THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE

PERFORMANCE AUDIT REPORT ON THE MANAGEMENT OF MECHANISMS FOR REVENUE COLLECTION IN THE MINING SECTOR

CONTROLLER AND AUDITOR GENERAL

FEBRUARY, 2022

About National Audit Office

Mandate

The statutory duties and responsibilities of the Controller and Auditor General are given under Article 143 of the Constitution of the URT of 1977 and in Sect. 10 (1) of the Public Audit Act, Cap 418.

Vision, Mission and Core Values

Vision

A credible and modern Supreme Audit Institution with high-quality audit services for enhancing public confidence.

Mission

To provide high-quality audit services through modernisation of functions that enhances accountability and transparency in the management of public resources.

Motto: "Modernising External Audit for Stronger Public Confidence"

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ii. Professional competence
iii. Integrity
iv. Creativity and Innovation
v. Results-Oriented
vi. Teamwork Spirit

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- ✓ Contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- ✓ Helping to improve the quality of public services by supporting innovation on the use of public resources;
- ✓ Providing technical advice to our clients on operational gaps in their operating systems;
- ✓ Systematically involve our clients in the audit process and audit cycles; and
- ✓ Providing audit staff with appropriate training, adequate working tools and facilities that promote their independence.

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LIST OF ABBREVIATIONS

BGML	Bulyanhulu Gold Mine Limited
BM	Building Materials
BZGML	Buzwagi Gold Mine Limited
CIF	Clearance and Inspection Fee
GePG	Government Electronic Payment Gateway
GGM	Geita Gold Mine
IPSAS	International Public Sector Accounting Standards
LGAs	Local Government Authorities
MDAs	Ministries, Departments and Agencies
ML	Mining License
MRO	Mines Resident Office
NMGML	North Mara Gold Mine Limited
NRGI	Natural Resource Governance Institute
PL	Prospecting License
PML	Primary Mining License
RMO	Resident Mines Office
SML	Special Mining License
TEITI	Tanzania Extractive Industries Transparency Initiatives
TIC	Tanzania Investment Centre
TRA	Tanzania Revenue Authority
TMAA	Tanzania Minerals Audit Agency
UNDP	United Nations Development Program
URT	United Republic of Tanzania
WMA	Weight and Measures Agency

PREFACE

Section 28 of the Public Audit Act, CAP 418 [R.E 2021] mandates the Controller and Auditor General to carry out Performance Audit (Value-for-Money Audit) for the purpose of establishing economy, efficiency and effectiveness of any expenditure or use of resources in the Ministries, Departments and Agencies (MDAs), Local Government Authorities (LGAs) and Public Authorities and other Bodies. Basically the Performance Audit involves enquiring, examining, investigating and reporting on public operations and programs.

I have the honour to submit to Her Excellency, Hon. Samia Suluhu Hassan, the President of the United Republic of Tanzania and through her to the Parliament, the Performance Audit Report on the Management of Mechanisms for Non-Tax Revenue Collection in the Mining Sector.

This report contains findings of the audit, conclusions, and recommendations that have focused mainly on the assessment of the adequacy of the control measures in the management of revenue collection from the mining activities as performed by the Mining Commission under the Ministry of Minerals.

The Management of the Mining Commission was given the opportunity to scrutinize the contents of the report and came-up with comments on it. I wish to acknowledge the discussions with the management of the Mining Commission were very useful and constructive.

My Office intends to carry out a follow-up at an appropriate time regarding the action(s) taken by the Mining Commission in relation to the recommendations of this report. In completion of the audit assignment, the Office subjected the report to the critical quality reviews of Prof. Semboja Haji Hatibu Haji, Associate Professor, Zanzibar University, and Ms. Neema G.F. Mrema, retired Commissioner for Large Taxpayers, Tanzania Revenue Authority (TRA) who came up with useful inputs for improving the output of this report.

This report has been prepared by Mr. Jeje D. William – Team Leader, Mr. Joseph D. Nkengele and Mr. Anthony G. Washoto - Team Members under the supervision and guidance of Ms. Esnath H. Nicodem – Chief External Auditor, Mr. George C. Haule –Acting Deputy Auditor General.

I would like to thank my staff for their efforts in the preparation of this report. My thanks should also be extended to the Mining Commission for their fruitful interaction with my Office during the audit.

Charles E. Kichere,
Controller and Auditor General
Dodoma, United Republic of Tanzania
February, 2022

EXECUTIVE SUMMARY

The mining sector constitutes more than 50 percent of the total exports in the country. The contribution of the mining sector to Gross Domestic Product (GDP) increased from 5.2% in the year 2019 to 6.7% in the year 2020. However, setting the projection of the targeted contribution of 10% to the GDP in the year 2025 makes it imperative to ensure proper management of mechanisms for revenue collection.

Effective management of the mechanisms for revenue collection in the mining sector is of vital importance to assure the contribution of the sector in economic growth. Therefore, the achievement of the set targets can be realized through effective and well-organized management in the overall chain of the activities involved in revenue collection in the mining sector.

The main objective of the audit was to assess whether the Mining Commission has put in place adequate control measures in the management of revenue collection from the mining activities to accelerate the country's socio-economic development through sustainable development and utilization of mineral resources. In particular, the audit focused on non-taxable incomes namely; Royalties, Clearance and Inspection Fees, and other charges, since they both contribute to the overall revenues collected by the Mining Commission. The audit covered a period of three financial years (July 2018/19 to June 2020/21).

The adopted methodologies for audit data collection were mainly interviews and document reviews conducted at the Mining Commission Headquarters and in the visited mineral regions.

Main Audit Findings

Inadequate Mechanisms to Ensure Effectiveness of the Model for Revenue Projection

The Mining Commission did not adequately ensure that the identified controls that aim to maximize revenue collection were well-coordinated and/or exhaustive based on the revenue sources identified in respective

RMOs. This was due to the fact that the Mining Commission's annual revenue forecasts were derived from revenue estimates established by the respective RMOs. These estimates were not exhaustive due to lack of an established system to integrate the available revenue control measures that could give reliable and exhaustive inputs in forecasting of annual revenue estimates.

However, the observed inadequacies were to a large extent attributed to low awareness on having an exhaustive list of the potential measures to inform the annual revenue estimates.

Ineffective Procedures for Mineral Valuation

It was noted that the available guidelines were those for valuation of only one category of minerals namely; Gemstones and Kimberlitic Diamond while other minerals termed Industrial Minerals, Energy Minerals and Building Materials were valued without proper documented guidelines and/or procedures. However, the guidelines for valuation of Metallic Minerals were issued in the financial year 2021/22. This implied that for the period of the financial years starting from 2018/19 to 2020/21, the Mining Commission had no guidelines to entail valuation procedures for Metallic Minerals.

Furthermore, it was observed that, the Mining Commission did not have enough resources to enable effective valuation of minerals. Also, the Commission did not conduct research and studies to enhance mineral valuation.

Nevertheless, though the fact that Mines Resident Officers (MROs) are located in mineral producing Mining Companies, the Audit noted that currently, the allocation of the MROs does not match the available number of Mining Companies; there is a total of thirteen (13) MROs out of two hundred eighty-seven (287) producing Mining Companies. Identified weaknesses in mineral valuation to a great extent were contributed by low priority placed on emphasizing adherence to the procedures that ought to take place during the conduct of mineral valuation for all mineral types.

Therefore, the audit team had the view that the mechanism in place had a consequence that there was a risk to underestimate the presented quantity of minerals produced, since they formed a basis for determining payable government charges.

It was further revealed that ineffective procedures in mineral valuation were due to the low priority placed on emphasizing adherence to the procedures that ought to take place during the conduct of mineral valuation for all types of mineral.

Inadequate Monitoring of the Taxable Income to the Mining Companies

Overall scope representation in terms of the number of conducted financial audits and tax reviews for the purpose of verifying taxable incomes were not adequate for the Mining Commission to be informed of the correct payable charges to the Government.

The audit noted that the Mining Commission hardly conducted auditing and monitoring of the imposed tax incentives to the mining companies to ascertain the revenue collectable.

Moreover, it was noted that aspects of exploration costs were less likely to be considered during auditing of the mining companies. A review of the Audit and Tax review reports from the Mining Commission indicated that none of the available mining companies were audited in this aspect in the financial year 2018/19. It was revealed further that there were less than 20 percent of all the mining companies audited in exploration costs for the financial years 2019/20 and 2020/21.

Despite being reflected in the Monitoring and Evaluations Plans of the Mining Commission, the audit team had the view that failure to fully conduct financial auditing was associated with resource capacity constraints compared to the available number of mining companies in the country.

Insufficient in monitoring of taxable income to the mining companies was mainly attributed to resource constraints in terms of personnel compared to the number of available Mining Companies.

Inadequate Management of Reconciliation for Payable Royalties

The management of reconciliations for payable royalties was not satisfactory due to inadequate periodic updates of the information of mineral-right holders that was caused by lack of an integrated information system.

In addition, there was inadequate performance of the Mining Commission's Laboratory as a result of insufficient capacity. Also, it was noted further that the return forms were not utilized to ensure and monitor grade and volume of mineral exported and sold by mineral dealers for computation of the final royalties.

General Audit Conclusion

Notwithstanding the fact that there had been an increasing trend in revenue collection, the overall mechanisms to control and manage the available controls for revenue collection were not exhaustive resulting to poor implementation. In general, the Audit observed the following:

1. Annual projections of revenue collection were not exhaustive because they were derived from revenue estimates established by the respective RMOs. These estimates were not exhaustive due to lack of an integrated information system that could give reliable and exhaustive inputs during the establishment of revenue estimates;

2. The procedures used in mineral valuation were not effective due to the fact that, they were standardized only to Gemstones and Diamond minerals. However, it was observed that, the Mining Commission did not have enough resources to enable effective valuation of minerals. Furthermore, the Commission did not conduct researches and studies to enhance mineral valuation. It was also noted that, the Mining Commission did not adequately monitor the quality and quantity of

minerals produced due to inadequate allocation of MROs in the minerals producing sites;

3. Overall, scope representation in terms of the number of conducted financial audits and tax reviews for the purpose of verifying taxable income was not adequate for the Mining Commission to be informed of the correct payable charges to the government. Insufficient in conducting the financial audits and tax reviews were mainly attributed to resource constraints in terms of personnel compared to the number of available Mining Companies; and

4. The management of reconciliations for payable royalties was not satisfactory due to the limited capacity of the Mining Commission's Laboratory that was reflected by delay in issuing of laboratory results. Furthermore, the return forms from mineral dealers were not used for reconciliation of grade and volume of the exported minerals for computation of final royalties.

Recommendations

To Enhance Effectiveness of the Mechanisms for Revenue Collections from Royalties, Fees and Other Charges, the Mining Commission should:

1. Establish mechanism that will ensure effective coordination of the available control measures in the revenue collections.

To ensure Enhanced Annual Forecasts in Revenue Collection, the Mining Commission should:

1. Identify controls over all earmarked producing mineral resource areas targeting to maximize royalties, fees and other charges for the revenue collection in the sector.

To Ensure Effectiveness of the Procedures used in Mineral Valuation, the Mining Commission should:

1. Strengthen the capacity of the available resource set-up in the mineral valuation as per the requirements of each type of mineral; and

2. Initiate efforts to encourage the use and observance of the standard requirements on the procedures during mineral valuation.

To Improve Monitoring and Assessment of the Reported Royalties, Fees and Other Charges Income, the Mining Commission should:

1. Strategize on initiatives to implement the risk-based auditing that will help identify areas of possible revenue losses;

2. Improve a mechanism that will help inform the validity of the reported operating costs of the mining companies; and

3. Establish a mechanism that will ensure utilization of resources at respective RMOs to monitor and assess reported annual income of the Mining Companies.

To Ensure Effectiveness in Reconciliations of Payable Royalties, the Mining Commission should:

1. Strengthen the capacity of the Mining Commission's laboratory to cover a wide scope of received mineral samples for reconciliation purposes; and

2. Establish initiatives to ensure close monitoring and coordination of the reconciliations of payable royalties.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Audit

Minerals are valuable natural resources whose mining activities are closely linked with the country's economic development. Through the mining operations, mining companies generate profits, employment and contribute to the country's economic growth.[1] The mining sector in Tanzania constitutes more than 50% of the total exports.[2]

Minerals are very crucial to the contribution of the economic development of the country. The contribution of the mining sector to GDP increased from 5.2% in 2019 to 6.7% in 2020. The contribution is targeted to rise to 10% in 2025.[3] To meet the target, proper management of mechanisms for revenue collection in the country is crucial.

Efficient management of mechanisms for revenue collection in the mining sector is important as it can assure aspects of economic growth. Therefore, its achievement can be realized through effective and well-organized management of value chain in the mining sector.

However, the government has made important measures aimed at improving revenue collections and administration of the mining sector in Tanzania. These measures include the recent changes in the legal framework of the administration of mining sector through the Written Laws (Miscellaneous Amendments) Act, 2017.

The changes made over legal framework were meant to enable the government to optimize the collected revenue portion from the mining resources which in turn would ensure a significant contribution of the

[1] https://www.un.org/africarenewal/news/how-can-mining-contribute-sustainable-development-goals // Accessed on 17th April 2021, 1230 HRS
[2] https://en.wikipedia.org/wiki/Mining_industry_of_Tanzania#:~:text=Tanzania%20is%20a%2and%20rich,large%20part%20comes%20from%20gold.&text=Gemstones%2C%20nickel%2C%20copper%2C%20uranium,and%20corruption%20are%20ongoing%20problems
[3] Ministry of Minerals (Toleo Maalumu)-Maonyesho ya Tatu ya Teknolojia na Uwekezaji Kwenye Sekta ya Madini, September, 2020

sector to the economic growth and overall development. The changes include the introduction of one percent inspection fee on the gross value of all minerals exported and clearing houses at areas such as airports and mining sites to facilitate verification of minerals and collection of payable fees.

1.2 The Motivation for the Audit

The audit was motivated by the following factors:

(i) ***Mineral Smuggling***

Smuggling has been reported as one of the major challenges in the mining sector in Tanzania. On 6th April, 2021, in her speech, the President of the United Republic of Tanzania highlighted that mineral smuggling was a problem that needed to be addressed. Furthermore, she ordered the Ministry of Minerals to take appropriate measures on the issue.[4]

The statement made by the President of the United Republic of Tanzania echoed the observation which was earlier made by the Parliamentary Committee on Energy and Minerals in January 2016. The Parliamentary Committee on Energy and Minerals indicated that smuggling was among the major challenges impeding the growth of revenues from the mining sector. In its report, the Committee indicated that to a large extent insufficient supervision contributed to the observed ongoing smuggling in the country. Also, the report asserts further that mineral smuggling especially in raw form is contrary to the requirements of the Mining Act of 2010.[5]

(ii) ***Low Revenue Collections from the Mining Sector***

In the year 2020, a Study on "*Gap Analysis of Africa Mining Vision Implementation in Tanzania*" indicated that low revenue collection was among the challenges facing the mining sector in relation to the value of

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[4]Jamhuri ya Muungano wa Tanzania, Kurugenzi ya Mawasiliano Ikulu – Taarifa Kwa Vyombo vya Habari, 6th April 2021

[5] Bunge la Tanzania – Taarifa ya Shughuli za Kamati ya Kudumu ya Bunge ya Nishati na Madini zilizotekelezwa katika kipindi cha Kuanzia Januari, 2017 Hadi Januari, 2018

the mining resources and reserves available. It was further revealed that these challenges continued to limit the national ownership and control of the mining sector.[6]

(iii) *Insufficient Monitoring of the Mining Activities*

In February, 2018 the Parliamentary Committee on the Energy and Minerals highlighted unsatisfactory monitoring of the mining activities relating to the production of Tanzanite Gemstones. The report pointed out further that the Government was potentially losing revenue that would have been collected if there were appropriate measures to control the situation.[7]

1.3 Design of the Audit

1.3.1 Audit Objective

The main objective of the audit was to assess whether the Mining Commission has put in place adequate control measures in the management of revenue collection from the mining activities to accelerate country's socio-economic development through sustainable development and utilization of mineral resources.

The specific objectives were to assess:

(a) The adequacy of the forecasting models used to project annual revenue collections in the mining sector;

(b) Mechanisms used to ensure effectiveness in mineral valuation;

(c) Fairness of the reported annual taxable income from the mining companies; and

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[6] "*Gap Analysis of Africa Mining Vision Implementation in Tanzania*"; A study conducted by the Uongozi Institute in collaboration with the United Nations Development Program (UNDP, 2020)

[7] Taarifa ya Shughuli za Kamati ya Kudumu ya Bunge ya Nishati na Madini Zilizotekelezwa Katika Kipindi cha Kuanzia Januari, 2017 Hadi January, 2018

(d) Effectiveness in the management of reconciliations for payable royalties.

In order to clearly respond to the above audit objectives, audit questions and sub-questions have been presented in ***Appendix 2*** of this report.

1.3.2 Assessment Criteria

The assessment criteria were drawn from different sources such as Legislations (Acts and Regulations), Guidelines, Strategic Plans, and Mandated Functions of the Mining Commission.

(a) Effectiveness of the model used to forecast Revenue Collections in the Mining Sector

Section 22(f) of the Mining Act (CAP. 123) provides for the Mining Commission to advise the Government on all matters about the administration of the mineral sector. Likewise, the Ministerial Functions (Instrument) No. 144 of the Ministry of Minerals (2016) provide for the requirements for the Ministry to coordinate the establishment, maintenance, and updating of the mineral sector databases and other relevant information and statistics.

In addition, Objective (C) (i) of the Strategic Plan (Mining Commission, 2019/20-2023/24) highlighted for the Mining Commission to strategize on organizing efforts to improve the contribution of the mining sector to the economy through monitoring of the mining activities that are linked to the collectable government revenues.

Regarding the revenue collection, Section 22(k) of the Mining Act (CAP. 123) requires the Mining Commission to ensure adequate promotion and conduct of research and development that can result in increased government revenue emanating from the mining sector.

(b) Effectiveness of the Mechanism used in the Procedures for Mineral Valuation

Section 22(r) of the Mining Act (CAP. 123) requires the Mining Commission to sort and assess values of minerals produced by large, medium, and small-scale miners to facilitate collection of payable royalties. Similarly, Section 22(p) of the same Act requires the Mining Commission to monitor and audit the quality and quantity of minerals produced and exported through large, medium, and small-scale miners.

As well, the Approved Functions of the Mining Commission, through the Mineral Trade section are to ensure the implementation of guidelines, regulations, and procedures in the valuation of minerals. Furthermore, the Mineral Trade Section has the role to ensure efforts for initiation and facilitation of research that aims to enhance procedures used in the valuation of minerals.

(c) Adequacy of the Mechanism used to Ensure Validity of Reported Annual Taxable Incomes

Given the mandated roles of the Mining Commission, among the Approved Function is to ensure effectiveness in monitoring and verification of the reported exploration costs from the mining companies. Likewise, the Commission has a role to monitor and verify the reported and acceptable expenses of the mining companies.

In addition, in the process to ensure the validity of reported annual incomes, Section 22(d) of the Mining Act (CAP. 123) requires the Mining Commission to warrant for the actual implementation of mining activities to ascertain for orderly exploration and exploitation of mineral resources produced and reported by the mining companies in the country.

Furthermore, Section 22(q) of the Mining Act (CAP. 123) requires the Mining Commission to ensure auditing of capital investment and operating expenditure for large and medium-scale mining activities.

(d) Appropriateness in the Management of Reconciliations for Payable Royalties

For reconciliations of payable royalties, the Mining Commission through Laboratory Services Section has a role of analyzing mineral samples, sorting, and assessing values of minerals produced by large, medium, and small-scale miners.

In addition, through the established Regional Mines Offices (RMOs), the Mining Commission ensure proper management of return forms and records for reconciliation and re-settlement of payable royalties from Dealers.

This was the period when the Government through the Ministry of Minerals established the Mining Commission and that the main objective of the Government was to enhance revenue collections from the mining sector. For that reason, selection of this period was done so that to establish performance trend in the management of control measures for the management of revenue collections countrywide.

1.3.3 Scope of the Audit

The main audited entity was the Mining Commission. The Commission is responsible for preparing, reviewing, and implementing policies and strategies that ensure adequate controls for the effective management of mechanisms used for revenue collections in the country.

The audit focused mainly on non-taxable incomes namely Royalties, Clearance and Inspection Fees, and other charges since they contribute to the overall revenues collected by the Mining Commission. Likewise, the audit assessed the shared tax verification information initiated by the Mining Commission to the Tanzania Revenue Authority (TRA) which is mandated for collection of tax revenues in the country.

As well, for the adequacy of the reported annual taxable income from the mining companies, the focus was on monitoring and verification of exploration costs, reported annual taxable income, capital investments, and operational costs as reported by the mining companies. Moreover, for the appropriateness in the management of reconciliations for payable royalties, the focus was on the audit of production and expense data to ascertain whether correct amounts in terms of grade and volume of minerals produced have been received, as well as resource capacity, and the provision of laboratory services.

In addition, the audit covered five main types of minerals namely; gold, diamond, aggregates, limestone, and coal. These minerals are falling into the main categories of minerals namely; metallic minerals, gemstones, building materials, industrial minerals and energy minerals.

The audit covered the period of three financial years from July 2018/19 to June 2020/21. This was the period when the Government through the Ministry of Minerals established the Mining Commission and that the main objective of the Government was to enhance revenue collections from the mining sector. For that reason, selection of this period was done in order to establish the performance trend in the management of control measures for the management of revenue collections countrywide.

1.3.4 Sampling, Data Collection and Data Analysis Methods

(i) Sampling Method

The purposive sampling method, in terms of the revenue collection, was used to select the financial years of 2018/19 and 2019/20. For each financial year, the minerals produced were grouped into five main categories namely; Metallic Minerals, Gemstones, Building Materials, Industrial Minerals, and Energy Minerals.[8] For each mineral category, the main contributing type of mineral in the total revenue collected for that financial year was selected. Furthermore, the selected types of minerals were then clustered into four identified mineralogic provinces represented by regions where they were produced in large quantities. The selected

[8] **Metallic Minerals**=Gold, Iron, Silver, Copper, Platinum, Nickel, and Tin; **Gemstones**=Diamonds, Tanzanite, Ruby, Garnet, Emerald, Alexandrite, and Sapphire; **Industrial Minerals**=Kaolin, Phosphate, Lime, Gypsum, Diatomite, Bentonite, Vermiculite, Salt, and Beach Sand; **Building Materials**=Stone Aggregates and Sand; **Energy Minerals**=Coal and Uranium

regions were Geita, Manyara (Mirerani), Mtwara, and Ruvuma. See **Appendix 3** of this report for more details on the selection of types of minerals and the visited regions.

Likewise, the audit also covered the Tanzania Extractive Industries' Transparency Initiatives (TEITI). This was due to that TEITI, as an International Organization, deals with the reconciliation of revenue generated from minerals as disclosed by both TRA and the Ministry of Minerals.

(ii) Methods of Data Collection

Interviews

Interviews were conducted with the selected officials from the Mining Commission, Ministry of Minerals, and TEITI to gain insights into and clarification on the information regarding practices and challenges in the management of revenue collections in the mining sector.

The interviewed officials were from the levels of both the Management and the Resident Mines Offices in the selected regions to obtain relevant information. At the Mining Commission, interviewed officials include Executive Secretary (ES), selected officials from the Directorate of Mineral Audit and Trade, and Corporate Services Department. As well, at the visited mineral regions interviews were held with officials at Resident Mines Offices (RMOs).

Similarly, at the Ministry of Minerals, interviews were held with selected officials in the office of the Commissioner of Minerals. In the same way, selected officials at TEITI secretariat were also covered for interviews. See Appendix 4 of this report which provides details on the list of officials interviewed and the reasons for interviewing them.

Documents Reviews

The audit team reviewed various documents from the Mineral Audit and Trade Department, Mineral Licensing and Information Systems Department, and Research and Planning Section of the Mining Commission.

Also, reviewed documents included those from the Ministry of Minerals and TEITI.

The reviews focused mainly on the documents relating to planning, strategies, implementation, progress and annual performance reports, mineral audit reports, as well as reconciliation reports prepared by TEITI. The documents reviewed were those containing information within the selected audit timeline; 2018/19 to 2020/21. The reviews of documents were meant to triangulate and clarify the information collected from interviews. See ***Appendix 5*** of this report for the list of reviewed documents and reasons for reviewing them.

(iii) Methods of Data Analysis

The audit team used different techniques to analyze data collected during the audit. Both quantitative and qualitative data analysis methods were used.

Quantitative Data Analysis

Quantitative data were compiled and analyzed using an excel spreadsheet to ascertain emerged facts in tabular form. The facts were then described in texts based on the frequency of occurrence, proportions, and averages to explain the existing relationship and trend over time. In addition, to further clarify the facts observed, the data collected were presented and described using simple bar and pie charts.

Qualitative Data Analysis

Conceptual content analysis was used to analyze qualitative data to determine the existence and frequency of emerged concepts from the interviews and document reviews. The collected information was identified and coded based on the main themes focused on key concepts for each of the audit questions. As well, based on the frequency of occurrence of the emerged themes, information was then summarized and presented as narrated texts to affirm the noted facts.

1.4 Data Validation Process

The Mining Commission, the audited entity, was given the opportunity to go through the draft report and comment on the information presented therein. The Mining Commission confirmed the accuracy of the figures used and information presented in the report.

In the same way, the draft report was submitted to the subject matter experts in the field of revenue collection to get their independent opinions and authenticate factual contents of the details presented in the report.

1.5 Standards Used for the Audit

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) on Performance Auditing issued by the International Organization of Supreme Audit Institutions (INTOSAI). These standards require that the audit is planned and performed in order to obtain sufficient and appropriate audit evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. Generally, basing on the objectives of the audit, the evidence obtained provided a reasonable basis for the findings and conclusions reached.

1.6 Structure of the audit report

The subsequent chapters of this report cover the following:

Chapter Two

Presents the system, process, and the relationship among the key actors involved in the management of revenue collections in the mining sector

Chapter Three

Presents the findings based on the five specific audit questions

Chapter Four

Provides audit conclusions based on the audit objectives

Chapter Five

Outlines recommendations that can be implemented towards improving the observed weaknesses in the management of revenue collections in the mining sector

CHAPTER TWO

SYSTEM FOR THE MANAGEMENT OF THE MECHANISMS IN REVENUE COLLECTION IN THE MINING SECTOR

2.1 Introduction

This chapter describes the system for the management of the mechanisms for revenue collections in the mining sector. It presents the policy and legal framework governing the system for the management of roles and responsibilities of key players involved. The chapter covers the functions, goals, objectives and strategies applied in the whole process for the management of the mechanisms in revenue collections in the mining sector.

2.2 Policy and Legal Framework

The following are the Policies, Laws, and Regulations which govern the management of revenue collection in the mining sector.

2.2.1 The Mineral Policy, 2009

The Mineral Policy, 2009 aims at strengthening the integration of the mineral sector with other sectors of the economy along with improving the economic environment for investment, maximizing benefits from mining, improving the legal environment, strengthening the capacity for administration of the mineral sector, developing small-scale miners, promoting and facilitating value addition to minerals, and strengthening environmental management.

The mission of the government is to accelerate socio-economic development through sustainable development and the utilization of mineral resources. This can be achieved by setting appropriate Policies, Strategies, Laws, Regulation of Mineral Exploration, Exploitation, Value Addition, and Trading of Minerals as well as proper linkage with both private and public sectors of the economy.[9]

[9]The Mineral Policy of Tanzania, 2009

2.2.2 Legislations and Acts

(a) ***The Mining Act (CAP. 123** R.E. 2019)*

The Mining Act (CAP. 123 R.E. 2019) necessitates the need to promote, preserve and manage mineral resources to ensure their economic utilization. The Act provides general principles on how to control and manage mining operations in the country. It further provides procedures on how to grant mineral rights at every stage of the mining operation.

Section 19 of the Mining Act (CAP. 123 R.E. 2019) provides for the administrative roles of the Minister of the Ministry of Minerals; one is to monitor the implementation of laid down government policies on the exploitation of minerals. Likewise, Section 21 of the same Act provides the authority of establishment of the Mining Commission whose work is stipulated in Section 22 of this Act. Therefore, the Mining Commission assumed all functions that were previously performed by the Tanzania Minerals Audit Agency (TMAA) and Tanzania Diamond Sorting Organization (TANSORT).[10]

Equally, Section 22 (j) and (p) of the same Act provide for the functions of the Mining Commission to advise the Government on all matters relating to the administration of the mineral sector with main focus on monitoring and auditing of the mining operations to maximize Government revenue collected from the mining sector.

(b) ***The Tanzania Extractive Industries (Transparency and Accountability) Act, of 2015***

The Tanzania Extractive Industries (Transparency and Accountability) Act, 23 of 2015 provides for the establishment of the Extractive Industries (Transparency and Accountability) Committee for purposes of ensuring transparency and accountability in extractive industries such as mining and other related economic activities. The Committee established under this Act is required to identify extractive industry companies that qualify

[10] The Mining Act, CAP. 123

for reconciliation on payments made and revenues received by the Government on annual basis.

Section 7(1) of the Act provides for the determination of threshold to identify extractive companies that qualify for the reconciliation of payments taking into account the contribution of the extractive industry companies to the economy during the year of the report along with the large companies which contribute sufficient revenue to the Government. Likewise, Section 7(2) provides for the Committee to publish the threshold of the extractive industry companies that have qualified for reconciliation on payments made and revenues received by the Government.

(c) *The Tanzania Extractive Industries (Transparency and Accountability) Regulations of 2019*

Regulation 3(1) of the Tanzania Extractive Industries (Transparency and Accountability) Regulations of 2019 requires extractive companies to keep records of payments, beneficial ownership information, costs of production, exploration, prospecting, award or transfer of licenses, capital expenditure at each stage of investment, volumes of production and export data from the particular company. This information shall be submitted on annual basis to the responsible regulatory authorities for reconciliation purposes and other uses.

2.3 Goals and Objectives

Through the established Mining Commission, the goal of the Government is to manage the Mining Industry by ensuring supervision, monitoring, and regulating exploration, mining, beneficiation, and mineral trade for sustainable development.

In addition, the Government's objectives to ensure the contribution of the mining sector to the economy in terms of government revenue collection have been to strengthen monitoring of the mining industry, improve mineral value addition, and strengthen compliance with legislation governing the mining industry. More specifically, the Government targets to increase revenue collected from TZS 310 Billion to TZS 700 Billion by

June 2024.[11] This is also the functional objective of Tanzania Revenue Authority.

Likewise, the Government plans to continue to attract and enable the private sector to take lead in exploration, mining, mineral beneficiation, and marketing to increase the contribution of the mineral sector to the GDP and alleviate poverty by integrating the mining industry with the rest of the economy.

2.4 Strategies

The Ministry of Minerals strategizes to focus on promoting and facilitating value addition activities in the mineral sector to increase income generation and employment opportunities; strengthen revenue collection by improving control of mineral smuggling and illegal trading; integrating the mineral sector with other sectors and promoting the development of gemstones industry as well as overseeing operationalization and performance of institutions under its custody.[12]

Equally, the Mining Commission strategizes to improve the contribution of the mining sector to the national economy, to improve the sustainability of the Mining Industry, as well as improve the capacity of the Commission to deliver its mandated functions.[13]

2.5 Roles and Responsibilities of Key Actors

2.5.1 Roles of Key Actors

The Ministry of Minerals

The Ministry of Minerals was established under the Presidential Order published in the Government Notice No. 143 of 22nd April, 2016 and is mandated to administer and control all issues concerning the mining sector. Among other roles, the Ministry of Minerals has the following

[11] Ministry of Minerals - (Mining Commission Strategic Plan 2019/20 – 2023/24)
[12] The United Republic of Tanzania (Ministry of Minerals) Strategic Plan (2019/20 – 2023/24)
[13] The Mining Commission Strategic Plan (2019/20 – 2023/24)

responsibilities: (a) to prepare and review policies, strategies, and legislative framework for exploration and exploitation of mineral resources and monitor their implementation (b) to monitor operations and performance of all bodies or establishments responsible for the mineral sector and prepare periodic reports (c) to promote national mineral resources for research and exploitation (d) to monitor the issuance of licenses for mining activities in the country (e) to coordinate establishment, maintenance and updating mineral sector databases and other relevant information and statistics (f) to provide support for the creation of a favourable environment for private investments in the mineral resources, and (e) to promote value addition in the mining industry.

The Mining Commission

The Mining Commission was established under the Mining Act 2010 as amended by the Written Laws (Miscellaneous Amendment) Act 2017.[14] The Commission came into existence through the Government Notice No. 27 issued on 7th July, 2017.

The Commission has taken the overall operational functions that were performed by the Minerals' Division under the then Ministry of Energy and Minerals and all functions that were performed by Tanzania Minerals Audit Agency (TMAA) and Tanzania Diamond Sorting Organization (TANSORT).[15] The Commission aims to enhance management of the mining sector and to ensure that the Government benefits from the income generated sustainably.[16]

Regarding revenue collections in the mining sector, the responsibilities of the Mining Commission are primarily described through the functions of the following Departments:

[14] The Commission came into existence through the Government Notice No. 27 issued on 7th July, 2017

[15] The United Republic of Tanzania, Ministry of Minerals: Mining Commission Annual Report 2018/2019

[16] https://www.tumemadini.go.tz/pages/about-us-1 // *Accessed on 05th May 2021; 0730 Hrs*

(i) *Department of Mineral Audit and Trade*

The role of the Department for Mineral Audit and Trade is to audit financial, mineral production and sales, manage minerals trade and counteract minerals smuggling. In addition, the Mineral Audit and Laboratory Services Section under this department has the following roles: (a) planning and coordinating strategies for monitoring of mineral production (b) analyzing samples of minerals, sorting and assessing mineral values produced, and (c) preparing, reviewing and implementing policies and strategies of mineral valuation and analysis.

(ii) *Department of Mineral Licensing and Information Systems*

The Mineral Licensing and Information Systems Department has the role of administering mineral licenses/permits and certificates. Among other functions, this Department is responsible for the issuance, suspension and canceling of mineral rights, licenses, and permits.

Resident Mines Offices

The Resident Mines Offices (RMOs) represent the Mining Commission at the regional level and are located in several designated mineral regions of Tanzania Mainland. These offices are headed by Resident Mines Officers (RMOs). Key roles of RMOs include administering and monitoring mining activities in their respective areas, and managing and administering the collection of revenues derived from royalties, rents, and other fees as per existing legislations.[17]

The overall management in the collection of revenues from RMOs has mainly centered in the established government-controlled mineral markets. Therefore, it is through mineral markets where transactions on minerals are made and records for payable charges are earmarked.

[17] http://tumemadini.go.tz/pages/ofisi-madini-mkazi // *Accessed on 04th May 2021; 1400 HRS*

Mines Resident Offices

The Mines Resident Offices (MROs) represent the Mining Commission in supervising and monitoring Large and Medium Scale Mines. The main roles of the Mines Resident Offices include monitoring of day-to-day production processes at the mining sites, verification of records, information, and production of reports kept by the holders of mineral rights, and overseeing mineral removal and transportation to the Government Mineral Warehouses.

Tanzania Extractive Industries Transparency Initiatives

The Tanzania Extractive Industries Transparency Initiative (TEITI) Committee is an independent government body responsible for promoting and enhancing transparency and accountability in the extractive industry. On the other hand, the TEITI Secretariat is responsible for performing the day-to-day activities of the Committee.

TEITI Committee was established following the Tanzania Extractive Industries (Transparency and Accountability Act, 2015) and started to operate in the year 2009,when the Board of Extractive Industries Transparency Initiative (EITI) which is an international body that admitted Tanzania as an EITI candidate, and three years later (in 2012) Tanzania became compliant with EITI global standards. These standards include EITI Principles, EITI Requirements, Overview of Validation, protocol of "Participation of Civil Society" and Open Data Policy.

The role of the TEITI Committee is to guarantee through reconciliation exercise for the Government to identify the positive contribution from the extractive resources to the economic and social development. In addition, the Committee helps the Government to realize the potential of the extractive sector through improved resource governance encompassing and fully implementing the requirements of the EITI Standards.[18]

[18] Tanzania Extractive Industries Transparency Initiative (TEITI, 2021)

2.5.2 Roles of Other Key Actors

Tanzania Revenue Authority

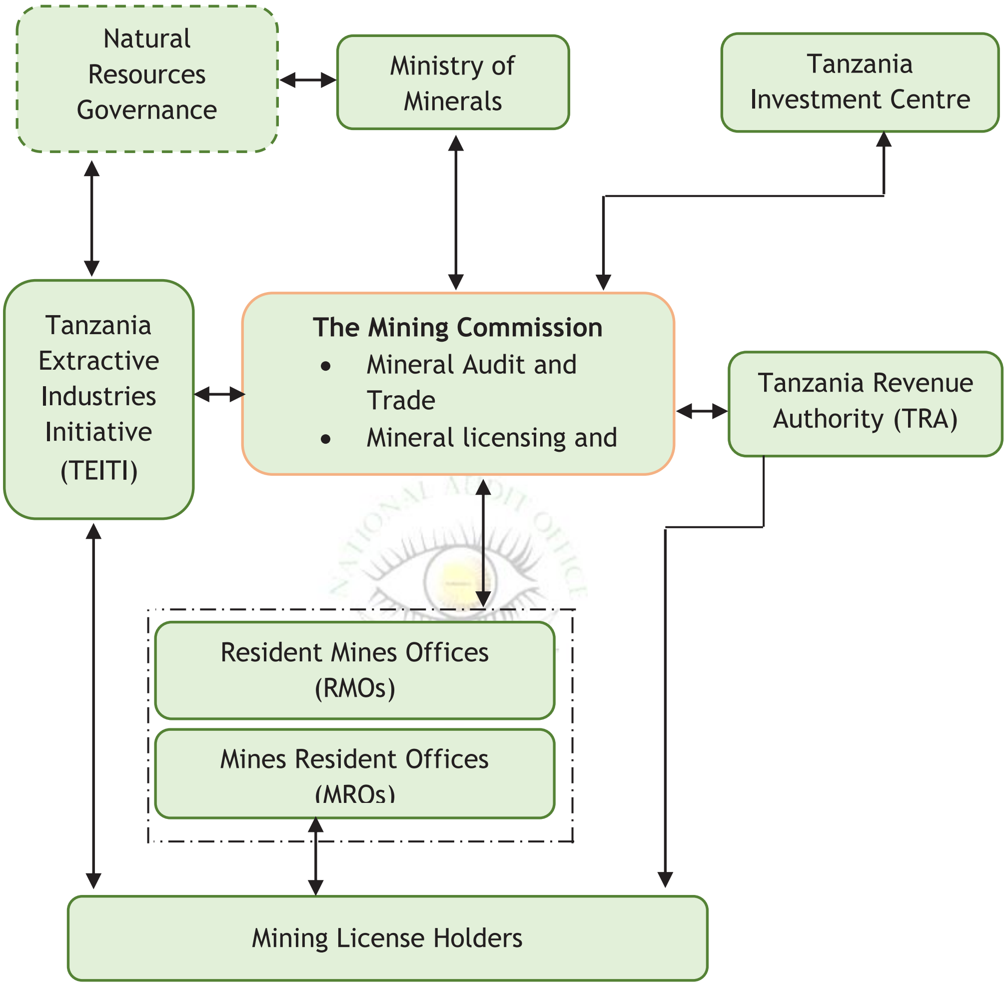
The Tanzania Revenue Authority (TRA) was established by Act of Parliament No. 11 of 1995. In carrying out its statutory functions, TRA is regulated by law and is responsible for administering impartially various taxes of the Central Government.[19]

Natural Resource Governance Institute

Natural Resource Governance Institute (NRGI) is a non-profit organization that provides policy advice and advocacy with insights developed through research in the field of natural resources. The institute seeks to produce measurable changes in the direction of more effective and more open management of natural resources. In addition, NRGI shares knowledge and experience with policy-makers as well as accountability actors on the decision chain for the key aspects of the natural resources value chain.

[19] https://www.tra.go.tz/index.php/about-tra *//Accessed on 31st October 2021; 1600 HRS*

Figure 2.1: Relationships among the Key Actors in the Management of the Mechanisms for Revenue Collection



***Source**: Auditors' Analysis from the Interviews held with Officials at the Mining Commission (2021)*

2.6 Allocation of Resources in the Mining Commission

Effective management of the mechanisms for revenue collections requires the allocation of both human and financial resources. The Mining Commission plays a significant role in ensuring effective management of mechanisms for revenue collections in the country.

Therefore, this section provides details on allocated resources to the Mining Commission.

2.6.1 Financial Resources

The source of finance for the activities performed by the Mining Commission is mainly from the Central Government which is received as Other Charges (OC), PE, and Development Fund. Table 2.1 indicates budgeted and actual allocated funds from the Financial Year 2018/19 to 2020/21.

Table 2.1: Allocated Fund at Mining Commission in Billions TZS

Item	Financial Year		
	2018/19	2019/20	2020/21
Budgeted	12.5	32.1	40.4
Actual	16.8	32.1	37.0
Difference	4.3	-	3.4

Source: *Estimates of Income and Expenditure - Mining Commission (2018/19-2020/21)*

Table 2.1 illustrates that on average, from the Financial Year 2018/19 to 2020/21 the Mining Commission received an average annual amount of TZS 28.6 Billion.

2.6.2 Human Resources

Human Resources in the Mining Commission

For the Mining Commission to perform its roles effectively, a prerequisite in terms of Human Resources is necessary. **Table 2.2** illustrates the available number of Staff against those required in the Departments concerned with Mineral Audit and Trade, and Mineral Licensing and Information Systems of the Mining Commission.

Table 2.2: Allocation of Staff at the Mining Commission

Department	Available Number of Staff	Required Number of Staff	Deficiency (n)
Mineral Audit and Trade	33	41	**8**
Mineral Licensing and Information Systems	26	34	**8**
Total	**59**	**75**	**16**

Source: *The Mining Commission (2021)*

Table 2.2 depicts that both the Departments for Mineral Audit and Trade and the Mineral Licensing and Information Systems have the number of staff less than those who would be required.

2.7 Process Description in the Management of Activities on Mining Commission Revenue Collections in the Mining Sector

Preliminary Annual Forecasts in Mining Commission Revenue Collection

The process in the management of the mechanisms for Mining Commission's revenue collection in the mining sector is initially based on resulting annual forecasts made by Residents Mines Offices (RMOs). RMOs provide to the Mining Commission the forecasted annual revenue collections from mines located in their respective areas of jurisdictions. This goes along with the identification of potential measures that are to be considered to ensure adequate collection of the estimated revenues for the respective financial year.

In addition, the estimates of Mining Commission's revenue collections initiated by RMOs are grounded on the predetermined estimations for the expected mineral production for that financial year subject to the computations of payable statutory charges. This exercise takes into account of any expected changes at local and foreign mineral market prices.

The main factors that are being considered during preliminary forecasting of revenue estimates include the quantity and value of produced minerals based on their abundance along with the new expected Mining Licenses (MLs) and Special Mining Licenses (SMLs) in respective RMOs' jurisdictions. The estimates are then to be submitted to the Mining Commission Headquarters at beginning of January of each calendar year.

Compilation of Forecasted Mining Commission's Revenue Collections

The Research and Planning Section of the Mining Commission is then responsible for the compilation of final produced estimates to formulate the overall estimated revenue to be collected for the respective financial year. At this stage, the overall estimates from the Mining Commission jointly with the Ministry of Minerals are shared with the Ministry of Finance and Planning for review, harmonization, and therefore conclude on the final set target to achieve during revenue collections for the respective financial year.

Allotment of Final Forecasted Mining Commission's Revenue Targets

The agreed final set targets on revenue collection are then individually shared back to the respective RMOs for actual implementation towards the achievement of the overall forecasted amount at the headquarters level. It is worth noting that at this stage the allocation of revenue collection targets to RMOs is mainly based on previous revenue collected. In some cases, the allocation of targets in revenue collection considers the mineral potentiality in terms of production rate, mineral values, types of minerals, and their abundance.

Mining Commission Revenue Collection

Based on the apportioned revenue collection targets, RMOs are essentially having the role to administer the actual Mining Commission revenue collection based on the set targets in their jurisdictions. For RMOs, the strategy to ensure achievement of the set targets starts with the identification of the potential existing source of revenues along with attracting new investments or introducing new initiatives that will help achieve the targets.

The approaches in the actual recording of revenue collection are subject to the produced type of mineral. **Table 2.3** summarizes factors for consideration for the revenue collectable based on the type of mineral.

Table 2.3: Factors in Determining Revenue Collection by Type of Mineral

Type of Mineral	Route	Factors	Revenue Collectable/Charges
Metallic Minerals	Mineral Market	• Weight • Percentage Purity • Market Price	• Royalty • Clearance and Inspection Fee (CIF)
Gemstones	Mineral Market	• Weight • Clarity • Market Price	• Royalty • Clearance and Inspection Fee (CIF)
Industrial Minerals	Checkpoint	• Weight • Pre-determined Local Market Price	• Royalty • Clearance and Inspection Fee (CIF) • Freight Charges
Building Materials	Checkpoint		
Energy Minerals	Checkpoint		

Source: *Revenue Collection Reports (Mining Commission, 2018/19-2020/21)*

Overall, upon determination of the Mining Commission's revenue collectable based on the allowable charges as according to the Laws and Regulations, the common practice for all types of minerals entails the issuance of Bills over and done with Control Number generated through the Government Electronic Payment Gateway (GePG).

Following settlement of the Bill, cash is received through Bank, and records are kept in both GePG systems and Cashbook which is accessible at any time at RMOs and the Mining Commission Headquarters. Therefore, the total revenue collected as of the closing date of 30th June of each financial year is the closing balance of Bank Accounts of the Mining Commission. The collected revenue at this stage is remitted to the Ministry of Finance and Planning.

Reporting on Actual Mining Commission's Revenue Collection

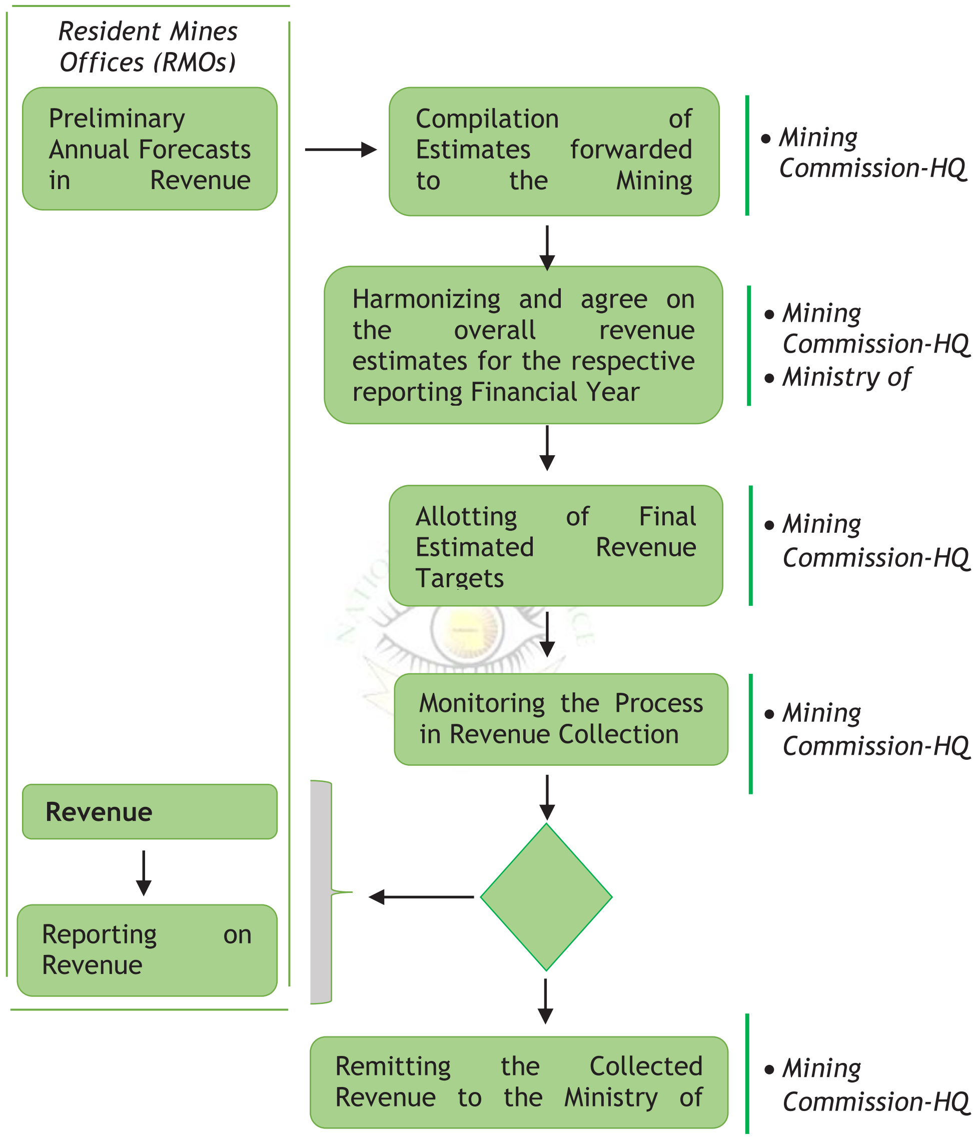
Following actual revenue collected, the Mining Commission (Headquarters) is to pile up the reported revenues that RMOs submitted on monthly basis.

In that way, the Headquarters compiled revenue collection and report on the achievement made so far quarterly and finally at the end of the financial year.

Monitoring Revenue Collection Process

Monitoring of the revenue collected is essentially done through the submission of revenue collection reports from RMOs to the Mining Commission Headquarters monthly. Recorded revenues are then compiled and later used to produce the overall revenue collection report that the Mining Commission Headquarters provides every quarter to track progress towards the targeted overall estimate for the respective reporting financial year.

Figure 2.2: Flow Diagram Illustrating Process in Revenue Collection



Source: *Auditors' Analysis from the Interviews (2021)*

CHAPTER THREE

AUDIT FINDINGS

3.1 Introduction

This chapter presents the audit findings on the performance of the Mining Commission on the management of the mechanisms for revenue collections in the country. The findings are presented based on the audit-specific objectives which focus on assessing adequacy in the forecasting of revenue collections, effectiveness in the valuation of minerals, fairness in treatment taxable incomes, and effectiveness in the management of reconciliations for payable royalties.

3.2 Extent in the Functioning of Mechanisms for Revenue Collection

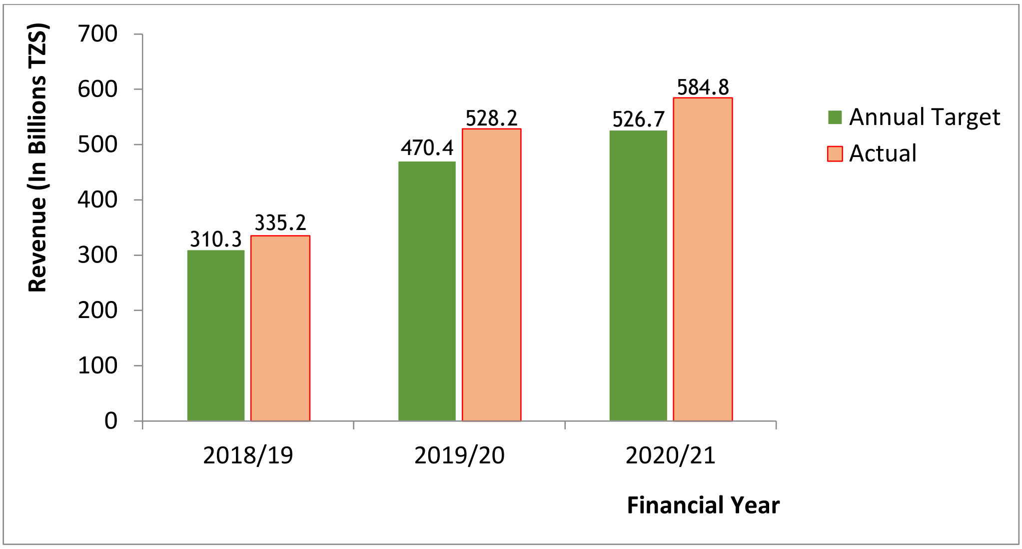
As stipulated in Objective (C) (i) of the Strategic Plan for the Mining Commission (2019/20-2023/24), the Commission needs to plan on organizing efforts to improve the contribution of the mining sector to the economy through monitoring of the mining activities that are linked to the collectable government revenues.

3.2.1 Planning for Effective Management of the Mechanisms for Revenue Collection

Given a well-designed strategic framework to ensure maximum revenue collection from the mining sector, the review of Internal Audit Annual Risk-Based Audit Plan (2019/20) indicated several risk areas including failure to coordinate preparation and implementation of the Commission Strategic and Action plans, inefficiency coordination in preparation of Commission's plans and budget, and failure to carry out monitoring and evaluation of Commission's plans and budgets and thereby prepare periodic performance reports.

The Audit noted increasing trend of the reported annual revenue collection that surpassed the targets for each of the financial year from 2018/19 to 2020/21 (**Figure 3.1**). Review of the Annual Reports from the Mining Commission (2018/19-2020/21) indicated that these attainments were mainly backed by collection of government charges through Royalty and Clearance and Inspection Fee (CIF) which on average accounted for 79.0 and 13.7 percent of the total annual revenue collection respectively. It was further noted that the achievements were also contributed by the strengthened management in mineral production areas as well as established mineral markets and Gem Houses in all mineral regions. **Figure 3.1** summarizes status in revenue collection comparing targets against the actual collections from the financial year 2018/19 to 2020/21.

Figure 3.1: Trend in Revenue Collection (In Billion TZS) - 2018/19 to 2020/21

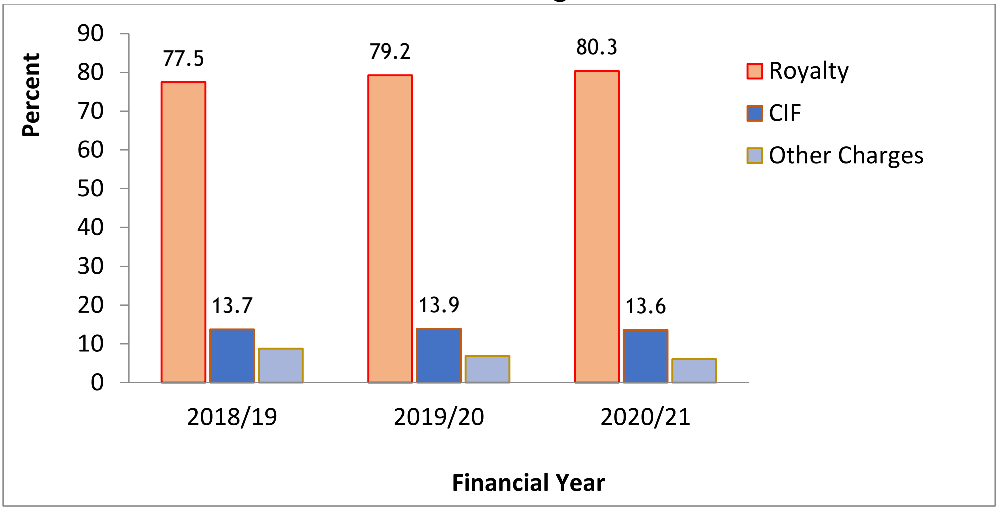


***Source**: Annual Reports (Mining Commission; 2018/19-2020/21)*

Figure 3.1 illustrates the increasing trend in the reported annual revenue collection mainly emanated from royalties, fees, and other charges. The figure illustrates further that the collected revenues were beyond the set targets for each of the Financial Year from 2018/19 to 2020/21.

Likewise, for each financial year more than three-quarter of the actual collected revenues were more recorded from royalties while less than quarter of the collected revenues were from CIF and other charges. **Figure 3.2** describes proportion of the collected revenue emanated from Royalty, CIF and other charges from the financial year 2018/19 to 2020/21.

Figure 3.2: Proportion of Collected Revenues from Royalty, CIF, and Other Charges



Source: *Annual Reports (Mining Commission; 2018/19-2020/21)*

Figure 3.2 illustrates that for each financial year the revenue collected was mainly contributed by royalties with percent range of between 77.5 and 80.3. In addition, revenue collected from CIF and other charges was recorded below 15 per cent for each financial year. However, the audit team noted further that significant proportion of revenue collected in terms of royalty were due to the introduction of the newly established mineral trading centers in the year 2019.

Table 3.1 summarizes percentage contribution for each of the identified types of minerals from the Financial Year 2018/19 to 2020/21.

Table 3.1: Proportion of Royalty Collection by Type of Mineral Type (2018/19-2020/21)

Type of Mineral	Financial Year		
	2018/19	2019/20	2020/21
Gold	86.7	84.4	89.4
Gemstones	6.2	2.8	1.0
Building Materials	3.2	3.0	2.2
Industrial Minerals	1.8	0.4	1.4
Energy Minerals	1.3	1.1	1.5

Source: *Annual Reports (Mining Commission; 2018/19-2020/21)*

Table 3.1 reveals that for each reporting financial year, the revenue collection through royalty was mainly contributed by gold minerals at an annual average rate of 86.8 per cent with a small contribution from other types of minerals ranging from 0.4 to 6.2 per cent for the reporting financial periods. Besides, the audit team is of the view that significant contribution of Gold minerals to the total revenue collected may be attributed to an increased trend in volumes of the produced Gold minerals ranging from 42,047 Kg in the financial year 2018/19 to 55,604 Kg in the financial year 2020/21, if other factors for market prices were to be held constant.

3.2.2 Control Measures in Revenue Collection

The Mining Commission has identified and implemented several measures to ensure adequate control of revenues emanated from the mining sector. Such measures include financial audit and tax reviews, reconciliation of payable royalties, monitoring quantity of produced minerals, issuance of mineral transport permits, and control of arrears revenues.

As per the Strategic Plan (2019/10-2023/24) of the Mining Commission, the control measures in revenue collection are aligned with the roles of the Commission to supervise and regulate the proper and effective carrying out of the provisions of the Mining Act (CAP. 123 R.E. 2019), which are to regulate and monitor mining operations, counteract mineral smuggling and mineral royalty evasion, conduct of the financial audits and tax reviews.

The following sections provide for details on the measures for control of the revenue collection as performed by the Mining Commission.

(i) *Conduct of Financial Audit and Tax Reviews*

The audit team noted that the key measures in control of revenue collection are the jointly conducted risk-based financial audit and tax reviews which target to regulate proper carrying out of the provisions of the Mining Act (CAP. 123 R.E 2019), counteract mineral smuggling, and mineral royalty evasion. However, extent in the conduct of these audits is still minimal. **Table 3.2** summarizes the number of actual financial audit and tax reviews conducted from the financial year 2018/19 to 2020/21.

Table 3.2: Status of the Conducted Financial and Tax Reviews (2018/19-2020/21)

Level of Mining Company	Financial Year					
	2018/19		2019/20		2020/21	
	Planned	Actual	Planned	Actual	Planned	Actual
Large Scale	0	0	4	1	1	0
Medium Scale	24	11	44	6	22	28[20]
Mineral Traders	0	0	80	0	80	0

Source: *Mining Commission Strategic Plan (2019/20-2023/24) and Audits Reports (2018/19-2020/21)*

Table 3.2 describes trends over time for the number of conducted financial audits and tax reviews by the Mining Commission. Overall, the conducted financial audits and tax reviews to the Mining Companies were not satisfactory; there were no planned audits of the large scale Mining Companies in the financial year 2018/19 except that the audits were done in 11 out of 24 Mining Companies in medium scale. In addition, only 6 out of 44 Mining Companies in medium scale were audited in the financial year 2019/20. On the other hand, the number of the audits conducted to the Medium Scale Mining Companies increased from 3 to 17 between the financial year 2019/20 and 2020/21. However, despite being planned in the financial years 2019/20 and 2020/21 none of the audits were conducted to the Mineral Traders.

Generally, the audit team noted deficiency of more than 50 per cent for the number of the Mining Companies and Mineral Traders for which the Mining Commission had not conducted financial audit and tax reviews. This posed a high risk that the Mining Commission would not be informed of the likely weaknesses that ought to influence and determine payable charges to the government.

(ii) *Reconciliation for Payable Royalties*

The audit team noted that being one of the measures to ascertain royalty payable to the government, the Mining Commission offers laboratory services for the purpose of analyzing, sorting, and assessing the values of

[20] Inclusion of the audits of road construction projects increases the number to 28

the minerals produced. Therefore, following thorough reconciliation of the provisional royalty by the Commission, the mineral right holder shall be liable to repay any excess sum paid.

However, the audit team noted inadequate number of reconciliations made for the Gold samples received for analysis at the Mining Commission laboratory. For instance, a review of the Report on the Status of Bullion and Concentrates Samples of the Mining Commission (May, 2021) indicated that as of May 2021, only 59 per cent of the received Gold Samples were analyzed. **Section (3.5)** of this report provides more details on the management of reconciliation for payable royalties.

(iii) ***Monitoring the Quantity of Minerals Produced***

As part of monitoring revenue payable, it was noted that the Mining Commission at respective Resident Mines Offices (RMOs) made use of the Mines Residents Officers (MROs) to control the quantity of the produced minerals in large and medium scale mines.

However, a review of the list for the available number of MROs at the Mining Commission indicated that MROs were more allocated to the identified high-risk areas such as gold producing areas (7 out of 13); despite bulk production of industrial minerals at Dangote Cement Limited there was no allocated MRO.

In addition, it was revealed that the Commission makes use of the Assistant Mineral Auditors (AMAs) to monitor production of minerals; despite this, it was noted that the expertise of available AMAs cannot be compared to the MROs. Currently, there is a total of 13 out of the 157 MROs that would be needed at the operating mines sites. For instance, RMO-Mtwara had not allocated with MRO despite the fact that there is a great deal in the production of industrial minerals.

On the other hand, the audit team had the view that lack of MROs in some of the mine sites to a great extent implied uncertainty in the reported quantities of minerals claimed to be produced by the respective mineral producing sites; which in turn posed a high risk that the Mining

Commission would not be informed of the validity of the reported minerals produced.

Likewise, the establishment of the mineral markets has been identified as one among the several measures taken by the Mining Commission to ensure control of mineral smuggling. Following the establishment of the mineral markets, there had been a significant increase in Government revenues collected from the mining sector. A review of the Report on Performance of the established Mineral Markets from the Mining Commission indicated an increase in the revenue collection from TZS 1.7 Billion in the financial year 2017/18 (before the establishment of the Mineral Markets) to TZS 7.1 Billion in the financial year 2019/20 (after the establishment of the Mineral Markets).

(iv) ***Issuance of Mineral Transport Permits***

Section 100(c) (2) of the Mining Act (CAP. 123 R.E. 2019) provides for the illustration that mineral transportation is to be assured following government authorization. To control for mineral smuggling and ensure that minerals are transported within authorized areas; the Audit noted that the Mining Commission has established control over the movement of mineral by issuance of mineral transport permit for mineral transportation crossing geographical points.

(v) ***Control of Arrears Revenue***

Section 66(1) of the Mining Act (CAP. 123 R.E. 2019) requires the mineral rights holders to pay a penalty after failure to pay annual rent, royalty or to make payment in lieu of royalty payable within ninety days after official notice of payment. Any unpaid annual rent, royalty or payment in lieu of royalty, shall be a debt which shall be recovered in a court of competent jurisdiction.

Likewise, the Reporting Framework of the Public Institutions requires public entities to report revenue in their financial statements so as to align with the requirement of IPSAS (9) that public entities are to prepare and present financial statements under the accrual basis.

The audit noted inadequate control in the management of arrears revenue due to the unpaid annuals rents and debts aroused as a result of post assessment of the final royalty to be paid. This situation was supported by the presence of a large number of inactive mining licenses as indicated in **Table 3.3**.

Table 3.3: Status of Operating Mining Licences (2020/21)

Type of Mineral License	Total Number of Active Licenses	Number of Operating Licenses	Number of Non-Operating Licenses
Primary Mining License	33,096	11,903	21,193
Prospecting Licenses	1,138	652	486
Mining Licenses	218	148	70
Special Mining Licenses	15	9	6
Processing Licenses	186	186	-
Refinery Licenses	5	2	3
Smelting Licenses	6	3	3
Broker Licenses	1,985	1,985	-
Dealer Licenses	648	648	-
Total	**37,297**	**15,536**	**21,761**

Source: *Auditors' Analysis from the Financial Statement for the Financial Year 2018/2019*

Table 3.3 describes that, more than 58.3 percent of the total registered mining licenses in the financial year 2020/21 were not active, and that more than three-quarters (97.4%) of non-operating licenses were Primary Mining Licenses.

However, large number of non-active licenses can be attributed to lack of close monitoring especially to the Small-Scale mineral right holders since their mining operation are naturally informal and actual operations takes place in remote areas. Consequently, this poses a risk that the Mining Commission might have lost a significant amount of revenue payable to the Government from the arrears' revenues based on the annual rents.

In addition, as per the Standard Operating Procedures, it is the requirement that recovered debts are to be registered in specific ledger to monitor repayment of the amount due. The audit noted that collected debts are treated as current generated revenue received and being recorded as revenue received for that particular current financial year.

For instance, it was shown that the Mining Commission reported amount of TZS 42.1 Billion in the Financial Statement of the financial year 2018/19 as arrears revenue which included TZS 38 Billion inherited from the Ministry of Energy and Minerals which accrued from previous financial year of 2017/18.

Likewise, the Commission declared in Note 9.0 of Financial Statement for the financial year 2018/19 that they inherited arrears revenue of TZS 38 Billion. Doubtful, this continued to be reported until the data cleaning was performed and the correct amount would be disclosed in the financial year 2019/20. However, the audit noted that no data cleaning was performed to assess the said doubtful amount and no disclosure was made in the financial year 2019/2020 corresponding to that doubtful amount.

It was further noted that inadequate management in the treatment of arrears revenue may be attributed to lack of proper mechanisms to keep records that encourages practices on the use of the ledger essential for recording of debts and the amount recovered to update the outstanding amount. The audit team had the view that practices on the use of the ledger by the Mining Commission would, in this case, help to track records of the mineral rights holders as well as the total outstanding amount with their age.

Consequently, this has the impact that the Mining Commission cannot accurately recognize the revenue collectable for the specified current financial year. On the other hand, the audit noted that these practices entail minimal efforts allocated to the identified measures that would have been used to maximize revenue collectable.

Furthermore, the audit noted that mistreatment of the arrears revenues implies the following:

(i) *Low Mining Commission Revenue*

The mining commission revenue is reduced due to the cash that was expected to be collected through bank is accrued as debt. In addition, the debts when carried forward for a long time without being collected increases the risk in terms of the time that the government will have to remain short of fund associated with those debts.

(ii) *Missing Investment Opportunities*

Given the condition under Section 55(2) of the Mining Act (CAP. 123 R.E. 2019) that the Primary Mining Licenses are valid for a maximum period of seven years with the requirement to pay annual rent fees; even if not actively operating, the identified defaulters, therefore, are in this case taking advantage of loophole of the legal requirements as stipulated in the Mining Act.

Therefore, the audit team had the view that the Mining Commission did not have the mechanism in place to track the status of operation for the issued Primary Mining Licenses; therefore, this practice tended to hinder potentially applications especially new Primary Mining Licenses that would be operating along the same area and period.

3.2.3 Annual Forecasts in Revenue Collection

A review of the Mineral Production and Sales Reports (2018/19-2020/21) indicated that from the financial year 2018/19 to 2020/21 the revenue collected by the Mining Commission were largely contributed from mineral rents, geological fees, mining royalties, clearance and inspection fees, fines, penalties, and forfeitures.

The audit noted that the initial steps in annual revenue estimates are grounded on estimates on annual revenue collection made at RMOs and forwarded to the Mining Commission headquarters. In addition, the produced estimates at RMOs are benchmarked on the predetermined estimations for the expected mineral production for a particular financial year subject to the computations of payable statutory charges. Yet again, this exercise takes account of any expected changes at local and foreign mineral market prices.

However, it was further noted that the Commission used the existing Flexi Cadastre[21] in connection to the submitted estimates from RMOs to assess the potential measures, and mineral production trends to estimate for annual revenue collection. Besides, it was noted that the Commission lacked a system that could integrate all necessary information that ought to be used to forecast annual revenue collection.

In addition, the audit team noted that the failure to have or establish an integrated system to capture the available measures in revenue collection was mainly attributed to low awareness on having an exhaustive list of the potential measures to inform the annual revenue estimates.

3.3 Effectiveness of the Procedures used in Mineral Valuation

Valuation of minerals entails assigning monetary value to the produced type of mineral with quantity, quality, and price which in turn form a basis in the computation of payable royalties and other charges to the government. Section 100B (1) of the Mining Act (CAP. 123 R.E 2019) requires the Mining Commission to sort and value all won raw minerals in the presence of Mines Resident Officer, an Officer from the Tanzania Revenue Authority, and the relevant institutions of state organ for that purpose before being entered for storage at the mine storage facility.

This section presents the results of the assessment of the mechanisms used by the Mining Commission to ensure the effectiveness of the procedures used in the valuation of minerals. The assessment focuses on the presence of the guidelines for mineral valuation, conducted studies on mineral valuation, appropriateness of resources for mineral valuation, and verification of quantity and quality of the produced minerals.

[21] FlexiCadastre system is an online based system used by the Mining Commission to received, process, administer, and maintain mineral rights

3.3.1 Availability of Guidelines for Mineral Valuation

Section 22 (r) of the Mining Act (CAP. 123 R.E. 2019) requires the Mining Commission to sort and assess the values of minerals produced by Large, Medium, and Small-scale Miners to facilitate the collection of payable royalty. Moreover, Section 3.3 of the approved roles of the Mining Commission's Departments requires the Commission to prepare and implement guidelines for valuation of minerals in the country.

The audit noted that the available guidelines were those for valuation of only one category of minerals namely Gemstones and Kimberlitic Diamond while, there was no documented guidelines and/or procedures on valuation of other categories of minerals namely Industrial Minerals, Energy Minerals and Building Materials. Based on the clarifications from the Mining Commission indicated that despite the use of published indicative prices to determine value of the produced minerals.

However, a review of "*Mwongozo wa Uanzishaji na Uendeshaji wa Masoko ya Madini (2021/22)*" indicated availability of guidelines for Metallic Minerals issued in the financial year 2021/22; this implied that for the period of the financial year starting from 2018/19 to 2020/21, the Mining Commission had no guidelines to entail valuation procedures for Metallic Minerals.

Furthermore, it was noted that neither the Strategic Plan nor Annual Action Plans prioritized addressing adherence to the required procedures for mineral valuation.

Likewise, a review of the third quarter (2020/21) Monitoring and Evaluation Report issued by Research and Planning Section of the Mining Commission indicated the absence of Manuals for Standard Operating Procedures (SOPs) that are intended for use in valuation of minerals in the respective Mineral Clearance, Gem Houses, and other areas for mineral valuation. The report insists that, the Mining Commission does not have Manuals for Guidelines in mineral valuation which could easily assist and raise the integrity of the Mining Commission's officials responsible for valuation in their respective areas.

The audit noted that the absence of the Manuals was a result of low priority towards emphasize adherence to the procedures needed during the valuation of other categories of minerals as compared to Gemstones and Diamonds. This was because the valuation of minerals other than Diamonds and Gemstones could be easily done using equipment not necessarily requiring the direct intervention of the valuer.

Consequently, is a likelihood of undervaluation of minerals presented in the mineral sales points which has a role of establishing the real values, mainly in terms of purity and quantity as a basis for the payable government charges. For instance, the audit noted that valuation in terms of quantity for Industrial Minerals essentially relies on the presented quantity of minerals produced by the mineral rights holders with no mechanism in place to ascertain the presented volumes. This was evidenced by several requests of mineral production information by RMOs to the mineral rights holders, for instance, RMO-Mtwara issued a letter of request of industrial minerals production data from the management of Dott Services Construction Company through a letter with Reference Number DA. 47/169/02/VOL1/99.

3.3.2 Mechanisms to Ensure Adequate Implementation of Guidelines for Valuation of Minerals

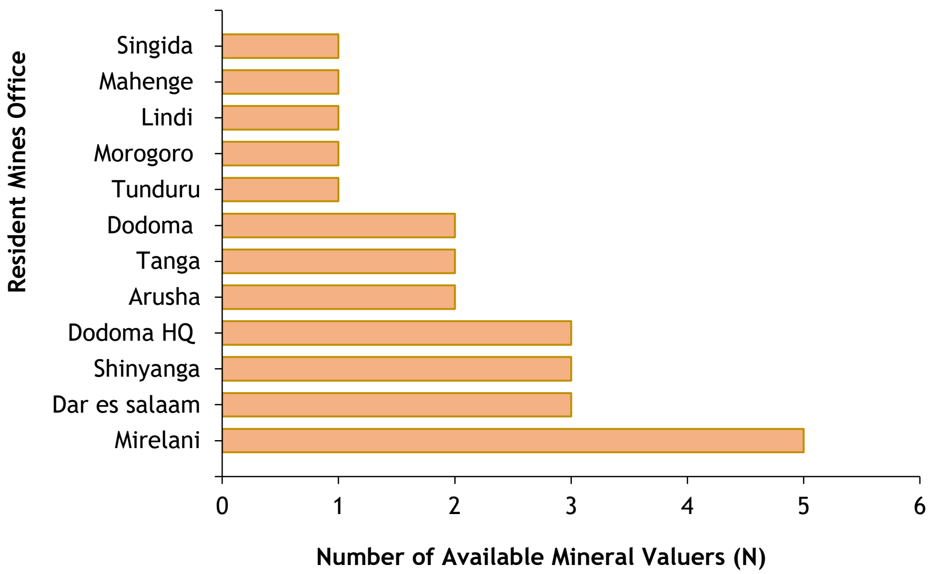
Through Section 3.3 of the Approved Functions of the Mining Commission, the Minerals Trade Section has the role to implement mineral valuation guidelines, regulations and procedures. In order to implement this role, the Commission has developed the guideline for valuation of gemstone and diamond whose implementation status is as discussed below.

The audit team noted that, valuation of gemstone in Mererani was sometimes conducted using uncalibrated devices contrary to section 3.2 of the Mining Commission's Diamond and Gemstones Sorting and Valuation Guidelines which requires valuation to be conducted using measurement equipment that are regularly calibrated by the Weight and Measures Agency (WMA).

Moreover, Section 5.1 of the Mining Commission's Gemstone and Diamond Valuation Guidelines requires that, valuation should be finalized by effective preparation of diamond/gemstone valuation certificates. The certificates should be approved by two valuers who conducted particular valuation of minerals.

The audit team found out that, there was inadequate valuation of diamond/gemstone in the sense that, the number of valuers was not sufficient as per the requirements and standards portrayed in the guidelines. The actual allocation of mineral valuers in different resident mines offices is as indicated in **Figure 3.3**.

Figure 3.3: Percentage Allocation of Diamond/Gemstone Valuers in the Resident Mines Offices



Source: *Auditors' Analysis from the Mining Commission's Staffing Level, 2021*

Figure 3.3 illustrates that five Resident Mines Offices namely; Singida, Mahenge, Lindi, Morogoro and Tunduru had the number of valuers less than two, and the other seven Resident Mines Offices were allocated with at least two valuers. Generally, based on the interviews held with officials from the Mining Commission, it was revealed that inadequate number of mineral valuers is attributed to the fact that credible awards for the said professionals are provided oversees and are cost-sensitive to be accommodated.

This implies that valuation of minerals such as gemstones and diamond is at high risk of being undervalued due to inadequate allocation of gemstones and diamond mineral valuers in the Resident Mines Offices.

3.3.3 Considering the Results of Researches on Mineral Valuations

Section 22(k) of the Mining Act (CAP. 123 R.E 2019) requires the Mining Commission to promote and conduct research and development in the mineral sector that will lead to increased Government Revenue. In order to fulfill this section of the Mining Act, the Mining Commission through the Mineral Trade section has set the role to initiate and facilitate of research on mineral valuation.

Furthermore, Objectives code D (iii) of the Mining Commission's Strategic Plan 2018/19-2023/24 on Sustainability Improvement of Mining Industry, requires the Mining Commission to increase research on mining and process technology.

Through the interview held with officials from the Mineral Audit and Trade Department of the Mining Commission, the audit team noted that there is minimum accounting for the results from the conducted researches for mineral valuation. This is due to the fact that, the Mining Commission hardly conducts research to enhance valuation of minerals. Since the establishment of the Mining Commission (2017), only one research of valuation of red soil was conducted. The report of this research is not yet published.

The audit team through the review of the Annual Action Plans and their respective progress reports for 2018/19, 2019/20 and 2020/21, noted that there is inadequate implementation of plans to conduct research by the Mining Commission. The progressive reports from 2018/19 to 2019/20 do not indicate any implementation status on research in minerals except that of 2020/21 which indicates to have only 70% implementation status for the research on '*Unleashing revenue growth potentials resulting from industrial and building materials*'. The details of implementation status are provided as ***Appendix 6*** of this report.

The problem of minimal accounting for the result from the conducted researches can be attributed to the fact that less frequently researches that would have informed on the underlying challenges regarding mineral valuation practices are conducted. Consequently, this situation is likely to lead to the following:

(i) ***Improper Procedures and Processes for Valuation of Minerals***

The overall procedures undertaken in mineral valuation might have not reflected the actual practices that ought to be adhered to as the best practices as viewed in the prevailing mineral markets and industry conditions.

(ii) ***Inaccurate Computation of Payable Royalties***

The observed weaknesses are likely to imply unrealistic identification of the parameters necessary to determine the correct amount of payable royalties and other charges to the Government.

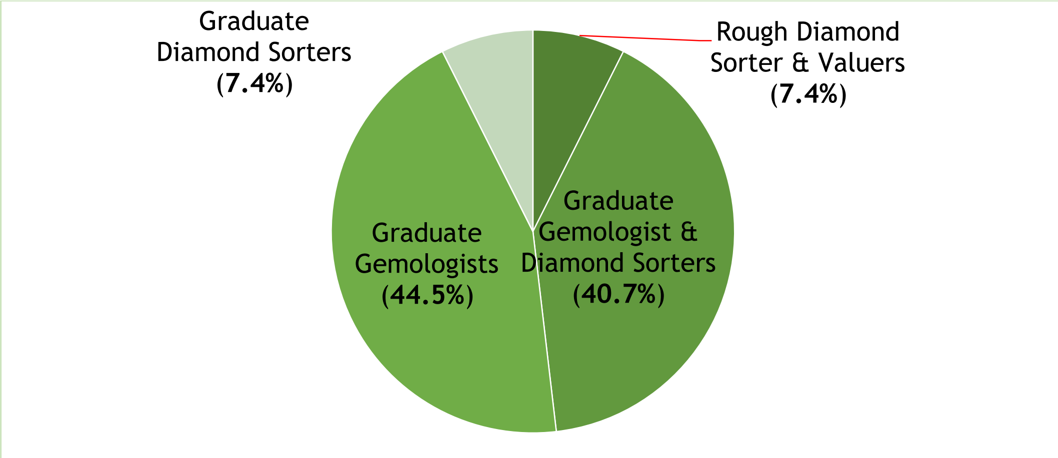
3.3.4 Resources in Mineral Valuation

Regulation 14(1) of the Mining (Minerals and Mineral Concentrate Trading) Regulations of 2018, provides for the requirement for the Mining Commission to appoint personnel to act on that behalf as Government Diamond Valuators for Diamonds as well as Government Gemstone Valuators for coloured gemstones.

Inadequate Number of Professionals in Mineral Valuation

Through a review of the Strategic Plan (Mining Commission; 2019/20-2023/24), it was acknowledged that lack of sufficient number of personnel with skills in gemology was among the highlighted challenges faced by the Mining Commission. **Figure 3.4** indicates status of the present professionals in gemology at the Mining Commission.

Figure 3.4: Status of the Available Cadre of Professionals in Gemmology (2021)



Source: *Staffing Levels at the Mining Commission (2021)*

Figure 3.4 illustrates equal proportion (7.4%) for the cadre of staff in professionals of graduate diamond sorters and rough diamond sorters with 44.5% and 40.7% representing professionals as graduate gemologists and combined graduate gemologists and diamond sorters respectively.

In addition, it was revealed through the interviews held with officials from the Mining Commission that currently the number of personnel with skills in gemology is still minimal. This was further illustrated through a review of the staffing levels of the Mining Commission indicating status of the available personnel for cadre of professional in Gemology, Diamond Sorters and Valuers in the visited Resident Mines Offices.

However, the audit noted that given the high degree of subjectivity in valuation of Gemstones and Diamonds, this calls for assurance on the conduct of periodic capacity building in valuation of minerals that ought to be done to the available mineral valuers. The audit team noted that none of these trainings were conducted due to being less emphasized by the Mining Commission.

Consequently, the audit team noted that lack of the said capacity building trainings could have led to the loss of government revenue payable through royalty and other charges subject to the declared valuation parameters. The audit further noted that there was the possibility for the loss of government revenues and that could be, to a great extent, attributed to the stated lower prices, that in turn, were subjected to the collectable royalty based on the valuation made.

3.3.5 Mechanisms in Verifying Quantity and Quality of Minerals

Section 22(p) of the Mining Act (CAP. 123 R.E 2019) calls for the Mining Commission to monitor and audit the quality and quantity of minerals produced and exported by Large, Medium and Small-Scale Miners. Likewise, Section 27(1) of the same Act requires the Mining Commission to locate a Mines Resident Officer (MRO) in mining operation sites that shall be responsible for monitoring the day-to-day production process and verify records, information and production reports kept by the holder of mineral right.

Quantity of the minerals produced is important as it determines the revenue payable to the government as royalty and other charges. Notwithstanding the fact that the Mineral Resident Officers (MROs) are situated in large-scale mines, the audit noted insufficient monitoring for the produced building materials.

Moreover, in all visited mining regions, the audit team noted the use of Mineral Sales Vouchers to generate Bills for collection of revenue payable to the government; however, to control for the validity of the produced quantity for minerals in category of building materials, the presented quantities are likely to be inaccurate due to lack of the measures that ought to inform their validity for billing purposes.

In addition, a review of the Correspondence Letter with Reference Number **HA.73/170/01A/19** at RMO-Geita revealed little awareness by the Mining Companies as they are indebted to report and re-settle for the payable government charges subject to the use of Building Materials covered in their day-to-day mining activities.

Besides, a review of the list for the available number of MROs at the Mining Commission indicated that MROs were more allocated to the gold producing areas (7 out of 13). However, interview with Officials at the Mining Commission revealed that MROs were more allocated in the identified high-risk areas despite the fact that for instance, given bulk production of industrial minerals at Dangote, there was no MRO allocated (Refer **Section 3.2.2 (iii)** of this report).

This is likely to imply that there is high risk to be informed of the quantity of the potentially producing mine sites for industrial and building materials. Consequently, there is likely uncertainty in the reported quantities of minerals claimed to be produced by the respective Mining Companies; which in turn poses a high risk that the Mining Commission would not be informed of the validity of the reported minerals produced.

3.4 Mechanism in Monitoring and Assessing the Reported Annual Taxable Income

Section 22(q) of the Mining Act (CAP. 123 R.E 2019) calls for the Mining Commission to audit Capital Investment and Operating Expenditure of the Large and Medium- Scale Mining Companies for the purpose of gathering taxable information, and thereafter, provide the same to the Tanzania Revenue Authority (TRA) and other relevant authorities.

Likewise, Section 22(o) of the same Act provides for the requirement that the Mining Commission is to ensure general compliance with the laid down standards in mining operations, laws and the terms and conditions of mineral rights. Similarly, the Commission is to ensure compliance to the prevailing Income Tax Act of the respective year edition as to that of their year of income under assessment.

This section, therefore, presents details in monitoring operations of the Mining Companies in aspects of the Imposed Tax Incentives, Exploration Costs, Allowable Expenditures, Annual Income, Capital Investment Costs as well as Operational Costs.

The audit noted that the overall management in monitoring and assessing on the reported annual taxable income relied on the functions that ought to be accomplished through the financial audit and tax review activities.

Therefore, this section provides details of the mechanisms used in determining annual taxable income.

3.4.1 Inadequate Monitoring of Imposed Tax Incentives to the Mining Companies

The audit team noted that with the exception of GGM, none of the Mining Companies were audited to assess on the granted tax incentives. However, the audit noted that monitoring of the tax incentives were not exclusively conducted rather they were taken care of based on the raised audit queries.

On the other hand, it was noted that despite conducting the financial audit and tax reviews, the reported audit outcomes were grounded on raised audit queries disregarding other aspects that ought to be considered as part of the audit scope. Likewise, none of the reviewed Audits Reports from the Mining Commission indicated assessment of the validity-period of the granted tax incentives, if any.

Consequently, as regard to monitoring of tax incentives it was likely that the Mining Commission would not be informed of the end-time for the validity of the granted tax incentives, if any.

3.4.2 Insufficient Monitoring of Exploration Costs from the Mining Companies

Section 22(d) of the Mining Act (CAP. 123 R.E 2019) requires the Mining Commission to ensure orderly exploration and exploitation of mineral resources as well as to ensure optimal utilization of the available mineral resources at all mining operations to accord with the requirements of the Mineral Policy and Strategies of the Mining Commission.[22] Also, as one among the stipulated functions of the Mining Commission, it is essential that the Commission through the Mineral Audit and Trade Department to audit exploration costs of the existing Mining Companies.

[22]Exploration costs are the expenses created due to activities of search of new mineral deposits for economic extractions

However, as per the Income Tax Act (2019), the activities that ought to be covered during auditing of the exploration costs must be wholly and exclusively in generation of income under assessment such as assessment of procured machines and equipment if they were directly used for exploration purposes, assessment of procured services if were conducted in open market prices, assessment of depreciation allowances from non-current assets if used for exploration purpose as well as assessment on the general operating expenditure during the exploration activities.

The audit noted that the number of audits to assess exploration costs of the available Medium and Large Scale Mining Companies was not adequate. A review of the audits reports (2018/19-2020/21) revealed that despite not being apparently pointed out in financial audits and tax review reports of the Mining Commission, assessment of the exploration costs formed part and parcel of the assessments made on payable income tax. Besides, the audit noted that audits on exploration cost was done to mineral rights' holders for Special Mining License (SML), Mineral License (ML), Prospecting License (PL) for whichever the kind of mineral, the mineral reserve was still being determined along licensed areas.

Nevertheless, it was further revealed that the audit scope in terms of the number of Mining Companies covered in these audits was still minimal. It was further learnt that despite the prepared plans the Commission could not be able to implement these plans to the fullest. **Table 3.4** provides details in terms of the number of planned audits from the financial years 2018/19 to 2020/21.

Table 3.4: Status on the Number of Planned Financial Audits and Tax Reviews

Financial Year	Available No. of Mining Companies[23]	Planned No. of Financial Audits	Actual No. of Financial Audits	Variance[24] (%)
2018/19	132	24	11	8.3
2019/20	152	48	7	4.6
2020/21	157	23	28	17.8

Source*: Annual Performance Reports – Mining Commission (2018/19-2020/21)*

Table 3.4 illustrates that from the financial year 2018/19 to 2020/21 the number of planned financial audits were less than half of the operating Mining Companies, the proportion in coverage of the available Mining Companies in Large and Medium Scale was still low with percentage ranging between 4.6 and 17.8 from the financial year 2018/19 to 2020/21.

The audit team had the view that the observed weaknesses could be attributed to the limited resources to facilitate the conduct of the financial audits and tax reviews that ought to cover the available Mining Companies.

Consequently, failure to adequately examine and monitor exploration costs of the potentially contributing Mining Companies had the possibility of creating loopholes that were likely to be used to prolong and inflate the said costs, which in turn, created the artificial losses and eventually lowered the revenue payable to the government as taxable income.

3.4.3 Mechanisms to Monitor and Verify the Reported Allowable Expenditures to the Mining Companies

Section 65(e) of the Income Tax Act (CAP. 332 R.E 2019) provides for the requirement that in calculating income from a separate mining operation for that income year, there shall be deduction of, together with any other amount deductible under other provisions of this Act (a) Annual charges incurred by the person under the Mining Act or Mining Development

[23] The number represent Mining Companies at Large and Medium Scale levels
[24] Proportion for the number of actual versus available number of Medium and Large Scale Mining Companies

Agreements with respect to the mineral rights, and (b) Depreciation allowances granted with respect to the mining operations.[25]

Likewise, the allowable expenditures in relation of calculating the required payable tax from mining operation, includes all kinds of expenditures that are incurred wholly and exclusively in generation of the income that is under assessment for a certain year of income. The allowable expenditures may range from management and administration expenses, general operational expenses, selling expenses, exploration expenses if directly attributed and was conducted in the same licensed area sold mineral was mined.

The audit noted that control of expenditures from the mining activities was initially done through approval of tenders that were about to be advertised by the mining companies for close monitoring of incurred expenditures. Also, it was further noted that the Mining Commission did verify the authorized expenditures during conduct of the financial audit and tax reviews.

However, it was further shown that since verification of the allowable expenditures relied on financial audit and tax reviews, it was likely that not all available Mining Companies were covered on this aspect. Yet again, this was due to low coverage of the number of Mining Companies that ought to be verified on the allowable expenditure and thus creating loopholes for the Mining Companies to include unfair prices which might lead to inflated actual expenditures and lower taxable income.

Table 3.5 provides details on the status for actual number of verified allowable expenditures as part and parcel of the conducted financial audit and tax reviews from the financial years 2018/19 to 2020/21.

[25]The allowable expenditures for the purpose of computing taxable income are such expenses incurred wholly and exclusive in generating the income at the year of income to be assessed

Table 3.5: Status on the Number of Planned Financial Audits and Tax Reviews

Financial Year	Available No. of Mining Companies[26]	Actual No. of Financial Audits	Percent (%)
2018/19	132	11	8.3
2019/20	152	7	4.6
2020/21	157	28	17.8

***Source**: Annual Performance Reports - Mining Commission (2018/19-2020/21)*

Table 3.5 make evident that the proportion of the number of available Mining Companies covered to verify allowable expenditures as part of financial audits was still minimal with percentage range between 4.6 to 17.8 from the financial year 2018/19 to 2020/21.

Generally, due to the nature of incurred expenditures in the mining activities then failure to verify created loopholes for the Mining Companies to inflate expenses incurred and thus lowered the amount of tax payable to the government as income tax.[27]

3.4.4 Mechanisms for Verification of the Reported Annual Income from the Mining Companies

Section 65(D) of the Income Tax Act (CAP. 332) stipulates that in calculating annual income emanating from mining operations, there shall be included incomings derived from the disposal of minerals produced from the license area and amounts received in respect of the sale of data or information pertaining to the operations or mineral reserves.

Similarly, Section 22(q) of the Mining Act (CAP. 123 R.E 2019) requires the Mining Commission to audit capital investment and operating expenditure of the large and medium scale mines for the purpose of gathering information on annual income of mining companies and providing the same to the Tanzania Revenue Authority (TRA) and other relevant authorities.

[26] The number represent Mining Companies at the levels of Large and Medium Scale
[27] The nature of generation of most expenses in mining activities relates to exploration for new mineral resources, procurement of machinery, equipment and services which can be incurred from the local market or overseas

In this context then, verification of the annual income formed part of verification and/or monitoring of the capital investment, operational and exploration costs as well as allowable expenditures, and therefore, it was noted that the mechanism used to verify the reported annual income from the Mining Companies was done along with the conducted financial audit and tax reviews.

Although not directly verified, the audit noted that selection of the Mining Companies for audit to verify on the reported annual income was based on the identified risk areas with respect to exploration and development costs, expenditure on assets, operating expenditure as well as royalties. **Table 3.6** summarizes the commonly raised queries based on the conduct of the financial audit and tax reviews of the audited Mining Companies.

Table 3.6: Status in Monitoring of Capital Investment Costs in Mining Companies (2018/19-2020/21)

Financial Year	Available No. of Mining Companies[28]	Planned No. of Financial Audits	Actual No. of Financial Audits	Variance[29] (%)
2018/19	132	24	11	8.3
2019/20	152	48	7	4.6
2020/21	157	23	28	17.8

***Source**: Annual Performance Reports – Mining Commission (2018/19-2020/21)*

Table 3.6 describes that there was less than 20 per cent of the Mining Companies audited on the financial and tax reviews from the financial year 2018/19 to 2020/21. This also entailed monitoring of the determinants of the annual reported income of the respective Mining Companies.

However, as per the functions of the Mining Commission the Financial Audit and Tax Review section, the Section has the role to examine and monitor the implementation of Mineral Development Agreements (MDAs).

As regard to the audits of the large and medium scale Mining Companies, the audit noted that the main disadvantage impeding the Commission from

[28] The number represent Mining Companies at the levels of Large and Medium Scale
[29] Proportion for the number of actual versus available number of Medium and Large Scale Mining Companies

thorough assessment of the determinants for the reported annual income to firmly stand-on the raised queries are the terms and conditions of the entered Mining Development Agreements (MDAs) which makes it difficult to claim for charges that were initially agreed in MDAs despite amendment of the Mining Act made in the year 2017.[30]

Consequently, failure to monitor the reported costs poses a risk that the Mining Companies would likely under-invoice sales and overstate deductions to reduce taxable income.

3.5 Management of Reconciliations for Payable Royalties

Section 87(1) of the Mining Act (CAP. 123 R.E 2019) provides for the requirement that royalty payment to the government be based on the gross value of minerals produced under the issued licenses. Likewise, Section 89, subsections (1) and (2) of the same Act provide that, whenever it is impractical to assess the amount of payable royalty by the Mining Commission, the mineral right holder shall be liable to pay a provisional royalty (provisional payment). In addition, following a thoroughly reconciliation of the provisional royalty by the Commission, the mineral right holder shall be liable to repay any excess sum paid by him.

This section, therefore, presents the audit findings based on adequacy of reconciliation of payable royalties. The focus is mainly on assessing regularity in updating the list of operating Mining Companies, auditing of production and expense data, time-elapse on the produced laboratory results, available resources to provide for laboratory services, sharing of the results used for reconciliation purposes, and reconciliations made based on return forms from mineral dealers.

[30] For instance, Clause 10 of MDA 10.1(7) of the MDA between the Government and GGM stipulates that the government shall ensure that during the term of this Agreement, legal provisions governing the companies or their respective shareholders benefits, rights and duties matters such as liability to royalty, income tax, and the method of computation thereof

3.5.1 Regularity in Updating the List of Operating Mining Companies in the Country

Section 27(G) (1) of the Mining Act (CAP.123 R.E 2019) requires the Mining Commission to establish a Mining FlexiCadastre system whose work is to receive process, administer and maintain the public Mining FlexiCadastre system registers. Furthermore, Section 2.1 of the established functions of the Mining Commission gives mandate to the Commission to facilitate government revenue collection by periodic management of mineral right holders' information through the mining FlexiCadastre.

On the other hand, Section 1.3(a) of the Memorandum of Understanding (MoU) between the Mining Commission and Tanzania Revenue Authority (TRA), 2020 narrates on the requirement that the Commission is to present the current and existing mining, mineral processing and trading licenses issued to different mineral right holders for the purpose of computation of taxable income.

The audit team noted that the current FlexiCadastre system used in issuance of mineral rights was lastly maintained and updated in the year 2014, thus reducing its functionality given an increased number of mineral rights applications that ought to be processed by the system.

The audit team noted that the Mining Commission did not adequately ensure periodic updates of the information of mineral-right holders. Through the interviews held with officials from the Mining Commission, it was noted that the current FlexiCadastre system was not integrated with other government system e.g. GePG that would help to track revenue information from the mineral right holders. However, it was noted further that lack of an integrated information system for GePG and the FlexiCadastre system poses a risk for unnecessary delays in obtaining the overall status of operations of the mineral right holders.

Besides, it was revealed that the reason for lack of an integrated FlexiCadastre system with GePG and other government systems was attributed to limited rights to own source code that would help the Mining Commission to upgrade the existing system.

3.5.2 Auditing of Production: Quality and Quantity of Minerals Produced in the Country

Section 22(p) of the Mining Act (CAP. 123 R.E 2019) provides mandate to the Mining Commission to monitor and audit grade and volume of minerals produced and exported by large, medium and small scale miners for determination of revenue generated and to facilitate collection of payable royalty.

The audit team noted that the Mining Commission did not adequately conduct audit and monitoring of minerals in terms of grade and volume.

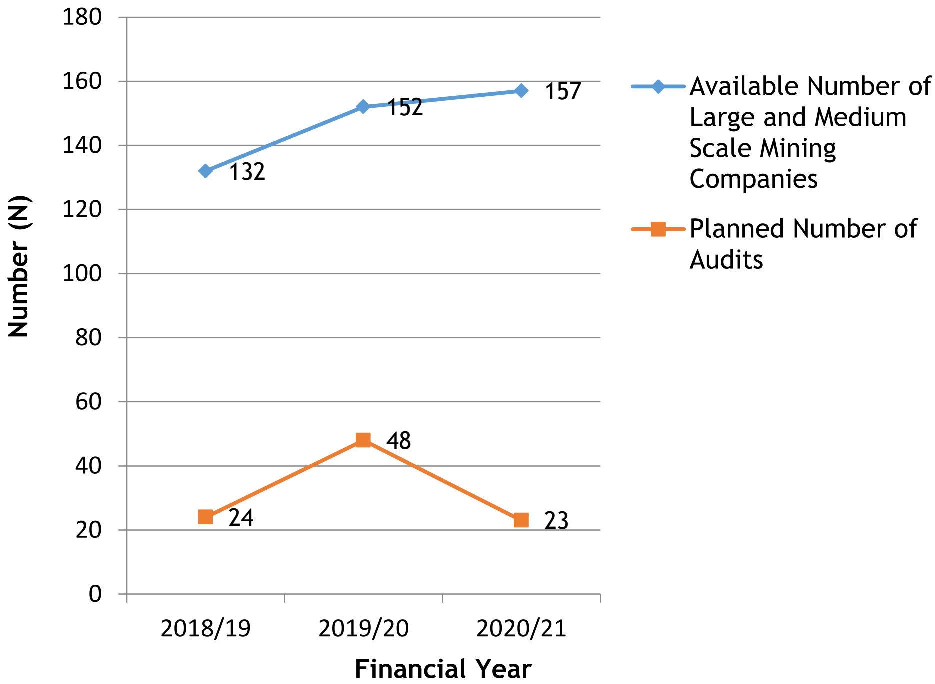
The observed condition resulted from the following reasons;

(a) Inadequate Planning of Auditing

Section 3.4.3 (Target No. VI and VII) of the Mining Commission's Strategic Plan (2019/20-2023/24) directs that there should be annually auditing a total of 40 medium scale mining companies and 15 large scale mining companies.

However, the audit team found out that, the Mining Commission did not adequately plan to conduct auditing of medium and large scale miners. This was evidenced by under-planning where by the Commission did not cover all the available medium and large scale mining companies in the country. The number of available mining companies was large than the planned number to be audited by the Commission. The details on the extent of audit planning are presented in **Figure 3.5**.

Figure 3.5: Extent of Annual Audit Planning by the Mining Commission



***Source:** Auditors' Analysis from Mineral Licensing Information of the Mining Commission, 2021*

Figure 3.5 describes that, despite an increasing number of operating Mining Companies, for all three years under review the numbers of planned financial audits to medium and large scale mining companies were less than half of the available operating Mining Companies. The figure illustrates further that the planned number of audits could not take into account the annual increment of the number of Mining Companies.

(b) Inadequate Training on Auditing of Grade and Volume of Minerals Produced

Through the review of the Mining Commission's Training Records from the Human Resource Section, the audit team found out that, the Commission did not conduct any training on auditing of grade and volume of minerals produced.

(c) Substantial Workload

Based on the Established Functions of the Mining Commission, the Mineral Audit and Trade Department has been given mandate to monitor and audit the grade and volume of minerals produced and sold by large, medium and small scale miners.

The review of the Mining Commission's Staffing Level, 2021 indicated that auditing of grade and volume of minerals produced from different mining companies was undertaken by 36 staff only. The auditing was seen to centrally operate from the Mining Commission-HQ. The observed number of staff responsible for auditing was too small to save the available number of medium and large scale mining companies in the respective RMOs.

(d) Availability of Equipment for Grade and Volume Verification

The grade and volume of most of the minerals especially metallic minerals are quantified using specific devices. The procedures used to quantify grade and volume rely on the use of X-Ray Fluorescence (XRF)[31] devices.

Through physical verification conducted by the audit team, it was noted that the procedures used in recording outputs from these devices were questionable on the validity of recorded data which were prone to errors. XRF analyses remained the only methodology to determine the grade and volume of minerals received at Resident Mines Offices (RMOs). For instance, the likely error, in this case, might be under-scaling of grade since the outputs were manually recorded.

It was further revealed from interviews held with officials at the Mineral Markets in the visited Resident Mines Offices that records from XRFs were temporarily stored and could not be retrieved for further use and/or analysis.

[31] XRF is a non-destructive analytical technique used to determine the elemental composition of materials

However, the audit team noted from interviews with officials from the Mining Commission that there was a need for a total of 91 XRF devices compared to 41 devices which by then were available in all mineral marketing centers countrywide. For instance, it was observed during the site visit at Resident Mines Offices in the Geita region that there were only two XRFs devices out of the required 10 which were needed to be situated in both Mineral Markets and Buying Centers.

Since the computation of payable royalties depends upon the evaluation of grade and volume of minerals produced, inadequate auditing of grade and volume of minerals could consequently result to uncertainties in computation of payable royalties thus reduced revenue collection from the mining sector.

3.5.3 Availability of Laboratory Results used in Reconciliation of Payable Royalties

Section 22(r) of the Mining Act (CAP. 123 R.E 2019) gives legal mandate of the Mining Commission to conduct valuation of all types of minerals produced from large, medium and small scale miners. In order to implement this section, the Mining Commission has been given the mandate through the Mineral Audit and Laboratory Services to carry out sampling and assessment of minerals for reconciliation.

Through interviews held with officials from the Mining Commission, and review of laboratory performance reports, it was found out that, there was a delay in producing results from the laboratory. The details of the observed condition are presented in **Table 3.7**.

Table 3.7: Delay of Analysis of Grade of Gold Samples by the Mining Commission's Laboratory as of June 2021

Mine	Number of Samples brought to the Laboratory	Date Received for Analysis	Date of Completion of Analysis	Time Taken to Analyze
New Luika Gold Mine	625	March, 2021	June, 2021	3 Months
Bulyanhulu Gold Mine	125	March, 2019	June, 2021	2.25 Years
Geita Gold Mine	370	April, 2021	Not Completed	Not Completed
North Mara Gold Mine	566	April, 2021	Not Completed	Not Completed
Buzwagi Gold Mine	258	June, 2021	June, 2021	0

Source: *Auditors' Analysis from the Mining Commission's Laboratory Information, 2021*

From **Table 3.7**, it was noted that the maximum delay of analysis of samples was more than two years for Bulyanhulu Gold Mine Samples that were brought to the laboratory in March, 2019 and analyzed in June, 2021. However, samples from Geita Gold Mine and North Mara Gold Mine that were brought to the laboratory in April, 2021 were not completely analyzed as of June, 2021.

Furthermore, the audit team noted that the Mining Commission's Laboratory did not ensure adequate coverage in terms of number of received gold samples that were analyzed for the purpose of reconciliation. The audit noted further that as of May, 2021, a total of 999 out of 1,686 of the received gold samples were analyzed.

However, from the review of the Monthly Performance Reports of the Mining Commission Laboratory (2021), it was revealed that the observed weaknesses were caused by the following:

(a) Delay of Re-Establishment of the Mining Commission's Royalty Reconciliation Desk

The Mining Commission's Reconciliation Desk is responsible to conduct reconciliation by conducting on desk as well as on site reconciliation of payable royalties in order to ensure that the Government's Money is not lost.

It was noted through the interviews held with officials from the Mining Commission that there was a delay of three years in establishment of the reconciliation desk. It was further noted that the royalty reconciliation desk resumed its work on March, 2021 following commencement of the Mining Commission in the year 2018. The desk managed to conduct reconciliation of North Mara Gold Mine Limited whereby the amount of USD 406,677.63 which was royalty and inspection fee was settled. Consequently, this has caused a delay in analysis, verification and remittance of results for reconciliation thus delay in obtaining Government's revenue.

(b) Split Up of TMAA

In the financial year 2017/18, TMAA was spilt up and the Mining Commission was formed. Through the interview with officials from the Mining Commission's Laboratory, the audit team was informed that the provision of laboratory services ceased and did not take place for the financial year 2018/19 due to split up of TMAA in the year 2017. The laboratory started operating in the financial year 2020/21, four years after the established Mining Commission, thus causing increase of load of analyzing gold and copper samples.

(c) Wait for Site Verifications

Through the review of information from the Mining Commission's Laboratory on Gold Samples, the audit team found out that; all pending works and delays were due to waiting for some missing information from the gold and copper concentrate producing mines. Moreover, the royalty reconciliation desk required time to verify data on site after they had completed data entrance for reconciliation.

The observed situation could consequently result to loss of government revenue as a result of untimely reconciliation of payable royalties.

3.5.4 Capacity of the Mining Commission's Laboratory

Section 3.2 of the established roles of the Mining Commission requires the Commission through the Mineral Audit and Laboratory Services Section to perform auditing and monitoring of minerals produced by miners. One of the laboratory services conducted by the mining Commission is reconciliation of payable royalty by laboratory analysis of quality of minerals produced by miners.

Through the interviews held with officials from the Mineral Audit and Laboratory Services Section of the Mining Commission, and review of monthly performance reports of the Mining Commission's Laboratory Services Section from August, 2020 to April, 2021, the audit team observed that the laboratory was not adequately capacitated in terms of staff and equipment particularly for laboratory analysis. The details of staffing level are portrayed in **Table 3.8**.

Table 3.8: Staffing Level at the Mining Commission's Laboratory

Professional	Number of Required Staff	Number of Available Staff	Deficit (N)
Engineers	8	5	3
Geologists	1	1	0
Laboratory Technicians	3	0	3
Accountants	2	1	1
Statisticians	2	1	1
Chemists	6	4	2
ICT Officers	1	1	0
Total	**23**	**13**	**10**

Source: *Mining Commission's Lab Monthly Report (April, 2021)*

Table 3.8 illustrates that overall there is deficit for a total of 10 staff to provide for laboratory services. Deficit is more recorded for key laboratory personnel for cadres of staff for Engineers, Laboratory Technicians, and Chemists.

The audit team was of the view that deficit in terms of the number of staff in this case is reflected to low capacity as in the provision of the intended laboratory services.

However, through the review of the Laboratory Performance Reports from the Mining Commission's Laboratory, it was confirmed that the reconciliations of Geita Gold Mine Limited (GGML), North Mara Gold Mine Limited (NMGML), New Luika Gold Mine Limited (NMGML), Bulyanhulu Gold Mine Limited (BGML), Buzwagi Gold Mine Limited (BZGML), and Stamigold Biharamulo Mine Limited (SBML) were not fully done as they were pending for site verification. **Table 3.9** provides for the status for reconciliation of payable royalties to the large scale gold producing companies in the country from the financial years 2018/19 to 20202/21.

Table 3.9: Status of Reconciliation of Payable Royalties by Large Scale Gold Producing Mines as of November, 2021

Amount Due	Current Reconciliation Status	Period for Pending (Months)
Geita Gold Mine	Pending for site verification	2
North Mara Gold Mine	Verified	0
New Luika Gold Mine	Pending for site verification	4
Bulyanhulu Gold Mine	Pending for site verification	5
Buzwagi Gold Mine	Pending for site verification	4
Stamigold Biharamulo Mine	Pending for site verification	4

Source: *Mining Commission's Laboratory Statistics on Issuance of the Amount to be settled based on Reconciliation(s), 2021*

Table 3.9 indicates that the Mining Commission fully conducted reconciliation for payable royalties to only one out of six Mining Companies whose samples were received to the laboratory. However, the observed maximum period for pending was 5 Months for gold samples received from Bulyanhulu Gold Mine.

Through review of Mining Commission's Laboratory Statistics on Issuance of the Amount to be settled based on Reconciliation(s), 2021, it was noted that all pending works resulted from waiting of missing information from the gold and copper concentrate producing mines and site verification of data after Royalty Reconciliation Desk completed table work. However, the audit noted further that as from the establishment of the Mining

Commission the only amount settled based on the reconciliation made for North Mara Gold Mine was USD 406,667.63.

Furthermore, from the analysis of Mining Commission's Laboratory Statistics on Issuance of the Amount to be Settled Based on Reconciliation(s), 2021, the audit team noted that the Commission did not adequately share the results from reconciliation with the respective parties for resettlement of possible payments. Out of 999 gold samples analyzed from July 2020 to May, 2021; 401 (equivalent to 40%) were dispatched and shared. 598 gold samples (equivalent to 60%) were not dispatched and shared to the respective parties.

The main reasons for not having the needed capacity are elaborated below:

(a) Inadequate Budgeting

Through the review of the Mining Commission's Laboratory Monthly Performance Reports from August, 2020 to April, 2021; it was noted that, the Laboratory was not budgeted with adequate fund to facilitate its functions. This was evidenced through the challenges presented in the April, 2021 Laboratory Performance Report.

Through interviews held with officials from the Mining Commission the audit team noted that, inadequate allocation of fund to the mining Commission Laboratory was attributed to the minimum budget received on the Other Charges by the Mining Commission from Ministry of Finance and Planning to

(b) Inadequate Planning by the Mining Commission to Capacitate the Laboratory

Through the review of the Annual Action Plans from the financial years 2018/19 to 2020/21, the audit team found out that, the Mining commission did not include the issue of improving the capacity of its laboratory. This was evidenced by absence of the aspect of capacitating the laboratory in all of the Annual Action Plans.

This has consequently resulted into inadequate conduction of reconciliation, for instance, the audit team noted that since the establishment of Mining Commission in the year 2017 and resume of laboratory services in the year 2020, reconciliation was performed and verified for only North Mara Gold Mine and TZS 937,798,614.78 was paid as additional royalty after reconciliation.

It was further noted that the observed inadequacy of capacity had consequently caused the Mining Commission's Laboratory to not qualify for internationally accreditation. This had limited improved analysis of samples from different customers due to the fact that, the laboratory services offered were not internationally standardized.

Despite the observed challenges on the capacity of the Mining Commission's Laboratory, the Commission had worked out to look for funds apart from the normal state budget in order to rectify the laboratory's capacity and manage to improve its performance necessary for the international accreditation.

3.5.5 Management of Reconciliation based on Return Forms from Mineral Dealer

Section 77(a & b) of the Mining Act (CAP. 123 R.E 2019) provides for the holder of a mineral license to keep full and accurate records and accounts of all transactions undertaken as a dealer and be submitted to the Mining Commission for reconciliation on monthly basis.

Likewise, Section 100F (1&2) requires among other issues, the mineral right holders such as mineral dealers to file annual returns showing the efforts undertaken to enhance the performance of the Tanzanian economy and the value of such annual returns. This is so done to ensure effective participation of mineral right holders in the growth of the Tanzanian economy.

The audit team noted that, the Mining Commission did not effectively manage reconciliation based on the return forms from mineral dealers. The observed circumstance on reconciliation by the Mining Commission based on the return forms from the mineral dealers was attributed to the following facts:

(a) Inadequate Submission of Declaration of Minerals Sales and Exports by Dealers

The audit team found out that, most of the mineral dealers did not submit return forms to the Mining Commission for declaration of sales on actual exported minerals in order to settle the balance of unpaid royalties if any. However, it was noted that there were no initiatives to facilitate enforcement for submission of such forms by dealers.

(b) Unreliable Information Presented in the Return forms by Dealers

Through the review of the return forms, the audit team noted that, the price and value of minerals presented in the return forms were not reliable due to the fact that, dealers were mostly not ready to declare the actual amount of return after sales in order to decrease the amount paid as royalties.

(c) Lack of Awareness

The Team observed that, most of the mineral right holders especially the small scale miners had not been given training on how to fill and file the returns forms by the Mining Commission. This had resulted to improper and non-uniformity record keeping among them as presented in the challenges facing the mining industry addressed by the Mining Commission's Strategic Plan 2019/20-2023/24.

(d) Difficult in Tracing the Information for Reconciliations from Return Forms

The audit team found out that, the information presented in the return forms by mineral dealers were difficult to utilize for reconciliation. This was caused by non-uniformity, non-reliability and improper filling of the return forms.

Inadequate management of reconciliation from return forms could consequently lead to loss of revenue from the mining sector due to the fact that, royalties could be only computed based on unrealistic and provisional aspects rather than the actual and final aspects.

CHAPTER FOUR

AUDIT CONCLUSION

4.1 Introduction

This chapter presents the conclusion based on the overall objective and specific objectives of the audit, as detailed hereunder.

4.2 Overall Conclusion

The general conclusion from this audit is that the overall mechanisms to manage control measures for revenue collection are not sufficiently implemented and there is room for further improvements.

The Mining Commission's annual revenue forecasts were not exhaustive because they were derived from revenue estimates established by the respective RMOs. These estimates were not exhaustive due to lack of a system that could integrate all necessary information that ought to be used to forecast annual revenue collection.

The procedures used in mineral valuation were not effective due to the fact that, they were standardized only to Gemstones and Diamond minerals; and that there were no documented guidelines to entail valuation of Industrial Minerals, Energy Minerals and Building Materials. However, it was observed that, the Mining Commission did not have enough resources to enable effective valuation of minerals. Furthermore, the Commission did not conduct researches and studies to enhance mineral valuation. It was also noted that, the Mining Commission did not adequately monitor the quality and quantity of minerals produced due to inadequate allocation of MROs in the minerals producing sites.

Though not exclusively monitored, there were no mechanisms to assess validity period of the granted tax incentives to the Mining Companies. As well, there were insufficient conducted financial audit and tax reviews geared to monitor aspects for verification of the exploration costs, capital investment costs as well as allowable expenditures essentially in determining the annual taxable income from the available Mining Companies.

The management of reconciliations for payable royalties was not satisfactory due to limited capacity of the Mining Commission's Laboratory that was reflected by delays in issuing laboratory results. Furthermore, the return forms from mineral dealers were not used for reconciliation of grade and volume of exported minerals for computation of final royalties.

4.3 Specific Conclusions

4.3.1 Inadequate Reflection of the Factors to Inform Projection of Annual Mining Commission Revenues

The Mining Commission did not adequately ensure that the identified controls that aimed to maximize revenue collection were well-coordinated and/or exhaustive based on the revenue sources identified in respective RMOs. This was because, the Mining Commission's annual revenue forecasts were derived from revenue estimates established by the respective RMOs. These estimates were not exhaustive due to lack of a system that could integrate all necessary information that ought to be used to forecast annual revenue collection.

However, the observed inadequacies were to a large extent contributed by the minimal efforts in place to realize the potential contribution of the available measures if they were all effectively managed rather than relying on the same source for each reporting financial years.

4.3.2 Inadequate Mechanism used to Ensure Effective Valuation Procedures

It was noted that the Mining Commission did not have mechanisms that could provide effective valuation of all types of minerals produced in the country.

Except for Diamond and Gemstones, there were no guidelines to monitor procedures that ought to take place in the valuation of other minerals. Furthermore, there were no Standard Operating Procedures that could ensure sufficient valuation of minerals in the Mineral Clearance Houses, Gem Houses and other mineral sales points.

Furthermore, the mechanism used by the Mining Commission to ascertain the effectiveness of the procedures undertaken in mineral sales points was uncertain. This resulted from non-adherence to the available guidelines and procedures for valuation of Diamonds and Gemstones in the sense that, the Mining Commission did not have adequate number of recommended mineral valuers in the respective diamond and gemstone producing sites.

Also, the Mining Commission did not have enough information on how minerals valuation could be best practiced. This was attributed to absence of studies and researches to ascertain proper procedures for mineral valuation. This has failed the Mining Commission to be informed of the likely weaknesses deterring realization for optimal revenue collection especially in the allocated mineral sales points for all types of minerals.

Irrespective of the available resources and valuation skills, the observed state of affairs was attributed to the low priority set on issues relating to assurance of conformity in the procedures that ought to be undertaken in mineral valuation in general.

4.3.3 Fairly Recorded Annual Royalties, Fees and other Charges Revenues

Overall, scope representation in terms of the number of conducted financial audits and tax reviews for the purpose of verifying royalties, fees and other charges income was not adequate for the Mining Commission to be informed of the correct payable charges to the government. Insufficient in conduction of the financial audits and tax reviews were mainly attributed to resource constraints in terms of personnel compared to the number of the available Mining Companies.

4.3.4 Insufficient Management of Reconciliations for Payable Royalties

The initiatives to monitor reconciliations intended for re-settlement of payable royalties and the number of the mining companies in consideration for reconciliation and verification of payable royalties was still minimal.

However, it was noted that royalty payable was verified and settled for only one out of six reconciliations made for the Medium and Large Scale Mining Companies. In addition, it was further noted that the used FlexiCadastre system do not allow for the integration with other government systems to help be informed of the licensing status as connected to payable charges.

Also, the Mining Commission did not conduct satisfactory number of audits for large and medium mining companies compared to what had been planned in the Strategic Plans as well as the Annual Action Plans. Audits conducted are important because they were used to verify and assess the quality and quantity of minerals produced in order to establish the amount of royalty that has been paid.

Furthermore, the Mining Commission Laboratory was observed not to provide its service as expected. There was delay in production of results from sample analysis; this was mainly attributed to inadequate capacity of the Mining Commission's Laboratory. The Mining Commission had only one Laboratory that had to serve the whole of Tanzania mainland, however, the Commission's Laboratory was faced with low number staff and equipment to accommodate the high demand of services for sample analysis.

However, the return forms were not utilized to ensure and monitor grade and volume of mineral exported and sold by mineral dealers for computation of final royalties. There was unsatisfactory submission of return forms by dealers; nevertheless, the mineral dealers could not declare reliable information in the submitted return forms.

The observed weaknesses on scoping and initiatives to monitor overall management of reconciliations that were to be made could be attributed to resource constraints of the available Mining Commission laboratory, lack of awareness among key stakeholders, split up of TMAA and delay in establishment of the Royalty Reconciliation Desk by the Mining Commission.

CHAPTER FIVE

AUDIT RECOMMENDATIONS

5.1 Introduction

The audit findings reached indicate the presence of weaknesses in the management of mechanism for royalties, fees and other charges - revenue collection as performed by the Mining Commission. The audit team has proposed measures for improvements on the audited area to ensure effectiveness in estimating annual revenue collection and valuation of minerals, impartiality of reported annual royalties, fees and other charges – revenues, and effectiveness in the management of reconciliations for payable royalties.

The National Audit Office believes that the recommendations that have been given in this report need to be fully implemented to improve the operations in ensuring adequate control measures in the management of mechanisms for revenue collection in the mining sector. The suggested audit recommendations take into account the assurance for the presence of Economy, Efficiency, and Effectiveness in the use of the available public resources.

5.2 Main Audit Recommendations

5.2.1 To Enhance Effectiveness of the Mechanisms for Revenue Collections from Royalties, Fees and Other Charges

The Mining Commission should:

1. Establish mechanism that will ensure effective coordination of the available control measures in revenue collections.

5.2.2 To ensure Enhanced Annual Forecasts in Revenue Collection

The Mining Commission is urged to:

1. Identify controls over all earmarked producing mineral resource areas targeting to maximize royalties, fees and other charges - revenue collection in the sector.

5.2.3 To Ensure Effectiveness of the Procedures used in Mineral Valuation

The Mining Commission is urged to:

1. Strengthen the capacity of the available resource set-up in the mineral valuation as per the requirements of each type of mineral; and

2. Initiate efforts to encourage the use and observance of the standard requirements on the procedures during mineral valuation.

5.2.4 To Improve Monitoring and Assessment of the Reported Royalties, Fees and Other Charges Income

The Mining Commission is urged to:

1. Strategize on initiatives to implement the risk-based auditing that will help identify areas of possible revenue losses;

2. Improve a mechanism that will help inform the validity of the reported operating costs of the mining companies; and

3. Establish a mechanism that will ensure utilization of resources at respective RMOs to monitor and assess reported annual income of the Mining Companies.

5.2.5 To Ensure Effectiveness in Reconciliations of Payable Royalties

The Mining Commission is urged to:

1. Strengthen the capacity of the Mining Commission’s laboratory to cover a wide scope of received mineral samples for reconciliation purposes; and

2. Establish initiatives to ensure close monitoring and coordination of the reconciliations of payable royalties.

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18. Uongozi Institute/United Nations Development Program (UNDP): *“Enhancing National Ownership in the Mining Sector; Domesticating the Africa Mining Vision, 2020”*

APPENDICES

Appendix 1: List of Recommendations and Responses from Auditee

This part provides details on the general comment and the list of responses on the planned actions and implementation timelines based on the issued audit recommendations.

General Comment:

Areas reviewed are key issues to the performance of Mining Commission in revenue collection. Financial and human resources support will enable the Mining Sector to contribute more to the economy.

Specific Comments:

S/N	Recommendations to the Mining Commission	Comments from the Mining Commission	Planned Action(s)	Implementation Timeline(s)
1	Establish mechanism that will ensure effective coordination of the available control measures in revenue collections.	Availability of Financial and human resources required will enable the Commission to implement its mandated functions and plans effectively.	Request for budget expansion from Ministry of Finance to support Mining commission activities	June 2022
2	Identify controls over all earmarked producing mineral resource areas targeting to maximize royalties, fees and other charges - revenue collection in the sector.	Mining Commission will continue to educate and emphasis compliance to licence holders to pay government fees whenever they fall due. Also the	Conduct regular training to Small and medium licence holder to create awareness in Mining Law and hence	2022-2024

S/N	Recommendations to the Mining Commission	Comments from the Mining Commission	Planned Action(s)	Implementation Timeline(s)
		implementation of Debt collection strategy will enable the collection of government dues on time.	comply on paying Government dues. Improve and implement available Debt Collection strategy	
3	Strengthen the capacity of the available resource set-up in the mineral valuation as per the requirements of each type of mineral.	Resource set up for each Mineral type will be prepared and its implementation will enable valuations to be conducted in a required standards. In addition to that a guideline for building material Minerals will be developed to ensure that there is a proper methodology for valuation.	Develop guideline for building material valuation and resources set up to ensure proper monitoring of production and sales of building material to maximize revenue collection	June 2022
4	Initiate efforts to encourage the use	Mining Commission	Conduct internal	2022-2023

S/N	Recommendations to the Mining Commission	Comments from the Mining Commission	Planned Action(s)	Implementation Timeline(s)
	and observance of the standard requirements on the procedures during mineral valuation.	will strengthen the capacity and add more staff with Gemmology skills	training and enrol other staff in Gemmology course.	
5	Strategize on initiatives to implement the risk-based auditing that will help identify areas of possible revenue losses.	The Commission will concentrate on Risk -based audit for proper utilization of available resources.	Identify most risk areas and plan for audit through annual budget	June 2022
6	Improve a mechanism that will help inform the validity of the reported operating costs of the mining companies.	Staff development will be implemented to enable responsible department to have required capacity for reviewing and auditing operational costs in Mining Companies.	Train staff on reviewing Mining Companies operational costs.	2022-2023
7	Establish a mechanism that will ensure utilization of resources at respective RMOs to monitor and assess reported annual income of the Mining	Not all RMOs are allocated with Tax Audit Experts however the Commission will make sure	Establish zonal audit section for tax review in Mwanza, Mbeya, Arusha and	2022-2023

S/N	Recommendations to the Mining Commission	Comments from the Mining Commission	Planned Action(s)	Implementation Timeline(s)
	Companies.	that audit services can be obtained at zonal level.	Dar es Salaam.	
8	Strengthen the capacity of the Mining Commission's laboratory to cover a wide scope of received mineral samples for reconciliation purposes.	Mining Commission's will continue to empower staff and solicit fund from Ministry of Finance to capacitate the Laboratory to implement its mandated functions	Request Ministry of Finance for additional budget to support Mining commission activities.	2022-2024
9	Establish initiatives to ensure close monitoring and coordination of the reconciliations of payable royalties.	Mining Commission's will continue to capacitate the laboratory to perform its full mandated functions including fast trucking analysis of Mineral samples. During 2018/19 to 2020/21 special fund was granted by Ministry of Finance and Planning to facilitated procurement of advanced	Request for budget expansion from Ministry of Finance to support Mining Commission Laboratory activities new Mining Licensing	2022-2023 2022-2023

S/N	Recommendations to the Mining Commission	Comments from the Mining Commission	Planned Action(s)	Implementation Timeline(s)
		equipment. Mineral licensing systems will be strengthened to enable updating and availability of data for Mineral Right holders.	system will be developed to address challenges in flex cadastre	

Appendix 2: Audit Questions and Sub-Audit Questions

This part provides details on the list of main audit questions and sub-audit questions used based on the specific audit objectives.

Audit Question 1	**To what extent are mechanisms for revenue collection functioning effectively?**
Sub-Audit Question 1.1	Are there plans to ensure there is effective functioning of the mechanisms used in revenue collection?
Sub-Audit Question 1.2	Are there control measures to ensure adequate revenue collections?
Sub-Audit Question 1.3	Are the available control measures adequate to ensure the effective functioning of the mechanisms used in revenue collection?
Audit Question 2	**Are there adequate mechanisms to ensure there is effectiveness in the model to project annual revenue collection?**
Sub-Audit Question 2.1	Is there an established database for projection of the expected annual revenue collections?
Sub-Audit Question 2.2	Is there an established coordination mechanism for stakeholders to provide inputs used in the projection of annual revenue collections?
Sub-Audit Question 2.3	Is the information derived from the established database accounted for in the model for projection of annual revenue collections?
Sub-Audit Question 2.4	Are results from the conducted regular audits of the mining companies accounted for in the established database used for projection of annual revenue collections?
Audit Question 3	**Are there appropriate mechanisms to ensure the effectiveness procedures in mineral valuation?**
Sub-Audit Question 3.1	Are there guidelines to inform proper procedures that ought to take place during the mineral valuation?
Sub-Audit Question 3.2	Are there mechanisms used to ensure that the available guidelines for mineral valuation are implemented as planned?
Sub-Audit Question 3.3	Are the procedures used in mineral valuation account for the results of the conducted research on mineral valuations?
Sub-Audit Question 3.4	Are there appropriate equipment and skills enough to perform the required mineral valuation for all types of minerals produced?

Sub-Audit Question 3.5	Is there an appropriate mechanism used by the Mining Commission to verify the quantity and quality of the minerals produced?
Audit Question 4	**Are there adequate mechanisms for reporting annual taxable income?**
Sub-Audit Question 4.1	Is there regular monitoring of the imposed tax incentives to the mining companies?
Sub-Audit Question 4.2	Is there a sufficient mechanism used to monitor and verify reported exploration costs from the mining companies?
Sub-Audit Question 4.3	Is there an adequate mechanism to monitor and verify the reported allowable expenditures by the mining companies?
Sub-Audit Question 4.4	Is there a mechanism used to verify the reported annual income from the mining companies?
Sub-Audit Question 4.5	Is there adequate monitoring of the declared capital investment costs from the mining companies?
Sub-Audit Question 4.6	Is there a sufficient mechanism used to monitor and verify reported operational costs from the mining companies?
Audit Question 5	**Does the management of reconciliations for payable royalties done adequately?**
Sub-Audit Question 5.1	Is there a regular update for the list of operating mining companies in the country? How regularly is it updated?
Sub-Audit Question 5.2	Is there an audit of production and expense data to ascertain receiving of correct amounts in terms of grade and volume of minerals produced?
Sub-Audit Question 5.3	Are the produced lab results intended for reconciliation of payable royalties timely available?
Sub-Audit Question 5.4	Is there enough capacity in terms of equipment and skills in the provision of laboratory services?
Sub-Audit Question 5.5	Are the results used for reconciliation purposes shared with respective parts for re-settlement of possible payment?
Sub-Audit Question 5.6	Is there a proper management of reconciliations for payable royalties based on return forms received from Dealers?

Appendix 3: Details of Criteria Used to Select Mineral Types and Regions

This part provides for the details on the criteria used to select types of minerals and visited regions

Appendix 3(a): Selection of mineral types based in their contribution on collected revenue

This subsection provides for the details on the criteria used to select mineral types based in their contribution on collected revenue

Financial Year (FY)	2018/19			2019/20		
Total Actual Revenue Collected (In Billions TZS)	316.8			491.8		
	Contribution of Mineral Group to Total Revenue Collected (%)	Mineral Type (Name)	Contribution of the Mineral Type (%)	Contribution of Mineral Group to Total Revenue Collected (%)	Mineral Type (Name)	Contribution of the Mineral Type (%)
Metallic Minerals (MM)	86.8	Gold	86.4	91.4	Gold	83.5
Gemstones (GM)	5.9	Diamond	4.6	3.2	Diamond	1.8
Building Materials (BM)	3.7	Aggregates	1.7	2.7	Aggregates	1.0
Industrial Minerals (IM)	2.0	Limestone	1.2	1.2	Limestone	0.9
Energy Minerals (EM)	1.3	Coal	1.3	1.2	Coal	1.2

Appendix 3(b): Selection of the visited regions based on predominance of selected mineral type(s)

This subsection provides for the details on the criteria used to select the visited regions based on predominance of selected mineral type(s)

Mineral Group	Mineral Type	Identified predominant Province(s)	Province Characteristic(s)	Selected Region(s)
Metallic Minerals (MM)	Gold	Mara, Geita, Shinyanga, and Mbeya	• Leading in production of Gold; and • Highest contributing to revenue collection.	Geita
Gemstones (GM)	Diamond, Tanzanite	Shinyanga	• Highest contributing to revenue collection; and • Leading in production of Diamond	Manyara
Industrial Minerals (IM)	Limestone	Mtwara, Dar es Salaam, Tanga, and Mbeya	Leading in production of Limestone	Mtwara
Energy Minerals (EM)	Coal	Ruvuma	Leading in production of Coal	Ruvuma

Appendix 4: List of Interviewed Officials

This part provides details on the list of interviewed Officials and the reasons for selection of the Officials.

Entity/Department/Section	Person to be Interviewed	Reason(s) for Being interviewed
Ministry of Minerals		
Ministry of Minerals	• Commissioner for Minerals	• To understand status in monitoring operations and performance in the mining sector as linked to the mineral valuation.
Mines and Minerals Development Section	• Assistant Commissioner (Mines and Minerals Development)	• To understand procedures used to monitor and support the technical operations of the institutions dealing with mineral matters; and • To understand the status for identification of skill-sets necessary for mineral sector development in connection to the available training institutions.
Mineral Beneficiation and Value Addition Section	• Assistant Commissioner (Mineral Beneficiation and Value Addition)	• To understand on the extent in facilitation of capacity building on Gemstones and Diamonds
Mining Commission		
	• Executive Secretary (ES)	• To get an overall understanding on the existing procedures underlying determination of mineral values in the country.
Mineral Audit and Trade Department	• Director (Mineral Audit and Trade Department)	• To understand the current state of affair in monitoring and auditing the quality and quantity of minerals produced.
Mineral Audit and Laboratory Services	• Manager: Mineral Audit and	• To understand the procedures used in

Entity/Department/Section	Person to be Interviewed	Reason(s) for Being interviewed
Section	Laboratory Services	preparing, reviewing and implementing policies and strategies of mineral valuation and analysis.
Mineral Trade Section	• Manager: Mineral Trade	• To understand on the measures used in the implementation of minerals valuation guidelines, regulations and procedures; • To understand the procedures in conduct of sorting and valuation of minerals produced in the country; • To understand the underlying criteria to provide for the indicative prices for minerals produced in the country; and • To understand the procedures used in initiation and facilitation of research on mineral valuation.
Research and Planning Section	• Manager (Research and Planning)	• To understand the extent for which the procedures on mineral valuation are prioritized in the overall commission strategic and action plans.
Resident Mining Office	• Resident Mines Officers (RMOs) • Selected Mines Officers	• To understand the approaches used to verify records, information, and production reports kept by holders of mineral rights
Mines Resident Office	• Mines Resident Officers (MROs)	

Appendix 5: List of Key Documents Reviewed

This part provides details on the list of the key documents reviewed during the audit and the reasons for reviewing.

Category	Document Name	Reason(s) for Reviewing
Effectiveness in the Functioning of Mechanisms for Revenue Collection	• Mineral Policy (2009) • Mining Act (CAP. 123) • Regulations, Guidelines and Plans • Strategic Plan (s) of the Mining Commission • Action Plans of the Mining Commission • Mineral audit manuals	• To assess the availability of plans to ensure effective functioning of the mechanisms used in revenue collection; • To assess the availability of control measures to ensure adequate revenue collections; and • To assess adequacy of control measures to ensure effective functioning of the mechanisms used in revenue collections.
Effectiveness of the Model used for Projection of Annual Revenue Collection	• Mineral Policy (2009) • Mining Act (CAP. 123) • Regulations, Guidelines and Plans • Strategic Plan (s) of the Mining Commission • Action Plans of the Mining Commission • Audit Reports on quality and quantity of minerals produced • Assessment Reports • Researches on Valuation of Minerals • Mineral Price Guides • Progress/performance Reports	• To assess availability of established database for projection of expected annual revenue collections; • To assess the coordination of mechanism for stakeholders to provide inputs used in projection of annual revenue collections; • To assess usability of information derived from the established database in the model for projection of annual revenue collections; and • To assess results from the conducted regular audits of the mining companies accounted for in the established database used for projection of annual revenue collections.

Category	Document Name	Reason(s) for Reviewing
Mechanisms used to Ensure Effectiveness of the Procedures in Mineral Valuation	• Mineral Policy (2009) • Mining Act (CAP. 123) • Regulations, Guidelines and Plans • Strategic Plan (s) of the Mining Commission • Action Plans of the Mining Commission • Progress/performance Reports, Organizational Structure and Roles of the Ministry of minerals and Mining Commission	• To assess the available guidelines to inform proper procedures that ought to take place during the mineral valuation; • To assess the availability of mechanisms used to ensure that the available guidelines for mineral valuation are implemented as planned; • To assess the availability of procedures used in mineral valuation account for the results of conducted research on mineral valuations; • To assess the availability of appropriate equipment and skills enough to perform the required mineral valuation for all types of minerals produced; and • To assess the availability of appropriate mechanism used by the Mining Commission to verify the quantity and quality of the minerals produced.
Adequacy of the Mechanisms used in Reporting of Annual Taxable Income	• Mineral Policy (2009) • Mining Act (CAP. 123) • Regulations, Guidelines and Plans • Strategic Plan (s) of the Mining Commission • Action Plans of the Mining Commission • Progress/performance Reports	• To assess monitoring of the imposed tax incentives to the mining companies; and • Mechanism used to monitor and verify reported allowable expenditures, exploration costs, annual income, declared capital investment costs, and operational costs from the mining companies.
Management of Reconciliations for Payable Royalties	• Mineral Policy (2009) • Mining Act (CAP. 123) • Regulations, Guidelines	• To assess the extent of auditing of production and expense data to ascertain

Category	Document Name	Reason(s) for Reviewing
	and Plans • Strategic Plan (s) of the Mining Commission • Action Plans of the Mining Commission • Progress/performance Reports • Reconciliation Reports • Lab performance Reports	receiving of correct amounts in terms of grade and volume of minerals produced by mining companies; • the timely produced lab results intended for reconciliation of payable royalties; • the capacity in terms of equipment and skills in the provision of laboratory services; • the results used for reconciliation purposes; and • Management of reconciliations for payable royalties based on return forms received from Dealers.