditors
6.	Auditax International
7.	BK Associates & David Malishee
8.	BAAS Associates & EVK
9.	Citizen Certified Partners Consortium
10.	Co-operative Audit and Supervision Corp
11.	Claritas International
12.	CT & Associates & Chabegan & Associates
13.	BDO Tanzania
14.	Deloitte & Touche
15.	Ernst & Young
16.	Elite Financial Managers
17.	Fincare & Company
18.	Global Finance and Business Solution
19.	Globe Accountancy Services
20.	ISM Consultants
21.	INNOVEX Auditors
22.	KPMG
23.	Martec & Company
24.	MATSAB & Company
25.	MEKONSULT Auditors
26.	MGK Certified Public Accountants
27.	MM Micro Business Consultants
28.	MURL-AATEC Associates
29.	PAN Associates
30.	Paul Clem Associates
31.	PIMA ASSOCIATES
32.	PKF Tanzania
33.	PricewaterhouseCoopers
34.	Philips & Company
35.	Quintex Financial Services
36.	R&S Associates
37.	Reliable Consultants,
38.	RS & Partners
39.	SBC Consultancy Services
40.	Shebrila & Co
41.	SMW
42.	TAB Consultants

S/N	Name of Audit Firm
43.	Tanna Sree Kumar Co.
44.	TAG System Associates
45.	Tax Pro Associates
46.	TAC Associates
47.	TANSCOTT
48.	TMC Associates/TOP Consultants Consortium
49.	Trion & Company
50.	VA Business Assurance Services
51.	WISCON Associates

Status of the Audits

S/N	Category of PA&oBs	F/S Submi-tted	Audit in Prog-ress	Audit at Quality Review Stage	Audit conclu-ded but No BOD	Audit Awaiti-ng BOD Adopti on	Audit Conclu-ded and Adopted by BOD
	Financial Institutions, Pension Funds and Other Public Entities						
1.	Bank of Tanzania (BOT)	Yes	-	-	-		Yes
2.	Benjamin William Mkapa Foundation	Yes	-	-	-	-	Yes
3.	Capital Markets Securities Authority (CMSA)	Yes	-	-	-		Yes
4.	Consolidation Holding Corporation	Yes	-	-	-		Yes
5.	Cooperative Audit and Supervision Corporation (COASCO)	Yes	-	-	-	Yes	-
6.	Dar es Salaam Stock Exchange	Yes	-	-	-	-	Yes
7.	Deposit Insurance Board	Yes	-	-	-		Yes
8.	Export Processing Zones Authority	Yes	-	-	-	Yes	-
9.	Government Employee Provident Fund	Yes	-	-	-		Yes
10.	Kariakoo Market Corporation	Yes	-	Yes	-		-
11	Kilimanjaro Airport Development Company (KADCO)	Yes	-	-	-		Yes
12	Local Authority Provident Fund	Yes	-	-	-		Yes
13	Medical Stores Department (MSD)	Yes	-	-	-	-	Yes
14	Muhimbili National Hospital	Yes	-	-	-	Yes	-
15	National Bureau of Statistics	Yes	-	Yes	-	-	-
16	National Development Corporation (NDC)	Yes	-	-	-	-	Yes
17	National Health Insurance Fund	Yes	-	-	-	-	Yes
18	National Housing Corporation	Yes	-	-	Yes	-	-
19	National Insurance Corporation	Yes	-	-	-	Yes	-
20	National Ranching Company	Yes	-	Yes	-	-	-
21	National Social Security Fund	Yes	Yes	-	-	-	-
22	Ngorongoro Conservation Area Authority	Yes	-	-	Yes	-	-
23	Ngorongoro Pastoralist Council	Yes	-	-	Yes	-	-
24	NHC/PPF IPS Building	Yes	-	-	-	-	Yes
25	Parastatal Pension Fund	Yes	-	-	-	-	Yes
26	Public Service Pension Fund (PSPF)	Yes	-	-	-	-	Yes
27	Reli Asset Holding Ltd	Yes	-	Yes	-	-	-
28	Small Industry Development Organisation(SIDO)	Yes	-	-	-	-	Yes
29	State Mining Corporation (STAMICO)	Yes	-	-	-	-	Yes
30	Tanzania Broadcasting Corporation	Yes	-	-	-	-	**Yes**
31	Tanzania Education Authority	Yes	-	-	-	-	Yes
32	Tanzania Engineering and Manufacturing Design	Yes	-	-	Yes	-	-

	Organization						
33	Tanzania Fertilizer Company	Yes	-	-	-	Yes	-
34	Tanzania Investment Bank	Yes	-	-	-	-	Yes
35	Tanzania Investment Centre	Yes	-	-	Yes	-	-
36	Tanzania Marine Parks Reserve Unit	Yes	-	-	-	-	Yes
37	Tanzania National Park (TANAPA)	Yes	-	-	-	-	Yes
38	Tanzania Petroleum Development Corporation	Yes	-	-	-	Yes	-
39	Tanzania Ports Authority	Yes	-	-	-	-	Yes
40	Tanzania Postal Bank	Yes	-	-	-	-	Yes
41	Tanzania Posts Corporation	Yes	Yes	-	-	-	-
42	Tanzania Standard Newspaper	Yes	-	-	-	Yes	-
43	Twiga Bancorp	Yes	-	-	-		Yes
44	Ubungo Plaza Co. Ltd	Yes	-	Yes	-	-	-
45	Unit Trust of Tanzania	Yes	-	-	Yes	-	-
B	**Public Regulatory Authorities**						
1.	Architects and Quantity Surveyors Registration Board	Yes	-	-	-	-	**Yes**
2.	Baraza la Kiswahili Tanzania	Yes	-	-	-	-	**Yes**
3.	Board of External Trade(TANTRADE)	Yes	-	Yes	-	-	**-**
4.	Capital Development Authority	Yes	-	-	-	-	**Yes**
5.	Contractors Registration Board	Yes	-	-	-	-	**Yes**
6.	Copyright Society of Tanzania (COSOTA)	Yes	Yes	-	-	-	**-**
7.	Engineer Registration Board	Yes	-	Yes	-	-	**-**
8.	Fair Competition Commission	Yes	-	-	-	-	**Yes**
9.	Fair Competition Tribunal	Yes	-	-	-	-	**-**
10.	Gaming Board of Tanzania	Yes	-	-	-	-	**Yes**
11	Higher Education Students Loan's Board	Yes	Yes	-	-	-	**-**
12	Joint Finance Commission	Yes	Yes	-	-	-	**-**
13	National Arts Council	Yes	-	-	-	-	**Yes**
14	National Board of Accountants and Auditors	Yes	-	-		-	**Yes**
15	National Construction Council	Yes	Yes	-	-	-	**-**
16	National Council of Technical Education	Yes	-	-	-	-	**Yes**
17	National Economic Empowerment Council	Yes	-	-	-	-	**Yes**
18	National Environment Management Council	Yes	-	-	-	Yes	**-**
19	National Examination Council of Tanzania	Yes	-	-	-	-	**Yes**
20	National Land Use Planning Commission	Yes	-	-	Yes	-	
21	National Museum of Tanzania	Yes	-	Yes	-	-	
22	National Sports Council	Yes	-	-	-	-	**Yes**
23	Procurement & Supplies Professionals and Technician Board	Yes	-	Yes	-	-	**-**
24	Public Procurement Regulatory Authority	Yes	-	-	-	-	**Yes**

25	Rufiji Basing Development Authority	Yes	-	-	-	-	**Yes**
26	Social Security Regulatory Authority	Yes	-	-	-	-	**Yes**
27	Sugar Board of Tanzania	Yes	-	-	-	Yes	**-**
28	SUMATRA	Yes	-	-	-		**Yes**
29	Sumatra Consumer Consultative Council	Yes	-	Yes	-	-	**-**
30	Tanzania Atomic Energy Commission	Yes	-	-	-	Yes	**-**
31	Tanzania Airport Authority	Yes	Yes	-	-	-	**-**
32	Tanzania Bureau of Standards	Yes	-	-	-	-	**Yes**
33	Tanzania Cashewnut Board	Yes	-	-	-	-	**Yes**
34	Tanzania Cereals and other Produce Board	Yes	-	-	-	-	**Yes**
35	Tanzania Civil Aviation Authority	Yes	-	-	-	-	**Yes**
36	Tanzania Coffee Board	Yes	-	-	-	-	**Yes**
37	Tanzania Commission for Science and Technology	Yes	-	-	-	Yes	**-**
38	Tanzania Communication Regulatory Authority	Yes	-	-	-		**Yes**
39	Tanzania Cotton Board	Yes	-	-	-	-	**Yes**
40	Tanzania Diary Board	Yes	Yes	-	-	-	**-**
41	Tanzania Fertilizer Regulatory Authority	Yes	-	Yes	-	-	**-**
42	Tanzania Food and Drugs Authority	Yes	-	-	-	-	**Yes**
43	Tanzania Food and Nutrition Centre (TFNC)	Yes	Yes	-	-	-	**-**
44	Tanzania Insurance Regulatory Authority	Yes	-	Yes	-	-	
45	Tanzania Meat Board	Yes	-	-	-	-	**-**
46	Tanzania National Business Council	Yes	-	-	-	Yes	**-**
47	Tanzania Pyrethrum Board	No	-	-	-	-	**-**
48	Tanzania Sisal Board	Yes	-	-	-	Yes	**-**
49	Tanzania Tea Board	Yes	-	-	-	-	**Yes**
50	Tanzania Tea Small Holders Development Agency	Yes	-	-	-	-	**Yes**
51	Tanzania Tobacco Board	Yes	Yes	-	-	-	**-**
52	Tanzania Tourist Board	Yes	-	-	-	Yes	**-**
53	Tanzania Warehouse Licensing Board	Yes	Yes	-	-	-	**-**
54	Universal Communications Services Access Fund	Yes	-	-	-	-	**Yes**
C	**Training, Research and Higher Learning Institutions**						
1.	Ardhi University	Yes	-	-	-	-	**Yes**
2.	Arusha Technical College	Yes	-	-	-	-	**Yes**
3.	CARMATEC	Yes	-	-	-	-	**Yes**
4.	Cancer Institute	Yes	Yes	-	-	-	**-**
5.	Centre for Foreign Relation	Yes	-	-	-	Yes	**-**
6.	College of Business Education	Yes	-	-	-	-	**Yes**
7.	Dar es Salaam Institute of Technology	Yes	-	Yes	-	-	**-**

8.	Dar es Salaam Maritime Institute	Yes	-	-	-	-	**Yes**
9.	Dar es Salaam University College of Education	Yes	-	-	-	Yes	**-**
10.	Institute of Accountancy Arusha	Yes	-	-	-	-	**Yes**
11	Institute of Adult Education	Yes	-	-	-	-	**Yes**
12	Institute of Finance Management	Yes	-	-	-	-	**Yes**
13	Institute of Rural Development Planning	Yes	-	-	Yes	-	**-**
14	Institute of Social Work	Yes	-	-	-	-	**Yes**
15	Kibaha Education Centre-Kibaha	Yes	-	-	-	-	**Yes**
16	Kivukoni College (Mwalimu Nyerere Memorial Academy)	Yes	-	-	-	-	**Yes**
17	Mbeya Institute of Technology	Yes	-	Yes	-	-	**-**
18	Mkwawa University College of Education	Yes	-	-	-	Yes	**-**
19	Moshi University College of Cooperative and Business Studies (MUCCOBS)	Yes	-	-	-	-	**Yes**
20	Muhimbili Orthopedic Institute (MOI)	Yes	Yes	-	-	-	**-**
21	Muhimbili University College of Health and Allied Science	Yes	-	-	-	Yes	**-**
22	MWEKA College of African Wildlife	Yes	-	-	-	-	**Yes**
23	Mzumbe University	Yes	-	-	-	-	**Yes**
24	National Institute for Medical Research	Yes	Yes	-	-	-	**-**
25	National Institute of Productivity	Yes	-	-	Yes	-	**-**
26	National Institute of Transport	Yes	-	-	-	-	**Yes**
27	National Sugar Institute	Yes	-	-	-	-	**-**
28	Open University of Tanzania	Yes	-	Yes	-	-	**-**
29	Sokoine University	Yes	-	-	-	Yes	**-**
30	Tanzania Automobile Technologies Centre	Yes	-	Yes	-	-	**-**
31	Tanzania Commission for University	Yes	-	-	-	-	**Yes**
32	Tanzania Fishing Research Institute	Yes	-	-	-	-	**-**
33	Tanzania Forest Research Institute (TAFORI)	Yes	-	-	Yes	-	**-**
34	Tanzania Institute of Education	Yes	-	-	-	-	**Yes**
35	Tanzania Institute of Research and Development Organisation (TIRDO)	Yes	-	-	-	Yes	**-**
36	Tanzania Wildlife Research Institute (TAWIRI)	Yes	-	-	Yes	-	**-**
37	Tropical pesticides Research Institute	Yes	-	-	-	-	**Yes**
38	University of Dar es Salaam	Yes	Yes	-	-	-	**-**
39	University of Dodoma	Yes	-	-	-	Yes	**-**
40	Vocational Education Training Authority	Yes	-	Yes	-	-	**-**

D	**Public Utilities Organizations**						
1.	Air Tanzania Company Ltd	Yes	-	-	-	-	-
2.	Arusha International Conference Centre	Yes	-	-	-	-	Yes
3.	Arusha Urban Water and Sanitation Authority	Yes	-	-	-	-	Yes
4.	Babati Urban Water and Sanitation Authority	Yes	-	-	-		Yes
5.	Bukoba Urban Water and Sanitation Authority	Yes	-	-	-	-	**Yes**
6.	Dar es Salaam Water Authority Supply Authority	Yes	-	-	-		Yes
7.	Dar es Salaam Water Supply Company	Yes	-	-	-	-	**Yes**
8.	Dodoma Urban Water and Sanitation Authority	Yes	-	-	-		Yes
9.	Energy Water and Utility Regulatory Authority	Yes	-	-	-	-	Yes
10.	EWURA Ccc	Yes	Yes	-	-	-	
11	Iringa Urban Water Supply and Sanitation Authority	Yes	-	-		-	**Yes**
12	**Kahama Shinyanga Water Authority**	**Yes**	**-**	**-**	**-**	**-**	Yes
13	Kahama Urban water and Sewerage Supply Authority	Yes	-	-	-	-	**Yes**
14	Kigoma Urban Water Supply and Sanitation Authority	Yes	-	-	-	-	**Yes**
15	Korogwe Water Supply and Sewerage Authority	Yes	Yes	-	-	-	-
16	Kyela Water Supply and Sewerage Authority	Yes	-	-	-	-	-
17	Lindi Urban Water Supply and Sewerage Authority	Yes	-	-	-	-	Yes
18	Marine Services Company	No	-	-	-	-	**-**
19	Mbeya Urban Water Supply and Sewerage Authority	Yes	-	-	-		Yes
20	Mbinga Urban Water Supply and Sewerage Authority	Yes	-	-	-	-	**-**
21	Morogoro Water and Sewerage Authority	Yes	-	-	-		Yes
22	Moshi Urban Water Supply and Sewerage Authority	Yes	-	-	-		Yes
23	Mpanda Water Supply and Sewerage Authority	Yes	Yes	-	-	-	-
24	Mtwara Urban Water Supply and Sewerage Authority	Yes	-	-	-		Yes
25	Musoma Urban Water Supply and Sewerage Authority	Yes	-	-	-		Yes
26	Mwanza Urban Water Supply and Sewerage Authority	Yes	-	-	-		Yes
27	Namtumbo Water Supply and Sewerage Authority	Yes	-	-	-	-	-
28	Ngara Water Supply and Sewerage Authority	Yes	-	-	-	-	-
29	Sewerage Authority	Yes	-	-	-	-	-

30	Shinyanga Urban Water Supply and Sewerage Authority	Yes	-	-	-	-	Yes
31	Singida Urban Water Supply and Sewerage Authority	Yes	-	-	-	-	Yes
32	Songea Urban Water and Sewerage Authority	Yes	-	-	-	-	Yes
33	Sumbawanga Urban Water Supply and Sewerage Authority	Yes	-	-	-	-	Yes
34	Tabora Urban Water and Sewerage Authority	Yes	-	-	-	-	Yes
35	Tanga Urban Water Supply and Sewerage Authority	Yes	-	-	-	-	Yes
36	Tanzania Electric Supply Co Ltd (TANESCO)	Yes	-	-	-	-	Yes
37	Tanzania Library Services	Yes	-	-	-	-	Yes
38	Tanzania Telecommunication Company Ltd (TTCL)	Yes	-	-	-	-	Yes
39	Tukuyu Water Supply and Sewerage Authority	Yes	-	-	-	-	-
40	Usafiri Dar- es-Salaam (UDA)	No	-	-	-	-	

Appendix III

Type of Audit Opinion Issued 2012/2013

A.	Entities with Unqualified Opinion		
1.	LAPF Pensions Fund	31.	Universal Communications Services Access Fund
2.	TIB Development Bank Limited	32.	Dar es Salaam Stock Exchange Limited
3.	Social Security Regulatory Authority	33.	Government Employees Provident Fund
4.	NHC/PPF IPS Building	34.	Energy and Water Utilities Regulatory Authority
5.	Contractors Registration Board	35.	Architects and Quantity Surveyors Registration Board
6.	Surface and Marine Transport Regulatory Authority (SUMATRA)	36.	Babati Urban Water Supply and Sanitation Authority
7.	Ardhi University	37.	Gaming Board of Tanzania
8.	Institute of Finance Management	38.	Bank of Tanzania
9.	Institute of Adult Education	39.	Tanzania Bureau of Standards
10.	Benjamin William Mkapa Foundation	40.	Tanzania Civil Aviation Authority
11.	Dodoma Urban Water Supply and Sanitation Authority	41.	MWEKA College of African Wildlife
12.	Mzumbe University	42.	National Examination Council of Tanzania
13.	Arusha Urban Water and Sanitation Authority	43.	Tanzania Food and Drugs Authority
14.	Morogoro Water Supply and Sanitation Authority	44.	National Board of Accountants and Auditors
15.	Mwanza Urban Water Supply and Sanitation Authority	45.	Public Procurement Regulatory Authority
16.	Deposit Insurance Board	46.	National Health Insurance Fund
17.	Kilimanjaro Airport Development Company (KADCO)	47.	Tabora Urban Water Supply and Sewerage Authority
18.	PPF Pensions Fund	48.	Tanzania Commissions for Universities
19.	National Development Corporation (NDC)	49.	Iringa Urban Water and Sanitation Authority
20.	Sumbawanga Urban Water Supply and Sanitation Authority	50.	Kigoma/Ujiji Water Supply and Sanitation Authority
21.	Kahama Urban water Supply and Sanitation Authority	51.	Bukoba Water Supply and Sanitation Authority
22.	Tanga Urban Water Supply and Sanitation Authority		
23.	Moshi Urban Water Supply and Sanitation Authority		
24.	National Council for Technical Education		
25.	Capital Market and Securities Authority		
26.	Tanzania Communications Regulatory Authority (TCRA)		
27.	Small Industries development Organisation(SIDO)		
28.	National Kiswahili Council of Tanzania (BAKITA)		
29.	Capital Development Authority		
30.	Arusha International Conference Centre (AICC)		

B.	**Entities with Unqualified Opinion with Emphasis of Matter**		
1.	Public Service Pension Fund (PSPF)	33	Lindi Urban Water Supply and Sanitation Authority
2.	Tanzania Postal Bank	34	Arusha Technical College
3.	State Mining Corporation (STAMICO)	35	Centre for Agriculture Mechanisation and Rural Technology(CARMATEC)
4.	Tanzania Electric Supply Co Ltd (TANESCO)	36	Tanzania Telecomunications Company Ltd
5.	Consolidated Holding Corporation	37	National Institute of Transport
6.	Songea Urban Water Supply and Sanitation Authority	38	Dar es salaam Water and Sewarage Corporation (DAWASCO)
7.	National Economic Empowerment Council	39	Tea Board of Tanzania
8	Tanzania National Park (TANAPA)	40	Tanzania Institute of Education
9	Singida Urban Water and Sewerage Authority	41	Tanzania Broadcasting Corporation
10	Dar es Salaam Maritime Institute		
11	Kibaha Education Centre-Kibaha		
12	Musoma Urban Water Supply and Sanitation Authority		
13	Dar es Salaam Water and Sewerage Authority		
14	Tanzania Education Authority(TEA)		
15	Marine Parks and Reserves Unit		
16	Shinyanga Urban Water Supply and Sewerage Authority.		**Entities with Qualified Opinion**
17	Moshi University College of Co-operative and Business Studies		-
18	Tanzania Ports Authority		**Entities with Qualified with Emphasis of Matter**
19	Institute of Social Work	**1.**	Mtwara Urban Water Supply and Sanitation Authority
20	Cashew nut Board of Tanzania		
21	Tanzania Coffee Board		**Entities with Disclaimer Opinion**
22	Kahama Shinyanga Water Supply and Sanitation Authority		-
23	Tanzania Library Services Board		**Entities with Adverse Opinion**
24	National Arts Council		**-**
25	Tanzania Cotton Board		
26	Institute of Accountancy Arusha		
27	College of Business Education		
28	Rufiji Basin Development Authority		
29	Mbeya Urban Water Supply and Sanitation Authority		
30	Tanzania Smallholders Tea Development Agency		
31	Fair Competition Commission		
32	Tropical Pesticides Research Institute		

Appendix IV

Financial Performance and Liquidity Analysis 2012/2013

No	Entity	Deteriorating financial performance		Liquidity Position	
		Current Year Deficit	Prior Year Deficit	Current Assets-Current period	Current Liabilities-Current Period
1	Kahama Shinyanga Water Supply and Sanitation Authority	1,827,525,431	1,889,742,427	1,349,810,700	1,647,756,019
2	Shinyanga Urban Water Supply and Sewerage Authority.	63,025,244	268,569,758	663,938,005	1,004,518,595
3	State Mining Corporation (STAMICO)	1,338,999,887	1,356,387,914	1,137,233,596	1,411,825,134
4	Tanzania Electric Supply Co Ltd (TANESCO)	177,399,000,000	43,349,000,000		
5	Tanzania Cotton Board	377,635,000	63,059,000		
6	Songea Urban Water Supply and Sanitation Authority	1,937,413,157	1,358,554,497	264,139,721	903,070,019
7	National Economic Empowerment Council	326,291,000	135,392,000	866,270,000	671,948,000
8	Tanzania Library Services Board	2,736,352,171	1,768,265,400	269,077,703	577,277,100
9	Singida Urban Water and Sewerage Authority	323,861,478	239,943,691	279,313,524	955,241,832
10	Dar es Salaam Maritime Institute	446,093,759	474,277,833		
11	Kibaha Education Centre-Kibaha	1,883,980,523	933,572,789	1,524,131,642	2,420,500,553
12	Musoma Urban Water Supply and Sanitation Authority	386,899,359	359,821,784	3,082,332,757	3,260,852,761
13	Dar es Salaam Water and Sewerage Authority	17,159,383,000	21,052,000,000	23,782,145,000	43,406,185,000
14	Tanzania Education Authority(TEA)	1,709,827,613	1,316,040,395		
15	Marine Parks and Reserves Unit	823,838,000	593,704,000	269,883,000	385,969,000

16	Moshi University College of Co-operative and Business Studies	3,211,691,000	1,070,787,000		
17	Institute of Social Work	176,560,476	327,690,023		
18	Cashew nut Board of Tanzania			870,194,000	1,230,461,000
19	Tanzania Coffee Board	439,256,000	751,552,000		
20	Mtwara Urban Water Supply and Sanitation Authority	514,961,118	161,923,287	2,091,975,023	5,565,169,133
21	Institute of Accountancy Arusha	95,933,723	582,014,133		
22	College of Business Education	877,479,799	226,913,649		
23	Tanzania Smallholders Tea Development Agency	277,000,000	363,000,000		
24	National Arts Council	187,250,723	214,734,495	108,025,719	307,043,986
25	Fair Competition Commission	330,655,632	615,499,071		
26	Tropical Pesticides Research Institute	386,015,000	936,752,000		
27	Lindi Urban Water Supply and Sanitation Authority	260,256,810	143,756,293	135,412,932	1,228,905,238
28	Arusha Technical College	1,261,430,323	1,566,014,581	768,180,045	965,557,241