ANNUAL GENERAL REPORT OF THE CONTROLLER AND AUDITOR GENERAL FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

PUBLIC AUTHORITIES AND OTHER BODIES

28 March 2019

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE

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In reply please quote
Ref.No.FA.27/249/01/2017/2018 28th March, 2019

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

RE: SUBMISSION OF THE ANNUAL GENERAL REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE AUDIT OF PUBLIC AUTHORITIES AND OTHER BODIES FOR THE FINANCIAL YEAR 2017/2018

In accordance with Article 143(4) of the Constitution of the United Republic of Tanzania of 1977 (revised 2005), and Section 34 of the Public Audit Act No. 11 of 2008; I am pleased to submit to you my Annual General Report on the Audit of Public Authorities and other Bodies for the financial year 2017/2018 for your kind consideration and onward submission to Parliament.

I submit,

Prof. Mussa Juma Assad
THE CONTROLLER AND AUDITOR GENERAL

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

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

Vision
To be a highly regarded Institution that excels in Public Sector Auditing.

Mission
To provide high quality audit services that improves public sector performance, accountability and transparency in the management of public resources.

Core Values
In providing quality services, NAO is guided by the following Core Values:
- ✓ **Objectivity:** We are an impartial public institution, offering audit services to our clients in unbiased manner.
- ✓ **Excellence:** We are professionals providing high quality audit services based on standards and best practices.
- ✓ **Integrity:** We observe and maintain high standards of ethical behaviour, rule of law and a strong sense of purpose.
- ✓ **People Focus:** We value, respect and recognize interest of our stakeholders.
- ✓ **Innovation:** We are a learning and creative public institution that promotes value added ideas within and outside the institution.
- ✓ **Results Oriented:** We are an organization that focuses on achievement based on performance targets.
- ✓ **Team Work Spirit:** We work together as a team, interact professionally, share knowledge, ideas and experiences.

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

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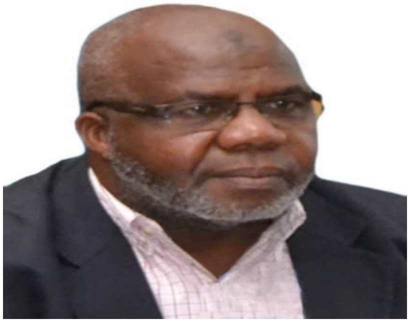

In accordance with Article 143(4) of the Constitution of the United Republic of Tanzania of 1977 (revised 2005), and Section 34 of the Public Audit Act No. 11 of 2008; I am delighted to present the Annual Audit Report of financial year 2017/2018.

I take a deep sense of gratitude to thank His Excellency, Dr. John Pombe Joseph Magufuli, the President of the United Republic of Tanzania, for his continued enormous, essential and invaluable support to my Office.

I also acknowledge the contribution of the Parliament and its Committees for their oversight role which has improved the accountability of Public Authorities and other Bodies.

The success and final outcome of this report had depended on interactions with a number of stakeholders, and for that matter, I would like to thank Boards and Managements of Public Authorities and other Bodies, and the contracted Private Audit Firms for their cooperation throughout the audits, an important vehicle in ensuring that audits are completed in a timely manner.

I am really grateful because, as a norm, I managed to complete this report within the time prescribed in the Constitution. However, this was only possible because of dedication of my Staff, who went some extra miles in ensuring high quality of audits reports while maintaining heights in professionalism.

I am proud that, through our work, we enable better governance of Public Authorities and other Bodies.

Prof. Mussa Juma Assad
CONTROLLER AND AUDITOR GENERAL

28th March, 2019

PREFACE

My Office has continued to make the Controller and Auditor General's work more relevant and intensive by focusing our audits in areas of highest risk and greatest importance to the public's well-being. This report has highlighted in summary deficiencies noted in key areas of operations of Public Authorities and other Bodies (PA&oBs), together with recommendations on the noted findings. The detailed findings are covered under individual reports of respective Institutions.

This report has 19 chapters, which cover significant audit matters noted in the areas of financial performance and going concern assessments of PA&oBs, revenue and expenditure management, corporate governance and strategic and operational efficiency of PA&oBs among others.

Given the efforts of the 5th phase Government in uplifting the economy through industrialization, I have assessed deficiencies in the investments of Public Entities to identify the bottlenecks and provide recommendations to overcome them. I have also reviewed performances of six Government owned Banks and highlighted scope for improvement in a number of areas.

While appreciating Government's efforts to improve performance of social security schemes in the country by merging some of the Pensions Funds with a view to reducing operating cost and increasing efficiency in the sector, I have pointed out deficiencies which need immediate Government attention for improvement to ensure achievement of the intended objectives.

The report has also identified areas which need to be addressed urgently to reduce water loss and other inefficiencies in performances of the Water Authorities. Procurement and Contract Management take substantial part of Government expenditure, and despite the measures being taken to improve controls in Government procurement; I have continued to note weaknesses which indicate that more interventions are required. I have also highlighted measures which need to be taken to strengthen the administration of Property, Plant and Equipment.

As it was in previous years, this report summarises key issues identified in special and forensic audits I conducted during the year. The presentation of the results in this report takes into account that such reports are dealt with administratively by management of concerned entities or followed up by law enforcing organisations.

It is my hope that recommendations in this report will be taken on board, and the Government will institute mechanisms to ensure that implementation status of my recommendations is monitored.

EXECUTIVE SUMMARY

Types and Trend of Audit Opinions

During the financial year ended 30th June, 2018, I completed 138 Public Authorities and other Bodies audits including 6 relating to previous year that were subjected to my audit. However, I issued audit opinions to only 122. Out of the opinions issued to PA & oBs in financial year 2017/2018, one was qualified and 121 were unqualified. Neither adverse nor disclaimer of opinions were issued to any of the public entities in this financial year.

Outstanding Audit Recommendations

Out of 112 outstanding key audit recommendations, 52 (46%) have been fully implemented, 36 (32%) were under implementation, 18 (16%) were not implemented while 6 (6%) were overtaken by events. Out of 18 recommendations which are not implemented, 14 (78%) were not supported by the Government response to show the progress of implementations. The analysis of outstanding recommendations is detailed in chapter three of this report.

Some of the prior years' outstanding recommendations included: Azania Bank Ltd which is 97.46% indirectly owned by the Government is still not under the control of the Treasury Registrar (TR), unpaid lease rent by the Ministry of Energy and Minerals TZS 1.12 billion, absence of loan agreement and Government guarantee of TZS 44.29 billion at National Health Insurance Fund (NHIF). On review of natural oil and gas sector, I noted delays in explorations of Block 4/1B & 4/1C, limitation of scope for the Controller and Auditor General in the extractive industry and there were delays in completion of project with total cost of TZS 6.66 billion from Mwanza Urban Water Supply and Sanitation Authority.

Financial Performance of Public Entities and Going Concern Assessment

I found that 14 Public Authorities (Lindi Urban Water Supply and Sanitation Authority, Tanzania Petroleum Development Corporation (TPDC), Tanzania Tourist Board, Dar es Salaam Water and Sewerage Corporation (DAWASCO), National Sports Council, Air Tanzania Company Limited (ATCL), Tanzania Geothermal Development Company Limited, Tanzania National Business Council (TNBC), Dar es Salaam Water and Sewerage Corporation (DAWASA), Mtwara Urban Water Supply and Sanitation Authority, Mwanza Urban Water Supply and Sanitary Authority, Electrical Transmission and Distribution Construction and Maintenance Company Limited, TTCL Pesa Limited and Tanzania Dairy Board) face critical financial situations as they made losses and had excess liabilities over assets which threaten their future existence.

Revenue Management in Public Entities

My audit has noted significant amounts of long outstanding accounts receivable emanating from different public entities which affects their liquidity. I also noted weaknesses in Medical Stores Department (MSD) sales where medical items were supplied without being requested and subsequently returned by customers.

The National Health Insurance Fund (NHIF) honoured claims amounting to TZS 4.80 billion for non-contributing customers, and paid claims totalling TZS 13.99 billion relating to ineligible dependants. The Higher Education Students' Loans Board (HESLB) was unable to trace loan beneficiaries with a balance of TZS 1.46 trillion.

The trade receivable balance of TTCL Corporation is likely to be misstated owing to unsupported records. In addition, there has been overdependence on Development Partners to fund the activities of National Bureau of Statistics (NBS).

Review of Corporate Governance in Public Entities
On the governance in public entities, I identified weaknesses such as lack of minutes of the Board meetings at the Tanzania Broadcasting Corporation, absence of the permanent management to run day to day operations of Mkulazi Holding Company, inadequate composition of the Governing Board Committees at Mwalimu Nyerere Memorial Academy, TTCL Pesa failure to conduct trustee meetings as required by the Trust Deed, significant increase in the Board's meeting expenses at Ngorongoro and inadequate budget monitoring and controls at University of Dodoma (UDOM). The highlighted weaknesses require management actions to address the underlying causes for improvement.

Strategic and Operational Efficiency
From the review of Strategic and Operational Efficiency of public entities, I noted areas for improvement such as TTCL Corporation operate without control and ownership of National ICT Broadband Backbone for TTCL Corporation, running costs of NICTBB amounting to TZS. 20.62 billion were not reimbursed by the Ministry of Works, Transport and Communication to TTCL, Absence of Water Network Supply System within Serengeti National Park, Mkulazi Holding Company delay in installation of plant for sugar production, SUA Commercial Farm production being operated under loss, Muhimbili National Hospital (MNH) failure to fully utilize Jeeva which is an application acquired to improve effectiveness in managing business process and maintenance of medical records. There was also an increase of TZS 1.39 billion in MNH bad debts for the year ended 2018, and Tanzania Bureau of Standards accepted applications for licence of Restricted Products.

Management of Expenditure by Public Entities
While progress was being made in addressing the weaknesses identified in previous years, I still noted considerable increase in liabilities in public entities where in five higher learning

institutions staff liabilities increased from TZS 15.9 billion in 2016/2017 to TZS 18.5 billion in 2017/2018. I further noted incidents of non-compliances with established guidelines in payment of allowances. For example, Tanzania Bureau of Standards (TBS) and Dar es salaam Water and Sewerage Authority (DAWASA) incurred TZS 1.88 billion as house allowances to all staff contrary to requirements of the Treasury Registrar's circular No. TYC/T/200/583/18 of 2010.

Also, there was no clear guidance for other fringe benefits where National Sugar Institute paid extra module allowances for tutors of agricultural courses without any guideline to support the payment. Further, interest of TZS 32.25 billion resulted from delay in payment of compensation for land acquisition by DAWASA and Export Processing Zones Authority (EPZA).

Investments in Public Entities

In October 2013, National Housing Corporation (NHC) started a Golden Premier Residences (711-2) housing project carried out on plot 711/2 Kawe Beach area. My review of the project noted that the construction of the project stopped in early 2017 due to lack of funds. The project had already spent TZS 34.87 billion (internal source USD 11.64 billion, loan from TIB Bank TZS 23.23 billion) which represent 30% of completion.

The TIB loan was taken on 06th July, 2015 with a grace period of 36 months ended in July 2018. This implies that NHC use other source of finance to repay loan since the grace period had already finished while the project has not yet completed.

In case NHC fails to get the required approval for the loans, and thus fail to complete construction of the on-going projects, it will be liable to pay damages amounting to TZS 99.99 billion to contractors and repay TZS 2.60 billion to the house buyers who had already deposited down payments.

Performance of Government Owned Banks

My audit found that four (67 per cent) out of the six Government owned banks were operating at loss for three consecutive years, as a result, two banks namely Tanzania Women Bank and Twiga Bancorp were put under statutory management of the Bank of Tanzania (BoT), following the undercapitalization status.

I also noted significant deterioration in quality of the Bank's loan portfolio whereby the ratios of non-performing loans (NPL) to total portfolio of three banks were beyond the industrial benchmark of 11.7 per cent and BoT target of 5 per cent. Due to consecutive losses and deterioration in quality of loan portfolios, core capital and total capital ratios of the total risk-weighted assets and off-balance sheet exposures of five banks were below the minimum requirements stipulated in the Banking and Financial Institutions Regulations, 2014 and BoT Circular of 5th August, 2015.

Operations of Social Security Schemes

Social security schemes in Tanzania are regulated by Social Security Regulatory Authority (SSRA). My review covered the operations of National Health Insurance Fund (NHIF), Workers Compensation Fund (WCF) and Pension Funds, LAPF Pensions Fund (LAPF), Public Service Pensions Fund (PSPF), GEPF Provident Fund (GEPF), PPF Pensions Fund (PPF) and National Social Security Fund (NSSF). I also reviewed performance of the Regulator, SSRA.

I noted that working capital of the six (6) schemes were tied up to outstanding Government debts which had accumulated to a sum of TZS 2,390.08 billion, of which TZS 1,625.25 billion (68%) were due in 2017/2018. Some loans matured since 2014. Given the merging of the Pensions Funds, the newly established Public Sector Social Security Fund (PSSSF) carries a huge burden of outstanding loans from the Government which may impair its cashflows and funding level. Further, the number of voluntary retirees increased from 2,562 in 2016/2017 to 4,730 in 2017/2018 which I consider is mainly due to the newly introduced pension formula that was later suspended.

Also, I noted that Funds in social security schemes have invested a total of TZS 55.17 billion and TZS 3.15 billion in Bank M and Covenant Bank respectively. However, the licenses for the mentioned banks have been revoked. While Bank M has been merged with Azania Bank, Covenant Bank has been liquidated. At NHIF, I noted that surplus is increasing at a decreasing rate, mainly due to excess of claims over contributions of NHIF health packages to informal members. Proper actions need to be taken to reverse deterioration in the capital of the Funds.

Administration of Loans by Public Entities

Cereals and Other Produce Board (CPB) obtained a loan of TZS 372.76 million which had neither been approved nor directed by the Board of Directors while DAWASA water project in Chalinze had not been completed due to ambiguities in the terms of the loan given by the Export Import Bank of India. In addition, DAWASA has a loan of TZS 47.40 billion which has been long outstanding with remote possibility of being repaid. National Housing Corporation (NHC) has failed to comply with debt service ratio provided by the East African Development Bank by significantly falling below the recommended ratio.

Performance of Water Authorities

My review on performance of water authorities noted that the major challenges facing urban water supply and sewerage authority is the high percentage of Non-Revenue Water. From the analysis of 15 water authorities' records, I noted total water loss of TZS 128.21 billion due to high per cent of non-revenue water; included in this, water loss of TZS 47.18 billion was above the normal loss threshold. I also noted significant amounts of long outstanding accounts receivable emanating from different government institutions, commercial institutions and domestic customers amounting to TZS 97.58 billion which affects liquidity of these authorities. Furthermore, I noted 12 Water Authorities operating at losses for consecutive periods with a total of cumulative loss of TZS 221.66 billion.

Management of Government Subventions in Public Entities
While the Government strives to improve agricultural sector through provision of subvention on agricultural inputs with the aim of uplifting productivity and improving citizen's well-being, I found several deficiencies in the distribution process of inputs costing TZS 19.9 billion to cotton famers for the year 2017/2018. The noted deficiencies include some farmers being provided with more pesticides than the cultivated acres, lack of signed delivery form to confirm receipt of inputs by farmers, about 90 per cent of pesticides distributed by a supplier in one of the sampled districts were not supported by farmers' signatures while in another districts pesticides were sold to some farmers rather than being provided free of charge as directed by the Tanzania Cotton Board (TCB).

Management of Property, Plant and Equipment
My Audit observed several weaknesses in the Entities Fixed Assets Register, Compliance with Accounting Standards, Policies, Procedures and Manual. To improve the deficiencies noted, I have provided recommendations for improvement on matters such as Settlements of Land issues made by Entities to beneficiaries, Capitalization threshold of assets, proper utilization of fuel, enhancing economical repair and maintenance of assets, accurate depreciation charges, finalization of long overdue work in progress as well as management of various ownership details of assets within the entities. I believe the implementation of the recommendations will strengthen overall processes for the Entities Property, Plant and Equipment Management and reduce associated risks.

Procurement and Contract Management

This report presents the findings of the Procurement and Contract Management review of 138 Public Authorities and other bodies, carried out in the financial year 2017/2018. The main objective of the report among others, is to report on the status of Procurement as well as Contract Management, as far as compliance with Public Procurement Act and its Regulations are in question. I further report on the assessment made on the procurement implementation processes and systems, in order to determine compliance level with Procurement Management Information System (PMIS) and The Public Procurement Act and its Regulation (PPRA) at large.

I noted un-satisfactorily compliant practices from the audit exercise I conducted in some Public Entities. I noted non-compliance with Procurement Management Information Systems (PMIS) requirements, Public Procurement Act and its Regulations of 2013 in various aspects such as non-compliance with tendering procedures, divergence from the procurement plan resulting in over expenditures, absence of evaluation committees, failure to comply with the terms and conditions of the contract leading to liquidated damages charges, as well as entities' failure to submit their annual procurement plan to PPRA as required under procurement legislations.

Results of Special and Forensic Audit

My special audit conducted at NHIF Mara identified fictitious payment amounting to TZS 2.61 billion. These payments were meant to be made to health service providers, however, the payments were made to NHIF staff using open cheque instead of crossed cheque. Also, at the University of Dar es salaam (UDSM), I noted that the university is not getting the required revenue from consulting activities obtained in the name of the University but subcontracted to private firms owned by its staff. This was noted in contract between BICO (on behalf of UDSM) and NHC of TZS 5.49 billion, whereby BICO subcontracted 76% of work to a private firm. I further noted in financial year 2016/2017, the UDSM enrolled 560% more students than the university's enrolment plan. My special audit at National Insurance Corporation (NIC) discovered that management paid USD 3.59 million to a vendor for supplying, installation and implementation of insurance software, but the system is not fully functional.

In the special audit at Mkwawa University College of Education (MUCE), I noted MUCE entered into contract with MM Engineering later with M/s CATIC International Engineering Limited for construction of lecture theatre project which initially had contract cost of TZS 3.62 billion, but the cost of the project escalated to TZS 9.10 billion. No value for money has been obtained as the initial completion date of the project was September 2011, but until 10th May, 2018, the project was completed by only 81% and therefore not yet in use.

My audit at UDA Rapid Transport (UDART), noted that the Company operated under a loss of TZS 6.78 billion for a period of eight months from commencement of the project to 30th December, 2016. Also, I noted that there are only 140 rapid buses, contrary to 305 buses stipulated in the 1st Phase Implementation Plan of the project.

Compliance with Tax Laws

I reviewed the public entities in complying with tax laws and regulations. I identified unresolved tax assessments at Tanzania Insurance Regulatory Authority (TIRA), Reli Assets Holding Company (RAHCO), Tanzania Civil Aviation Authority (TCAA) and Tanzania Broadcasting Corporation (TBC) which are disputed by either party (TRA or taxpayer) as a result of ambiguities in interpretation of the tax laws. This was a case also for Tanzania Telecommunication Company Limited (TTCL) which did not pay excise duty amounting to TZS 234.41 million since 2015 pending completion of the ongoing reconciliation between TTCL Corporation and Tanzania Revenue Authority (TRA).

There were also delays or non-filing tax returns for VAT, Skill Development Levy (SDL) and Withholding Tax in ten entities which would attract interest and penalties. As such, TBC had not paid taxes amounting to TZS 2.27 billion excluding interest and penalties. In addition, despite emphasis put on always demanding legal receipt (EFD), the Public Entities have not improved the system of issuing and demanding EFD receipts.

CHAPTER ONE

BACKGROUND INFORMATION

1.1 Legal Framework for Public Audit in Tanzania

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

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

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

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

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

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

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

1.2 Scope and Applicable Audit Standards

1.1.1 Audit Objectives and Scope

The main objective of conducting the audit is to enable CAG to express an independent opinion on the fairness of the financial statements of the PA&oBs and whether they have been prepared, in all material respects, in accordance with an accepted financial reporting framework. Particularly, the audits covered accounts for the periods ended, 31 December 2017 and 30 June 2018.

The scope of my audits covered evaluation of effectiveness of financial accounting systems and internal controls over the activities, examination and verification of the accompanying financial statements, performance reports and other auditing procedures considered necessary in arriving at an audit conclusion. The audits were carried out based on risk and materiality.

Therefore, the audit findings are confined to the extent that records, documents and information requested for the purpose of the audits were made available to me.

1.1.2 Applicable Auditing Standards

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

1.2 Responsibilities of the Board of Directors and Chief Executive Officers

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

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

b) Selecting and applying appropriate accounting policies; and

c) Making accounting estimates that are reasonable in the circumstances.
International Accounting Standards (IAS 1) and International Public Sector Accounting Standards (IPSAS 1) stipulate the types of financial statements to be prepared.

1.3 Organisation and Outsourcing of Audit Work

The audit of Public Authorities and other Bodies (PA & oBs) are performed by the Public Authorities Audit Division under National Audit Office. This division is grouped into four sub divisions namely Financial Institutions, Higher Learning Institutions, Regulatory Authorities and Public Utilities and Service Organisations.

The sub divisions conducted audit of some PA & oBs while audits of other PA &oBs were outsourced to private Audit Firms. The outsourcing policy is in line with Section 33 of the Public Audit Act, which empowers CAG to authorize any person or body eligible to be appointed as an auditor under the Auditors and Accountants (Registration) Act No. 33 of 1972 as amended in 1995 to conduct the audit of public entities on his behalf.

However, the audit opinions remain the sole responsibility of CAG. The outsourced audits are subjected to a quality review process carried by my Office. The contracted auditors are bound by the provision of the law not to disclose any information which relates to the business secrets of the auditee which comes to their knowledge in the course of the audit.

CHAPTER TWO

TYPES AND TREND OF AUDIT OPINIONS

2.1 Introduction

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

2.2 Types of Audit Opinion

2.2.1 Unmodified Opinion

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

2.2.2 Modified Opinions

(i) Qualified Opinion

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

(ii) Adverse Opinion

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

(iii) Disclaimer of Opinion

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

2.2.3 Emphasis of Matter Paragraph in the Auditor's Report

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

2.2.4 Communicating Key Audit Matters

Communicating key audit matters provides additional information to users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Communicating key audit matters may also assist users of the financial statements in understanding the entity and areas of significant management judgment in the audited financial statements, as such matters are areas of focus in performing the audit.

2.3 Audit Opinion Issued During the Year

In the year under review, 122 opinions were issued to Public Entities in the financial year 2017/2018, out of which 121 were unmodified opinions, one was qualified opinion while no entity was issued with an adverse opinion or a disclaimer of opinion. See ***Annex I*** for more details.

2.4 Trend of Audit Opinions

Analysis of trend of audit opinions issued to Public Authorities and other Bodies for the 5 consecutive years from 2013/2014 to 2017/2018 is as follows:

Table 1: Trend of Audit Opinions

Category of Opinion	Annual General Report				
Financial Year	**2013/2014**	**2014/2015**	**2015/2016**	**2016/2017**	**2017/2018**
Unqualified	117	107	108	101	**121**
Qualified	3	5	4	4	**1**
Disclaimer	1	0	0	0	**0**
Adverse	0	0	0	0	0
Total	**121**	**112**	**112**	**105**	**122**

Source: Analysis of Audited Financial Statements

CHAPTER THREE

SUMMARY OF OUTSTANDING RECOMMENDATIONS

3.1 Introduction

This chapter provides a summary of implementation status and actions taken by accounting officers towards my audit recommendations issued in previous years' Annual Audit reports in accordance with Sect. 40 (4) of the Public Audit Act No.11 of 2008.

On 15th May, 2018, I received the Government responses prepared by the Paymaster General (PMG) on the previous Annual General Report. I appreciate the effort deployed by PMG in responding to my reports and providing action plan on implementation of the recommendations.

3.2 Implementation Status of Prior Years' Audit Recommendations

Out of 112 outstanding key audit recommendations from my previous years report, 52 (46%) have been fully implemented, 36 (32%) were under implementation, 18 (16%) were not implemented while 6 (6%) were overtaken by event. Out of 18 recommendations which are not implemented, 14 (78%) were not supported by the Government response to show the progress of implementations. Overall the status of implementation of recommendations is very low as most of the recommendations are not implemented. Details of the status of implementation and aging analysis of these recommendations are shown in ***Annex II*** and Table 2 respectively.

Table 2: Implementation Status of Prior Years' Audit Recommendations

Financial year	Implemented	Under implementation	Not implemented	Over taken by event	Total
2012/13	9	1		1	11
2015/16	24	9	5	2	40
2016/17	19	26	13	3	61
Total	**52**	**36**	**18**	**6**	**112**

Financial year	Implemented	Under implementation	Not implemented	Over taken by event	Total
Percentage	46	32	16	6	100

Source: Auditors analysis

Delay in implementation of my recommendations results in recurring audit observations thus contributing to inadequate performance of operations which in turn affects service delivery to the public.

I therefore recommend that the Government through the Paymaster General insist the accounting officers on timely implementation of my recommendations to enhance operating efficiency to the Public Authorities and other bodies and provide adequate services to the public.

CHAPTER FOUR

FINANCIAL PERFORMANCE OF PUBLIC ENTITIES AND GOING CONCERN ASSESSMENT

4.1 Introduction

During the financial year 2017/2018, the Government owned a total of 201[1] Public Entities. The Public Entities include those which have been established to conduct business and generate profit from their operations.

Analysis of various aspects of financial performance of Public Entities has been done, including the periodic and accumulated profits with respect to capital depletion. From the review of financial performance of Public Entities and assessment of going concern for 138 entities, I come out with the following findings and recommendations:

4.2 Public Authorities with Uncertain Survival

While reviewing the financial stability of Public Authorities, I found 14 entities which are experiencing financial risk as their debt to equity ratio is more than 100% which cast doubt on their going concern. Of the 14 entities, 9 entities have negative equity and they are operating at loss for more than two years (refer Table 3). High gearing ratio implies that entities rely on external debts to run their operations which is considered more susceptible to financial distress. Following the financial difficulties facing the public authorities, it is unlikely that they will survive without Government support. There is a risk that these entities might not be able to discharge their functions thus affect the service delivery to the general public.

[1] Treasury Registrar report

Table 3: Public Authorities in Critical Financial Situation

Entity	Financial Year	Loss-TZS "000"	Equity-TZS "000"	Debts-TZS "000"	Capital Gearing ratio[2]
Lindi Urban Water Supply and Sanitation Authority	30-Jun-18	(92,968)	(265,129)	38,288,041	(144.41)
Lindi Urban Water Supply and Sanitation Authority	30-Jun-17	(47,001)	(172,091)	9,450,293	(54.91)
Tanzania Petroleum Development Corporation (TPDC)	30-Jun-18	(64,543,000)	(375,136,000)	3,544,892,000	(9.45)
Tanzania Tourist Board	30-Jun-18	(110,417)	(258,298)	2,023,503	(7.83)
Dar es Salaam Water and Sewerage Corporation	30-Jun-18	(8,528,170)	(32,542,827)	93,167,173	(2.86)
National Sports Council	30-Jun-18	(27,510)	(125,098)	182,711	(1.46)
Air Tanzania Company Limited (ATCL)	30-Jun-16	(38,641,049)	(129,981,792)	166,036,782	(1.28)
Air Tanzania Company Limited (ATCL)	30-Jun-17	(16,120,696)	(146,359,685)	184,758,843	(1.26)
Tanzania Geothermal Development Company Limited	30-Jun-17	(3,224,978)	(5,997,399)	7,159,180	(1.19)
Tanzania National Business Council	30-Jun-18	(297,562)	(922,353)	1,073,370	(1.16)
Dar es Salaam Water and Sewarage Corporation (DAWASA	30-Jun-18	(8,528,170)	(32,542,827)	93,167,173	2.86

[2] *Debt Gearing ratio is obtained by taking debt to total equity*

Entity	Financial Year	Loss-TZS "000"	Equity-TZS "000"	Debts-TZS "000"	Capital Gearing ratio[2]
Mtwara Urban Water Supply and Sanitation Authority	30-Jun-18	(117,976)	4,875,088	7,420,069	1.52
Mwanza Urban Water Supply and Sanitary Authority	30-Jun-18	(378,442)	38,057,178	92,703,879	2.44
Electrical Transmission and Distribution Construction and Maintenance Company Limited	30-Jun-17	(773,888)	220,937	633,733	2.87
TTCL Pesa Limited	30-Jun-18	(360,305)	139,695	577,592	4.13
Tanzania Dairy Board	30-Jun-18	(33,662)	4,913	84,901	17.28

Source: Financial statements of 2017/18

I therefore recommend that the Government review the mode of operations of these entities and inject resources to revamp their operations.

CHAPTER FIVE

REVENUE MANAGEMENT IN PUBLIC ENTITIES

5.1 Introduction

This chapter highlights observations related to management of revenues by various Public Entities during the financial year 2017/2018. Revenue management encompasses the most critical path for Public Entities' existence, as it significantly contributes to generation of cash which is necessary for the entities to be able to meet their obligations when they become due. Also, revenue management highly contributes to the performance of Public Entities as it affects profitability.

The following have been identified as matters of concern in terms of revenue management during the audit of various Public Entities:

5.2 Long Outstanding Receivables

A total of 623 tenants have continued receiving service at Arusha International Conference Centre (AICC) while they have long outstanding rent balances amounting to TZS 3.80 billion despite the fact that the AICC Estates Management Policy, 2010 requires rent to be paid two months in advance.

National Insurance Corporation (NIC) reported that trade and other receivables amounting to TZS 53 billion has been long outstanding. Impairment of TZS 10 billion was done on the receivable balance. The recorded revenue might not be realistic as collections of the receivables are difficult and thus may turn out to be a loss due to such non-recoverability.

I recommend that NIC enforce its rent policy so as to have strong revenue management.

5.3 Weaknesses on Sales and Delivery Procedures

From the review of sample sales amounting to TZS 8.82 billion out of the total sales of TZS 251.38 billion at Medical Stores Department (MSD) I noted that sales were not supported by evidence such as stamped or signed delivery notes and invoices to confirm that the consignments sold at the total amount of TZS 3.84 billion were delivered and accepted by customers. This is contrary to MSD Accounting Manual guidance which requires customer to confirm the receipt of goods delivered at destination. Also, consignments with total value of TZS 1.45 billion sold and sent to 18 medical facilities were returned to MSD as they had not been ordered by the consignees.

In addition, MSD takes special orders from health facilities which use their internally generated funds to buy health commodities whereby MSD categorizes items it procures and sale under such arrangement as special procurement. I noted that sales under special procurements of TZS 3.55 billion were returned to MSD by its customers due to excessive delivery and wrong specifications. Some of those returned goods were about to expire as they took up to seven months to reach MSD. They were accepted back as there are no terms and conditions which prevent customers from returning goods sold.

Returning goods under Special Procurements may lead to misuse of public funds as there might not be anybody else in need of them. Also, selling goods without customer's delivery confirmation could result in fraudulent sales and goods may not reach the intended customer.

I recommend that MSD follow proper procedures instituted for sales and delivery of consignments to customers and customers' specifications to avoid the aforementioned risks.

5.4 Incorrect Prices Applied on Claims and Payment to Medical Facilities for Non-contributing Members

National Health Insurance Fund (NHIF) approved agreed payment rates for all services offered by medical facilities.

However, I identified claims lodged to NHIF which used higher rates than those approved. From a sample of four medical facilities namely Muhimbili National Hospital, TMJ Hospital, Regency Hospital Medical Clinic and KCMC, I noted overpayments of TZS 141.61 million from the overpriced claims.

Further, I identified payments totalling TZS 4.80 billion made by NHIF to medical facilities for non-contributing members contrary to the principles of health insurance. The above noted anomalies might have occasioned significant financial loss to the Fund given the number of medical facilities working with it.

I recommend that the Management of NHIF strengthen controls over claims by ensuring automation of claims approval process in the long run and increase sensitivity of the process in the meantime.

5.5 Significant Claims from Ineligible Child Dependants

I revealed paid claims amounting to TZS 13.99 billion for medical services provided to dependant children who had attained the age of 18 years old. This is contrary to the NHIF's Act which limits the age of a dependant child to below 18 years old. The loss of funds due to such payments implies the reduction of resources available to NHIF for other development activities.

I recommend that the NHIF's management update its database to identify over-aged child dependants and institute controls that will ensure that they are no longer covered by the insurance.

5.6 Conflicting Tourist Data Between Departments

My review of Ngorongoro Conservation Area Authority (NCAA) noted differences in tourist data between Department of Tourism and Department of Finance. I noted that Tourism Department recorded a total of 1,040,618 and 787,032 as a total number of non-resident and resident tourists respectively while Department of Finance recorded 1,016,607 and 791,140 as the number of non-resident and resident tourists respectively. Department of Tourism recorded an excess of 24,011 non-resident tourists and while reported a shortage of 4,108 resident tourists when compared with the records of Finance Department between 2015/16 and 2017/18. The number of tourists was supposed to be uniform throughout all departments as it has direct implication to revenue recorded.

Further, I noted that the fees entered in NCAA Safari Portal are not in line with Government Notice No. 270 as some tariffs used are not in the Tariff Guide and some of the paid quotations could not be reflected in ADV financial reporting system.

Tourism revenue of NCAA is likely to be misstated, and data available to management of NCAA might be unreliable for decision making.

I recommend NCAA's management to ensure consistency of data by doing reconciliation of data among departments and align tariffs in the portal to the Government Notice. Also, the noted differences need to be investigated to identify the cause for corrective actions.

5.7 Irregular Calculation of Penalty and Batch Certification Fees

From a sample of 50 penalty charge transactions and 60 batch certification fee transactions, I found a total of 7 and 6 transactions respectively where, Tanzania Bureau of Standards (TBS) uses values other than those assessed by Tanzania Revenue Authority (TRA) in charging 15% penalty on consignments not inspected under Pre-shipment Verification of Conformity and 0.2% on Batch Certificate. The practices are against the requirements of clause 5.1.5 of the Destination Inspection Imports Procedures Manual requiring TBS to use TRA's assessed CIF values.

I also noted that TBS sometimes charges 15% penalty on consignments not inspected under Pre-shipment Verification of Conformity only on regulated items instead of whole consignment. This practice is against the requirements of clause 5.1.5(c) of the Destination Inspection Imports Procedures Manual.

It is by these inconsistencies that, the Bureau is losing revenue by using smaller values than those assessed by TRA. Also, it creates unfairness as different bases are used to charge penalties to different importers of goods not pre-inspected at the port of loading.

I recommend that TBS use TRA assessed value to comply with the requirements of Destination Inspection Imports Procedures Manual.

5.8 Untraced Loan Beneficiaries

Higher Education Students Loans Board (HESLB) has a loan balance of TZS 1.46 trillion related to beneficiaries who could not be traced. The amount is significant considering guidance provided by Sect. 4(h)-(g) of the Board's Act which requires the Board to establish networking and cooperation links with institutions and organizations so as to identify loan beneficiaries and facilitate recovery of granted loans.

Untraceable significant loan balance limits the Board's financial ability to provide more loans to new and continuing students.

I recommend that the Board engage other institutions and any other available sources of information to strengthen its database to be able to identify the yet untraced beneficiaries.

5.9 Duplicate Allocation of Licenses

Surface and Marine Transport Regulatory Authority (SUMATRA) is supposed to issue a unique license number for each vehicle applying for transportation license. However, from the review of 165,230 licenses, I identified 20 situations where one license had been issued to more than one vehicle. This situation creates room for fake licenses and fraudulent manipulation which might deny SUMATRA its revenue.

I recommend that SUMATRA rectify the noted license anomaly so as to rescue the entity from loss of revenue.

5.10 Weakness on Aerodrome Licensing and Inspection

From review of a sample of 30 out of 70 registered aerodromes, I noted that Tanzania Civil Aviation Authority (TCAA) had not done inspection of four (4) aerodromes namely Kasense airstrip, Matipwili airstrip, Mashado airstrip and Lila airstrip found within the jurisdiction of the United Republic of Tanzania. Further, during review of aerodromes files and inspection report, it came to my attention that 5 out of 30 sampled registered aerodromes had been operating without having a valid license contrary to Regulation 15(1) of the Civil Aviation Aerodromes Regulations, 2017. Details in ***Annex III***.

TCAA has a duty to inspect and license aerodromes when they are deemed to be fit for the purpose. The observed situation denies TCAA of licensing revenue and put aircrafts at risk. I recommend that TCAA strengthen inspection and license issuing procedures by ensuring all aerodromes are inspected and properly licensed.

5.11 Weaknesses on Billing System

During the review of the billing system of Tanzania Ports Authority (TPA), I noted that 39,239(17%) out of 237,516 cargo invoices I reviewed do not show individual details of charges such as handling, wharfage and other charges contrary to an actual invoice which indicates all individual charge details. Also, the billing system does not capture marine invoices created manually; the capturing is also done manually. Further, I noted that TPA had been using different rates from those prescribed by the tariff book in computing revenue for the period ended 30th June, 2018. Details in ***Annex IV***.

The anomalies noted may lead to misstatement of the recorded revenue. Thus, I recommend TPA engage system vendor to assist in resolving the noted anomalies in the billing system.

5.12 Difference on Wharfage Data Between TRA and TPA

TPA conducts monthly reconciliation of wharfage charged and collected on its behalf by Tanzania Revenue Authority (TRA). However, my review of wharfage revenue noted the difference of TZS 42.5 billion between the records of TPA and those of TRA. TPA explained that they do not receive adequate responses from TRA when sharing results of the reconciliation, especially when clarification for variances are required. Wharfage revenue reported might be misstated. Thus, I recommend TPA enhance its reconciliation process in place to ensure it is done effectively and all differences are cleared in a timely manner.

5.13 Inadequate Management of Trade Debtors

My review of trade debtors of Tanzania Telecommunications Company Limited (TTCL) revealed a difference of TZS 24.71 billion between the balance reported by TTCL and those confirmed by customers, customers confirmed TZS 100.46 billion while TTCL reported TZS 125.18 billion. The difference highlights that TTCL has not been performing monthly reconciliation between its records and customers confirmation to ensure the accuracy of the reported balance as required by Para 3.11.2 (f) of the Accounting Manual.

Further, I noted a difference of TZS 109.59 billon between general ledger (TZS 208.35 billion) and billing system (TZS 98.76 billion). Also, out of TZS 208.35 billion reported as trade receivables, Management was unable to provide accounting schedules for verification on TZS 91.43 billion despite my repeated requests.

Trade receivables might have been significantly misstated in the books of account. Thus, I recommend that TTCL look for the root cause of the noted differences and rectify the reported balance accordingly to reflect the correct state of affairs.

5.14 Incomplete Revenue Information

Universal Communication Service Access Fund (UCSAF) is entitled to charge levies from communication operators registered by Tanzania Communications Regulatory Authority (TCRA) at the rate 0.7% of gross revenue as provided by the Universal Communications Service Act, 2009. However, I noted that UCSAF use incomplete list which includes a total of only 99 operators compared to 334 operators recorded in the list from TCRA.

By using the incomplete list of operators to compute revenue, UCSAF has been losing revenue overtime. I recommend that UCSAF update its database so that it corresponds to that of TCRA.

5.15 Non-monitoring of Advertisement, Conference and Parking Income from Mlimani Holding Limited

Clause 10.1 of the lease agreement between University of Dar es Salaam (UDSM) and Mlimani Holding Ltd (MHL) mandated UDSM or its representative to access the books of MHL to verify rental charges. However, I learnt that during the year ended 30th June, 2018, UDSM did not fulfil its contractual rights of verifying MHL records but merely relied on self-declaration by MHL. A total of USD 10,869.90 and USD 8,204.73 were remitted to UDSM by MHL during the year as annual share of advertisement and parking income respectively but there was no verification done to ascertain accuracy of remitted amount.

In addition, UDSM does not have information on the number of conferences conducted at Mlimani City Conference Centre, hence, is not in position to know its rightful share of income received on hiring conference facilities.

By not monitoring the activities of lessee, UDSM is likely to lose its income as it does not verify the accuracy of its share as remitted by the lessee.

I recommend that University of Dar es Salaam (UDSM) institute reasonable check from time to time so as to ensure its interests are protected in the Mlimani City project.

5.16 Overdependence on Development Partners to Fund Core Activities

National Bureau of Statistics (NBS) is a Government institution entrusted with official statistics production and coordination of National Statistical System (NSS). I learnt that the Bureau is largely dependent on funds from development partners to fund its core activities. During the year under review, the Bureau had an approved budget of TZS 1.64 billion from Government subvention to finance its core activities other than personnel emoluments while core activities to the tune of TZS 13.84 billion were financed by Tanzania Statistical Master Plan (TSMP) project which is funded by Development Partners. Further, TSMP was a seven (7) year project which ended on 30th June, 2018, thus there will be no more funding.

This means that, unless the Government increases its subvention, NBS will be unable to perform its duties smoothly, efficiently and effectively. I thus recommend that the Government increase subvention to NBS so that it can smoothly implement its functions.

5.17 Non-recognition of Interest Income from Fixed Deposits

Reli Assets Holding Company Limited (RAHCO) had investments in fixed deposit at TIB Development Bank and UTT Microfinance of TZS 7.61 billion and TZS 962 million respectively. The two investments had earned interests amounting to TZS 707.9

million but the same had not been recognized in the books of RAHCO. Further, RAHCO has not been able to recover both principal amounts and interest from either UTT or TIB which cannot refund significant cash invested with them.

In that regard, RAHCO books have been misstated by the amount of interests earned and not recorded in the books of account. Further, RAHCO's operations will be affected due to liquidity problem as both UTT and TIB are unable to refund deposited cash let alone interest earned.

I recommend that RAHCO makes follow up to recover the amounts. Also, the Government should intervene and institute necessary measures to rescue the situation as it adversely affects RAHCO's operations.

5.18 Uncollected Rental Income from Telecommunication Companies

In June 2010 RAHCO, entered into a 15 years agreement with three telecommunication companies namely Tigo, Zantel and Celtel to install and maintain telecommunication apparatus along the railway infrastructure. The contract price was USD 1.01 million but USD 540,800 of this amount had not been received for 8 years up to 30th June, 2018. RAHCO Management is uncertain on whether the respective amount was paid or not due to lack of proper records.

Given the situation, it is evident that the three telecommunication companies are using RAHCO assets without meeting their contractual obligation. Also, there is a possibility that the funds might have been diverted from RAHCO to individual persons as I found three accounts held in RAHCO's name but not reported in the books of account.

I recommend that RAHCO make necessary follow up to ensure that the outstanding amount is recovered from respective lessees.

CHAPTER SIX

REVIEW OF CORPORATE GOVERNANCE

6.1 Introduction

I reviewed governance arrangements and provided recommendations to Public Entities which aimed at providing guidance to assist Governing Bodies to develop or review their governance practices that will enable effective and efficiency operations of the Public Entities.

My review covered implementation of core functions of the entities to achieve their strategic objectives. It also includes the review of performance of the Board of Directors and implementation of their directives by Management of the respective entities.

The following are significant matters noted and the related recommendations: -

6.2 Public Entities without Board of Directors and Trustees

In my previous general audit reports of 2015/2016 and 2016/2017, I reported 18 and 20 Public Authorities respectively which were operating without Board of Directors and recommended that the appointing Authorities take deliberate efforts to appoint the members to enhance governance and control process within the entities. However, I continue to note an increasing trend of the Public Authorities without Board of Directors from 20 entities reported last year to 24 entities in 2017/2018. Out of 24 entities, seven operate without a Board for more than one year and four entities for more than two years. Absence of Board of Directors weakens internal oversight functions which provide strategic direction of the entities and delay implementation of some corporate activities which demand Board's approval.

I consider this to be a loud call to the appointing authority to take deliberate measures including commencing the appointment process in advance prior to expiring the tenure of the existing Board to curb the challenge of delay in appointment after Boards tenure end. Table 4 lists the Public Authorities operating without Board of Directors during the period 2017/2018.

Table 4: Entities with no Board of Directors and Trustee

S/N	Details	2017/18	2016/17	2015/16
1	SUMATRA CCC	√		
2	Kilimanjaro Airport Development Company (KADCO)	√		
3	Workers Compensation Fund (WCF)	√		
4	UTT-AMIS	√	√	√
5	National Housing Corporation (NHC) – (Only Chairperson has been appointed)	√		
6	Mwalimu Nyerere University of Agriculture and Technology	√		
7	Institute of Finance Management (IFM)	√		
8	Tanzania Fisheries Research Institute (TAFIRI)	√	√	
9	CARMARTEC	√		
10	National Institute of Productivity (NIP)	√	√	
11	Warehouse Receipt Regulatory Board	√		
12	Surface and Marine Transport Regulatory Authority (SUMATRA)	√		
13	National Construction Council (NCC)	√		
14	Cashewnut Board of Tanzania	√		
15	Tanzania Fertilizer Regulatory Authority	√	√	√
16	Marine Parks and Reserves Unit	√		
17	Tanzania Pyrethrum Board	√		
18	Tanzania Tourist Board	√		
19	Social Security Regulatory Authority	√		
20	National Museum of Tanzania	√		
21	Tanzania Diary Board (existed Board lack Board chairman)	√	√	√
22	Tanzania Small Holders Tea Development Agency (existed Board lack Board Chairman)	√	√	√

S/N	Details	2017/18	2016/17	2015/16
23	Geita Urban Water Sanitation Authority	√		
24	Tanzania Tobacco Board (TTB)	√	√	
25	National Sugar Institute	√		
26	Tanzania Industrial Research and Development Organizatio	√		
27	Copyright Society of Tanzania (COSOTA)		√	
	Total	26	8	4

6.3 Absence of Permanent Management of of Mkulazi Company

Mkulazi Holding Company has been operating under interim management since its establishment in September, 2016. Management is formed by appointed officials from the company shareholders (NSSF and PPF) of which all the positions in the organization structure are vacant to date. This necessitates the Board to meet regularly to make day to day decisions that should have been made by Management of the company.

Order No. D.24 (3) of the Standing Orders of 2009 provides that where possible, a public servant should not act in a vacant post for a period exceeding six months.

I consider that officers appointed in acting capacity lack the appropriate authoritative power needed in making decisions. Also, regular meetings between Management and the Board may limit separation of powers between the two as the Board's role is to oversee and supervise management activities.

I recommend that the appointing authority of the Company ensure that the process of appointing permanent management of the Company is completed without further delays.

6.4 Trustees Meetings not Held as per Trust Deed

Para 7.2 of the Trust Deed between TTCL Pesa Limited and TTCL PESA Trust Entity (Trustees) made on 1st July, 2017 requires the Trustees to hold meetings on quarterly basis.

However, to the contrary, I noted that the Trustees did not hold any meetings for the period from 1st July, 2017 to 30th June, 2018.

The failure to hold the scheduled meetings indicates that Trustees' approvals and attentions to the running of the business were not exercised as evidenced by the Trust bank accounts which were opened without the approval of the trustees.

I recommend that TTCL PESA ensure that Trustee meetings are held on quarterly basis to comply with the requirements of Trust Deed.

6.5 Significant Increase in Board Meeting Expenses

I noted that Ngorongoro Conservation Area Authority conducted a total of 20 Board meetings and 6 seminars at a total cost of TZS 1.1 billion as detailed in the Table 5 below:

Table 5: Board Meetings Expenses

SN	Description	Cost (TZS)
1	Per diem	799,906,220
2	Fuel/mileage allowance	81,225,678
3	Conference facilities	29,320,800
4	Food and refreshment	34,449,834
5	Accommodation	57,459,684
6	Other travelling costs	100,545,386
Total		**1,102,907,602**

I noted that Management team attended the Board of Directors' meetings, but such practice can reduce effectiveness of the Directors in exercising their oversight responsibilities.

I recommend that NCAA reduce costs of running Board meetings by remaining with necessary Board meetings, 4 meetings per annum and only senior management members should attend the meetings.

6.6 Inadequate Budget Monitoring and Controls

Paragraph C.7.2.3 of the University of Dodoma's Accounting Manual requires warrant and sub warrant holders to exercise reasonable care in implementing their budgets to utmost care so as to achieve the budgeted activity in the most efficient way.

During the review of budget and budgetary control, I found the following:

a) A module in the Vote Book which links budget and actual expenditure was not in use.

b) The budget allocated per Vote Book accounting system does not give details on specific line item that can be directly linked to the budgeted activities as per approved budget.

There was un-updated Vote Book which pose difficulties in utilization rate to link directly with implementation rate of the allocated activities.

Absence of updated Vote Book may lead to implementation of activities out of budget.

I recommend that University of Dodoma update its system so as to allow close monitoring and keeping track of the budgeted activities as per the approved budget.

CHAPTER SEVEN

STRATEGIC AND OPERATIONAL EFFICIENCY

7.1 Introduction

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

Operational Efficiency means the ratio between inputs to run a business and the outputs gained from the business. Operational Efficiency encompasses several strategies used to accomplish the basic goals of delivering quality goods or services to the general public in the most cost effective and timely manner.

My review of Strategic and Operational Efficiency included the following entities: Tanzania Insurance Regulatory Authority (TIRA), TTCL PESA Limited, Muhimbili National Hospital (MNH), Tanzania Bureau of Standards (TBS), Tanzania Telecommunication Corporation (TTCL), Tanzania National Parks (TANAPA), Institute of Accountancy Arusha (IAA) and Mkulazi Holding Company.

7.2 Tanzania Insurance Regulatory Authority (TIRA)

During my review of TIRA, I noted the following deficiencies:

7.2.1 Absence of Adequate Mechanisms to Ensure All Imports Are Insured Locally by Insurance Companies in Tanzania

Sect. 40 of Written Laws (Miscellaneous Amendments) Act no. 7 of 2017 as repealed Sect. 133 of Insurance Act 2009 requires that ground, marine and air cargo insurance covers for Tanzanian imports to be effected by a Tanzanian Insurer, that is, all imports must be insured locally by Tanzania Insurers.

This came into effect from 1st January, 2018 and TIRA is responsible for ensuring its compliance.

In ensuring compliance with these requirements, TIRA as a regulator of Insurance Industry coordinated the development and use of Tanzania Imports Insurance Portal (TIIP), a system that provides platform for all importers all over the world to access information regarding Tanzania insurers for their imports.

However, while TIIP provides the platform for easy compliance it is not a tool to ensure full compliance. There are no established controls and mechanisms ensuring that all imports are insured locally. There is still room for importers to escape from insuring their imports locally and hence, the benefits on financial inclusiveness and growth of insurance industry may not be fully attained.

I recommend that TIRA bring on board other stakeholders such as Tanzania Revenue Authority (TRA), Tanzania Shipping Agencies Corporation (TASAC), Tanzania Ports Authority (TPA), Tanzania Bureau of Standards (TBS) and other Government Bodies which have various responsibilities on imported goods in order to have a mechanism and joint efforts to strengthen controls and ensure all imports are insured by Tanzania Insurers.

7.2.2 Inadequate Resource Allocation and Utilization to Undertake TIRA's Core Functions

I noted low level of combating activities, awareness programs, research activities and absence of adequate focus on non-mandatory insurance policies. Also, inspection was conducted on the activities of only a few insurance companies and on a sample basis, based on perceived risk level of insurers to be inspected. This observation has been recurring and no efforts have been instituted to ensure rectification.

TIRA explained that they have inadequate financial and human resources to perform the referred activities. However, I noted that TIRA's budget has been increasing from year to year, but the funds allocated to core functions remained the same or with slight decrease while budget for other activities has been increasing. As a result, activities under core functions to be undertaken by zonal offices remained low with limited coverage, implying inadequate planning and resource allocation to expand and intensify implementation of TIRA's core activities.

I recommend that TIRA review its resource allocation and utilization strategy to ensure adequate funds and staff are allocated to undertake core functions which will warrant effective regulation of the industry.

7.2.3 Absence of Clear Complaints Handling Process to Address Insurance Complaints

Effective complaints handling process provides an opportunity for an organization to receive feedback and take actions accordingly on the services it offers to its customers, staff members and other stakeholders. A proper guideline or procedures are necessary to guide receipt, processing and resolving the complaints.

Despite efforts in handling complaints from the public regarding dissatisfaction by insurers, brokers or agents, TIRA does not have a guideline for handling complaints, and as a result, there is no consistency in the ways that complaints are received, documented, dealt with, gives feedback, close and keep records.

Further, TIRA's management does not conduct monitoring on complaints handling process. Also, TIRA has not clearly defined what complaints are to be handled by zonal offices level, HQ and which ones are to be forwarded to Ombudsman. There is no analysis of complaints that would facilitate TIRA to take specific actions, something which hinders the efforts to improve insurance services to the public particularly to consumers of insurance policies.

To effectively improve the provision of insurance services to the public and foster the sector, I therefore recommend that TIRA develop a complaints' handling guidelines that will ensure systematic collection, registration and handling of complaints.

7.2.4 Inadequate Monitoring of Combating Activities in Zones and Zanzibar Offices

Paragraph 7.1 of the Corporate Strategic Plan requires Heads of Directorates, Units and Zonal Offices of TIRA to prepare and submit quarterly reports on the implementation of the Plan to the Deputy Commissioner of Insurance within a month after end of a quarter.

During the review of the implementation reports from Zonal Offices on implementation of core activities including combating insurance crime, market sensitization and licensing, among other things, I noted significant non-compliance with insurance cover requirements ranging between 10% and 40% including presence of fake stickers, unregistered insurance covers in TIRA Management Information System and presence of motor vehicles with no insurance cover. For instance, for the quarter ended 30th June, 2018 in Musoma 47 (38%) out of 124 Motor vehicles inspected had no valid insurance; in Kibondo District 35 (24%) out 148 Motor vehicles inspected had no valid insurance while in Kasulu District, 135 (47%) out of 288 Motor vehicles inspected had no valid insurance. There were no activities reported to combat insurance crimes in Morogoro, Lindi, Mtwara, Katavi, Rukwa, Tabora and Singida, hence the magnitude of the problem could not be ascertained in these regions.

I am concerned that if no activities are undertaken to combat insurance crime while there was more than 15% non-compliance level, TIRA's efforts to implement the Corporate Strategic Plan may not be successful.

In addition, low coverage of combating activities provide chance for defaulters to persist with unlawful acts, especially in regions and districts where combating activities are not done.

I recommend that TIRA assess the magnitude of the problems resulting from inadequate combating activities and enhance plans to increase compliance by ensuring wide coverage of combating insurance crimes, including allocation of more resources in that area.

7.3 TTCL Pesa Limited

TTCL Pesa Limited was established as a subsidiary company of Tanzania Telecommunication Corporation (TTCL) on 6th July, 2017, following licensing requirements under Reg. 12 of Payment System (Electronic Money) Regulations (2015), which requires payment system providers who are Non-Bank or Non-Financial Institutions to establish a separate legal entity for issuance of electronic money.

The objectives of TTCL Pesa Limited are to carry out the business of Mobile Commerce-Electronic Money Issuance for TTCL Corporation and the shareholding structure is between TTCL 99% and Treasury Registrar 1%.

During my review I noted the following:

7.3.1 Deficiencies in Adoption and Implementation of Service Level Agreement

On 10th April, 2017, in its 59th special meeting, TTCL Board of Directors directed TTCL Pesa to enter into a Service Level Agreement (SLA) with TTCL Corporation for outsourcing some of its activities. The SLA would define scope of support services, provides Key Performance Indicators, as well as set the period for the support and other relevant matters to be executed. However, the SLA was not made until 25th October, 2018 which was 19 months later. In that regard, TTCL Pesa continued to receive support services from TTCL Corporation without any valid agreement.

Further, according to Part 3.1.1 of the signed Service Level Agreement which is valid for three (3) years from the commencement date on 25th October, 2018, the parties agreed that service Provider (TTCL) should provide the services to the customer (TTCL Pesa) in accordance with the guidance and general policy of the customer. However, I noted that there is no any guidance and general policy of the customer for the services provided by the TTCL Corporation to TTCL Pesa.

Also, according to Appendix IV (ii) of the Service Level Agreement (SLA), mobile money platform should be owned and controlled by TTCL Corporation and TTCL Pesa will use the platform to generate its revenues. TTCL Pesa will be required to pay a transaction fee to TTCL Corporation on lease of the mobile money platform owned by TTCL Corporation. The transaction fee to be charged will be equivalent to number of business transactions where below 10,000 transactions, the rate of TZS 30 per transaction will apply and above 10,000 transactions, the rate of TZS 20 per transactions will be applied.

However, I noted that SLA does not specifically state appropriate time to charge the fee. In that regard, the fee cannot be accurately charged since the amount of fees to be paid will differ depending on timing of charging.

I recommend that TTCL Pesa Limited implement the Board's directives on time. Further, the gaps noted in the Service Level should be rectified.

7.3.2 Review of the Company's Strategic Plan

TTCL Pesa Limited has a comprehensive Strategic Plan which was submitted to Bank of Tanzania as part of the requirements for the application of electronic money issuer license. However, the Strategic Business Plan generally focuses on

TTCL Corporation with only few items covering TTCL PESA Limited and in that regard, it is irrelevant to TTCL Pesa Limited as an intended separate entity.

I recommend that TTCL Pesa Limited initiate and develop plans to review the available Strategic Business Plan that will mainly focus on TTCL Pesa Limited as an intended entity and ensure that it is approved by the Board of Directors of TTCL Pesa Limited.

7.3.3 Pricing Policy Not Maintained by the Entity

Reg. 13 (t) of the Payment Systems (Electronic Money) Regulations, 2015 requires applicants of licences to have pricing policies that include the variables used to arrive at a price and the nature of and amount of charges or fees imposed to customers.

My review of TTCL Pesa Limited established that the Company does not have such pricing policies with price variables. Management explained that the tariffs are based on market rates.

In absence of the pricing policy, variables to be used to arrive at prices are not known and the basis for future review of tariffs becomes difficult.

I recommend TTCL Pesa Limited develop, implement and maintain a formal pricing policy that include the variables used in arriving at prices and the nature and amount of charges or fees to be imposed to customers.

7.3.4 Absence of Lease Agreement for Mobile Money Platform

TTCL Corporation as a payment system provider owns a mobile money platform which is used by TTCL Pesa Limited to issue electronic money. Appendix IV (ii) of the Service Level Agreement (SLA) of 25th October, 2018, between TTCL Corporation and TTCL Pesa Limited, provides that the Mobile money platform will be owned and controlled by TTCL

Corporation and TTCL Pesa will use the platform to generate its revenues and it will pay transaction fees to TTCL Corporation on lease of the platform.

The two companies describing rights and obligations of each part as well as the terms and conditions governing the platform.

Since the two are separate business entities, absence of lease agreement may lead to misunderstanding between them especially when special circumstances are involved, such as payment on the usage of platform, tenure of leasing the platform, renew of the lease period and support services pertaining to mobile money platform, or other areas of concern. I therefore recommend that TTCL Corporation and TTCL Pesa enter into a lease agreement on how Mobile Money Platform should be used.

7.3.5 Non-Preparation of Budget for TTCL PESA Limited Operations

In my review, I noted that TTCL Pesa Limited does not prepare its own budget which could serve as the base for resources allocation and financial control tool. In absence of budget, there will be no clear basis for allocating and controlling the Company's financial resources. I thus recommend TTCL Pesa Limited quantify its annual operational activities into monetary expression.

7.3.6 Loss Experienced in the First Year of Operation

According to its Business Plan, TTCL Pesa Limited projected a gross loss of TZS 28 million for the first year of operation, with estimated operating revenue of TZS 937 million.

However, during the evaluation of actual performance of the Company against its projections, I noted that the Company suffered an actual operating loss of TZS 368.8 million, the actual operating revenue being only TZS 85.2 million.

Although TTCL Pesa Limited managed to meet its operational expenditure through the support of the parent company, in order to keep at all the time the minimum capital requirement of TZS 500 million as required by Reg. 14 (1) of the Payment Systems (Electronic Money) Regulations, 2015, TZS 425.4 incurred by the parent company on behalf of the Subsidiary Company was converted from the debt to equity in a form of share allotment.

Had the conversion of debt to equity not taken place, the minimum capital requirement would be depleted and jeopardize the going concern of the subsidiary.

The trend of performance for the first year compared to projections gives an alert that if measures are not taken, there is a high possibility that the company would not continue as a going concern in the future.

7.4 Muhimbili National Hospital (MNH)

7.4.1 Failure of Radiology Department to Fully Utilize Jeeva

Jeeva Application was acquired by Muhimbili National Hospital (MNH) in 2005 to improve effectiveness in managing business process and maintenance of medical records. Due to high stationery cost, some departments were supposed to operate paperless by fully utilizing functionalities available in application to provide services.

Jeeva has an option of entering clinical notes, however, I noted that doctors do not fill the notes as a result the Radiology Department still resorts to paper based clinical notes, despite being trained on how to use the system.

I recommend that MNH ensure the application is being fully utilized by all intended user departments.

7.4.2 Inadequate Controls over Meals given to inpatients and interns

Sect. 21.1 (ii) of the Hospital's Financial Regulations states that, raising and recording entries, reconciliation and evaluation of activities should be performed by different people in order to have a self-checking system.

However, I noted lack of segregation of duties in management of contract for food provision to inpatients and intern doctors, where only one person is responsible for verifying the quantity of food supplied and approving the bills raised.

Control over catering cost may be difficult due to absence of segregation of duties in verifying the meals and approving the bills. I thus recommend MNH to strengthen control by exercising effective internal check system.

7.4.3 Significant Increase of Provision for Bad Loans

Sect. 6.2.1(ii) and (iii) of the Hospital's Financial Regulations provides that Swift and effective action will be taken to collect overdue debts in accordance with the procedures stipulated in Hospital Credit Policy.

Despite the efforts and strong measures by MNH to collect debts from different customers, I noted an increase in bad debts to TZS 1.44 billion during the financial year ended 30th June, 2018 from TZS 941.32 million in previous year. The bad debts increased significantly mainly due to dealing with government institutions which do not insure their staff with health insurance companies.

I recommend that MNH National Hospital institute measures that will encourage government institutions to join with various available health insurance schemes.

7.5 Review of Tanzania Bureau of Standards (TBS)

My review of strategic and operational efficiency of TBS noted the following anomalies:

7.5.1 Issuance of License for Use of Bureau's Mark to Failed Products

Sect. 4 (e) of the Standard Act, 2009 requires the Bureau to grant, renew, suspend, vary or cancel any license issued for the use of any standard mark. Regarding grant of license to use Bureau's standard mark, Para 4.2.6 of Product Certification Procedure Manual of 2017 requires that, the decision to grant or non-granting TBS License and or Test Product Certificate to the client is to be based on clean laboratory test report(s) and initial factory evaluation report as well as administrative requirements.

However, I noted that 2 licenses were issued by TBS to clients whose products' tests failed as revealed in the test reports of the samples tested. Table 6 below lists the licenses and the clients:

Table 6: Licenses Issued to Failed Products

SN	Client	Product	License number	Reference
1.	Goodwill	Ceramic Tiles	L. 1868	Refer QCA 6943
2.	Anxifa Limited	Pre-printed steel sheets	L. 1858	Refer - QCA 6379 - QCA 6380 - QCA 6381

I also noted that some licenses were issued even to clients whose initial factory evaluation failed. There was no evidence whether the failed products were re-tested as required by Para 4.2.5.7 of the Product Certification Procedure Manual.

This anomaly highlights the lack of proper controls in managing the license issuance process. Further, there is no mechanism to ensure compliance with procedures before issuing the licenses.

I recommend that TBS investigate and take appropriate actions on licenses issued to clients whose products tests and initial factory evaluation report failed and ensure procedures for issuance of licenses are complied with without exception.

7.5.2 Acceptance and Processing Applications for Restricted Substandard Products

Sect. 4(g) of the Standard Act 2009 requires TBS to prepare, frame, modify or amend National Standards. In response to that, the Bureau developed several standards including standard number TZS 1476:2012 for Hot-Dip Aluminum-Zinc Coated plain, corrugated and troughed steel sheets – Specification. Clause 4.7 of the standard states that the minimum thickness required for making troughed sheets should be gauge 28.

However, I noted that TBS received applications for license to produce pre-printed steel sheets (IT4 & IT5) gauge 30 and conducted tests. It was not clear as to why TBS receives and processes applications for restricted producing products which do not meet the requirements of a standard and carries out tests for them. The following are the samples of the noted Restricted Products:

Table 7: Accepted and Processed Applications for Restricted Products

Sn	Client
1	Anxifa Limited
2	Quansheng International Trading ltd
3	MM Intergrated Steel Mills ltd

Processing applications and testing of restricted products is an indication of misusing TBS marks to substandard goods.

I recommend that TBS investigate the processed application and testing of the restricted products and take appropriate actions; and, process applications for licenses that only conform to the requirements of standards.

7.5.3 Lack of Proper Actions on Products That Fail Crucial Parameters

Sect. 4 (d) of the Standard Act, 2009 required TBS to approve, register and control the use of standard marks in accordance with the provisions of the Act. According to Para 4.2.7.1 of the Product Certification Procedure Manual, TBS is required to conduct routine surveillance inspection at least twice a year to clients holding valid license or tested product certificate.

Upon failure of the samples collected during routine surveillance inspection to meet requirements of the standards, manufacturer is notified and required to take corrective actions and respond to TBS accordingly. In case there is a failure of the samples for the crucial parameters, TBS informs the client to stop distributing the products to the market and instruct the, manufacturer to carry out corrective actions and inform TBS for verification of the same within thirty (30) days.

For the certified products of the same failure already distributed to the market, the manufacturer is instructed to re-call them for disposal whenever appropriate. Also, the client informs the public on action taken regarding the product in question accordingly and TBS verifies the same.

I noted items which failed on crucial parameters during the surveillance and there were no actions taken by TBS. Also, there were items which failed crucial parameters and were already distributed to the market and no actions were taken by the Bureau.

Further, I noted incidents where TBS records show stopped manufacturers (Smoke House and Ando Products ltd Mwanza) but their products were still found in the market.

TBS explained that it is not an easy task to control everything that happens in the market due to limited number of resources in terms of staff, equipment and facilities.

Routine Surveillance inspections conducted by the Bureau are not adequate to eliminate fully the existence of substandard products. The risk that the public consumes substandard products is also not adequately mitigated.

I recommend that TBS immediately follow the requirements of the Product Certification Procedure Manual when it identifies products that fail crucial parameters. Further, TBS should obtain adequate resources which will ensure efficiency in executing its mandates.

7.5.4 No Actions Taken for Substandard Products Under Conditional Release

Reg. 10 (1) of the Standards (Compulsory Batch Certification of Imports) Regulations, 2009, allow conditional release of imported products under certain circumstances while Reg. 10(2) of the same Regulations forbid the above released products to be distributed, sold, used or transferred either in part or in whole to any person or any place other than the address specified in the Conditional Release Certificate. In case of failure of shipment under conditional release, the shipment is required to either be re–exported or destroyed as per clause 5.1.10 of Destination Inspection - Imports Procedure Manual of 2017.

However, I noted several imports under conditional release that failed crucial parameters but there was no evidence of the actions taken apart from issuing warning letters to the Importers. Delays in issuing test results and communicating to clients for items under conditional release encourages non-compliance with the requirements of Reg. 10 (2) above.

In this case, there is a high risk of substandard products to penetrate to the public as a result of loopholes in managing shipments under condition releases.

I recommend that TBS develop and implement follow up, monitoring and control mechanisms of shipments under conditional release; take appropriate actions on shipments which fail crucial parameters testing; set tolerable limit of failures recurrences by same importer's shipments, after which further actions should be taken for failures beyond the tolerable limit set and ensure test reports for shipments under conditional release are issued and communicated to clients in a timely manner.

7.5.5 Release of Expired Food Products and With Remaining Short Shelf Life

Sect. 4(1)(a) of the Standard Act (2009) requires TBS to undertake measures for quality control of commodities, services and environment of all descriptions and to promote standardization in industry and trade. This is done through inspection and testing of the shipments.

I noted incidents where TBS picked samples and tested food items which had already expired or would expire in few days or months later as per their manufacture's details. Some samples did not even indicate the expiry date. However, the test reports showed that the samples passed and hence, the respective food items were released to importers for public consumption.

There is a risk of some expired foods products being consumed which may endanger public health.

I recommend that TBS ensure that expired goods are not allowed in for consumption and investigate on how expired food products passed the tests and released to the public and take appropriate actions.

7.5.6 Substandard Products allowed for Export with 'TBS' Quality Mark

Sect. 4 (1) (a) of the Standard Act, 2009 requires TBS to undertake measures for quality control of commodities, services and environment of all descriptions and to promote standardization in industry and trade. This is done through conducting surveillance inspection to the market and to local manufacturers and clause 4.2.7.2 of the Product Certification Procedure Manual of 2017 requires TBS to take appropriate actions for products and manufacturers that do not conform to the standards.

I noted an incident where TBS did not take any action against products of one manufacturer of tiles (Goodwill Tanzania Ceramic Co. Ltd) whose products fail crucial parameters for every test conducted during surveillance inspection. These products are exported to other countries and hence intrinsically carry sample image of Tanzania products in the international market. In September 2017 and May 2018, the products were found to be sub-standards when exported to a neighboring country and the manufacturer was issued with a warning letter. The product failed again in June 2018 and they were rejected for neighboring country market. Thirty (30) trucks out of 31 packed with the rejected products were seized but during inspection by TBS, they were not found with TBS seal and they were in different locations. While one (1) truck disappeared and its whereabouts is not known to date.

The noted anomaly is attributed to TBS's tendency of issuing licenses to manufacturers who fail initial factory evaluation and to laxity in taking actions against manufacturers whose products fail crucial parameters testing during market surveillance inspection. This tendency may lead to low market for Tanzanian products in the International market.

I recommend that TBS strengthen controls on standards of locally produced commodities that are intended for exportation in order to promote credibility and reputation of Tanzanian products in the International Markets. Further, TBS should investigate the noted anomaly and take appropriate actions.

7.5.7 Deficiencies noted in Pre-Shipment Verification of Conformity (PVoC)

(i) Motor Vehicle Inspection Fees Overcharged at An Average of USD 166

According to clause 20 of Specific Conditions of the PVoC agreements between TBS and four (4) PVoC service providers for used motor vehicles which is valid for the period from March 2018 to February 2021, inspection fee is charged at the rate of USD 150 per vehicle (USD 140; March 2015 to February 2018) whereby 30% of this amount is remitted to the Bureau.

During the review of used vehicle exporters business practices for five (5) companies named SBT Japanese Vehicle, Beforward, Autorec Japan, Tradecarview, and Real Motors Japan I revealed that, upon request for proforma invoices (one from each company) for used motor vehicles made between 05 November 2018 and 15 December 2018, inspection fee was charged between USD 300 and USD 380, in an average of USD 316 per vehicle, which is above the approved inspection rate of USD 150, by an average of USD 166.

According to TBS monthly pre-verification of conformity reports from PVoC agents, a total of 57,031 used vehicles were inspected in Japan (intended to be exported to Tanzania) between 1st January, 2017 and 30th September, 2018, thus, a total of inspection fees of USD 9.47 million (TZS 20.92 billion) were overcharged to Tanzanian individuals and entities.

Used motor vehicle dealers are currently unregulated and unregistered, which is against the whole process of safeguarding consumers' interest.

I recommend that TBS initiate awareness campaign to educate the public on the amount to be charged for motor vehicle inspection by vehicle dealers.

I also recommend that the Bureau develop a guideline which should be adopted by all used vehicle dealers on the importance of ensuring their operations follows Tanzania laws and regulations; also, TBS should ensure that all used vehicle dealers operating in the country are registered by the Bureau and their operations are monitored for adherence to road worthiness standards on all vehicles sold by their companies. Further, strict rules including penalty charges, periodical blacklisting and total ban should be introduced depending on the level of misconduct by the dealers if noticed.

(ii) Standard Operating Procedures (SOP) for PVoC contracts not yet prepared

TBS entered into separate contracts with EAA, QISJ, Auto Terminal Japan Ltd, Jabal Kilimanjaro Auto Elect. Mechanical and National Institute of Transportation (NIT) for provision of pre-shipment verification of conformity to standards (PVoC) services for used motor vehicles from 1st March, 2018 to 28th February, 2021.

My review of implementation of terms and conditions of the PVoC's contracts revealed that the Standard Operating Procedures aimed at achieving efficiency, quality output and uniformity of performance, while reducing miscommunication and failure to comply with contractual terms for smooth implementation of the contracts were yet to be prepared, shared and adopted by the service providers.

I recommend that TBS develop and share with service providers the Standard Operating Procedures (SOPs) which will provide in detail all steps necessary to be carried out during inspections.

(iii) Absence of Customers Online Verification Portal

Para 2.2.2 (i) of the PVoC Contract between TBS and Service Providers requires the Certificate of Conformity (CoC), inspection report and vehicle photos to be shared through an online website database so that TBS officers can access it during verification.

I noted that, online verification portal has only been made available to TBS and not to the general public despite the importance of such information to buyers as under current situation; vehicles already inspected and passed can easily be altered.

I recommend that TBS develop the online verification portal and make it accessible to the general public to reduce possibilities of post-inspection tampering.

(iv) Due Diligence to Bidders of PVoC not Performed

Regulation 373(1)-(2) of the Public Procurement Regulations, 2013 require a contracting authority to conduct due diligence on a private partner recommended to be awarded a contract by verification of qualifications and experience, contacting a list of references provided, ensuring that any litigation or controversy associated with the private party and its individual team members does not affect the ability to execute the contract, and confirming the available working capital through the provided bank and surety references.

My review of PVoC tendering procedures aimed at obtaining qualified service providers revealed that, a total of six providers (excluding National Institute of Transport and China Certification and Inspection Company) were awarded tenders between October 2017 and February 2018 but there were no due diligences performed on the list of references provided by bidders, confirmations made to banks and surety references, and litigations filed to appropriate authorities.

Also, there was no evidence of communications made to registration authorities of respective countries where bidding companies originate. Further, I noted that there were no identified and documented due diligence process including procedures, key parameters, relevant checklists filed by each team conducting the due diligence process and conclusion made on each team on financial, technical, legal, registration and confirmations with third-party certification authorities.

I recommend that TBS ensure procurement processes are scheduled and documented for a comprehensive due diligence covering all aspects as required by Regulation 373(1)-(2) of the Public Procurement Regulations, 2013.

7.6 Tanzania Telecommunication Corporation (TTCL)

7.6.1 Absence of Control and Ownership of the National ICT Broadband Backbone (NICTBB)

During the review of management of NICTBB, I learned that TTCL bears all operational and management costs of NICTBB including salaries of staff members where the Ministry of Works, Transport and Communication maintains and controls the NICTBB's revenue account. Prices for NICTBB's products are also arranged and decided by the Ministry. According to Memorandum of Understanding between TTCL and Ministry of Work, Transport and Communication, TTCL has no power on revenues of NICTBB while the Ministry has no responsibility on operating expenses of NICTBB. TTCL is being reimbursed by Ministry at the end of the particular year.

This arrangement may lead to less commitment maintenance of the National Broad Band. It also creates a gap of ownership between the two entities as I noted that TTCL does not have any strategy for refurbishment of NICTBB after completion of its useful life.

I recommend that Management of TTCL settle and reconcile with the Government on full ownership of the NICTBB for proper management.

7.6.2 Non-reimbursement of NICTBB's Running Cost to TTCL TZS 20.63 Billion

According to Sect. 6(1)(a) and (e) of the Tanzania Telecommunications Corporation (TTCL), Act (2017), TTCL has the duty of operating and maintaining all types of telecommunications networks, such as the National ICT Broadband Backbone (NICTBB) including other ICT systems and services within and outside the United Republic of Tanzania.

In line with this Act, on 17th November, 2016, TTCL and Ministry of Works, Transport and Communication introduced a Memorandum of Understanding to guide the operations of the NICTBB whereby all operations costs are borne by TTCL while revenue is collected by the Ministry and then the costs are reimbursed at the year-end by the Ministry. Also, since NICTBB project has no TIN number, all VAT invoices from TRA are sent to TTCL.

From the review of the operation and management of the National ICT Broadband Backbone (NICTBB), I identified scope for improvement in the following areas:

(i) The MoU between TTCL and the Ministry established on 17th November 2016 was still in a draft form not ready to be signed and put in use as of December 2018 when I was finalizing my audit. In that regard, there was no legally binding agreement guiding operations of NICTBB. I recommend that the Ministry and TTCL finalize and sign the Memorandum of Understanding to have clarity on the responsibilities of each party on the running of NICTBB project, hence, reduce possibility of misunderstanding.

(ii) In southern ring NICTBB utilization is only about 15% of its full capacity while other rings have an average of 75% of utilization. The low utilization is mainly due to insufficient funds for marketing of NICTBB in the land locked countries and local customers. Overall NICTBB operates at less than 10% of its installed capacity and even lower in its design capacity, though, in 2016 the Government expanded its capacity from 40G to 200G in order to increase its efficiency. Since the Government incurred a total cost of TZS 250 billion in investment of NICTBB, underutilization of it may lead to loss to the Government. I recommend that the Ministry of Works, Transport and Communication together with TTCL establish policy and market strategies especially in southern ring in order to get more customers from land locked countries to increase its capacity usage.

(iii) A total of TZS 95.36 billion was paid by TTCL as operational costs of NICTBB from January 2010 until the year ended 30th June, 2018 and no any refund from the Ministry was made. But since TTCL is a customer of NICTBB on various products, there is outstanding balance of TZS 74.73 billion to be paid by TTCL to the Ministry. Therefore, if these two nets off the balances, the Ministry is required to refund TTCL only TZS 20.63 billion as analysed in Table 8 below:

Table 8: Non-Reimbursement NICTBB Charges

Description	Amount (TZS)
Co-location charges as at 1st July 2017	40,502,794,350
Management fees as at 1st July 2017	21,189,963,550
Office Rental Charges as at 1st July 2017	556,248,000
Operation and Maintenance costs as at 1st July 2017	4,799,548,824
VAT charges as at 1st July 2017	11,853,096,845
Insurance charges as at 1st July 2017	323,663,408
Total Amount as at 1st July 2017 (A)	**79,225,314,977**
Co-location charges as for the year ended 30th June 2018	10,792,652,701

Management fees for the year ended 30th June 2018	1,986,039,335
Office Rental Charges for the year ended 30th June 2018	106,614,278
Operation and Maintenance costs for the year ended 30th June 2018	753,998,903
VAT charges for the year ended 30th June 2018	2,492,741,417
Insurance charges for the year ended 30th June 2018	-
Total Amount for the year ended 30th June 2018 (B)	**16,132,046,635**
Total Amount NICTBB owes TTCL as at 30th June 2018 (A)+(B)	**95,357,361,612**
Amount of TTCL owes NICTBB in respect of Leased Capacity as at 30th June 2018	
Opening balance as at 1st July 2017 (C)	**70,322,009,467**
Total Invoiced raised during the year ended 30th June 2018	
Invoice Number 352/NICTBB/2017	1,185,945,004
Invoice Number 363/NICTBB/2017	124,280,292
Invoice Number 364/NICTBB/2017	1,185,945,004
Invoice Number 365/NICTBB/2017	1,185,945,004
Invoice Number 367/NICTBB/2017	36,465,392
Invoice Number 380/NICTBB/2018	98,233,567
Invoice Number 381/NICTBB/2018	571,540,199
Invoice Number 382/NICTBB/2018	10,418,667
Invoice Number 383/NICTBB/2018	10,418,667
Total Amount for the year ended 30th June 2018 (D)	**4,409,191,795**
Total Amount NICTBB owes TTCL as at 30th June 2018 (C) + (D)	**74,731,201,262**
Net-off plan	
Total Amount NICTBB owes TTCL as at 30th June 2018	95,357,361,612
Total Amount NICTBB owes TTCL as at 30th June 2018	74,731,201,262
Net Payment to TTCL	**20,626,160,350**

Source: TTCL financial statements from 2017/2018

I recommend that TTCL make a close follow-up with the Ministry and claim the net balance of TZS 20.63 billion after netting off their outstanding balances.

7.7 Tanzania National Parks (TANAPA)

7.7.1 More Efforts Required for Removal of Exotic Plants

During my audit, I reviewed the effects of invasive exotic plants in Arusha National Park and Lake Manyara National Park. The species destroyed ecology of these parks drastically, as detailed below:

(i) Arusha National Park (ANAPA)

About 143.5 hectares surveyed are infected with the invasive species in different areas including Old Ngongongare, Seneto, Kinandia, Mweka, Rest house, Rydon and Mareu. Among many invasive species, Caesalpinia Decapetala is the most noxious notable weed that is broadly spread in the park.

(ii) Lake Manyara National Park (LMNP)

At LMNP I observed Acalypha Fruticosa (scientific name) dominating a large area of the Park that threatens the existence of flora and fauna. I found that, there were no funds allocated to the Parks for removal of such species though TZS 12.49 million were received by LMNP from TANAPA Headquarters as special funds for fighting against it. At ANAPA, no activities had been carried out for eradicating the problem since there were no resources allocated or received for the same. The invasive species may lead to poor visibility of animals to tourists, hinder accessibility of rangers during patrol activities, prevents growth and/or kills indigenous plant species. I therefore recommend that ANAPA and LMNP in collaboration with TANAPA take initiatives to remove the alien species of plants in the parks.

7.7.2 Non-implementation of Agreed Measures on Mitigating Effects of Road Accidents

At Arusha National Park there is a road (Momella to Ngongongare) under the TANROAD which connects one side of the park (Mommella, Kisimiri, to the other). Records from tourism department indicate that a total of 10,353 different types of vehicles with 68,534 people crossed the Park for a period of 6 months from July to December, 2017 while a total of 6,530 vehicles with 29,909 patients and 5,361 vehicles with 23,585 patients crossed the Park to access medical services for the year 2015/2016 and 2016/2017 respectively. However, there were no any charges to the community for using the road while periodic maintenances of the road were financed by ANAPA.

For Mikumi National Park (MINAPA) there is a Tanzania-Zambia Highway Road which crosses through the Park. According to the ecology and protection reports as at 30th March, 2018, a total of 228 animals were killed out of which 216 (97%) were killed through road accidents. The number of animals killed through road accidents had increased by 41% compared to 2016/2017. As a penalty fees from animal killing, MINAPA expected to collect TZS 59.2 million instead, only TZS 1.1 million (2%) were collected.

This trend endangers the ecology and security of the Parks and also reduces the number of animals through road accidents.

I recommend that TANAPA strengthen road accidents monitoring measures and also seek for other stakeholders such as TANROAD for sharing road maintenance cost at ANAPA.

7.8 Institute of Accountancy Arusha (IAA)

7.8.1 Inadequate Academic Staff

Reg. 33 (1) a-g of the NACTE's Accreditation and Recognition Regulations of 2001 requires academic Institutions to have sufficiently qualified and experienced staff that are employed and assigned to teach appropriate course and maintain acceptable or average a teacher student ratio of 1:8.

During the year under review, I noted the following deficiencies in the staffing of the Arusha Institute of Accountancy:

a) There was under staffing of 88 academic staff members of different categories.

b) The current number of academic staff with PhDs is notably low (11.3% of all staff) compared with number of students and range of activities required to be performed by the Institute requiring that level of education.

This may lead to excessive workload to existing staff leading to inefficiency in teaching, research and consultancies services and possible impairment of the quality of these core activities of the Institute.

I recommend that IAA make urgent follow up on academic staff employment permit and prepare academic staff recruitment plan.

7.9 Mkulazi Holding Company Limited

Mkulazi Holding Company Limited (MHCL) is a Special Purpose Vehicle (SPV) established by PPF Pensions Fund (PPF) and the National Social Security Fund (NSSF) on 6th September, 2016 to construct and implement sugar factory with a capacity to blend out 200,000 tons of sugar cane per year at Mkulazi area in Morogoro Region.

In February 2017, the Company signed a Memorandum of Understanding with Tanzania Prison Services (TPS) for the development of Mbigiri Farm.

My review of feasibility study of Mkulazi noted the following weaknesses:

(i) On the use of Prison Corporation Sole (PCS) farm, no shareholding ratio was outlined among the participating partners (Mkulazi Holding Company and Tanzania Prison).

(ii) The total project cost will be USD 49.15 million to be finaced through debt/equity ratio of 70% and 30%

respectively but the report does not detail the debt such as prospective lender, interest rate, repayment period, debt collateral and how the loan will be financed.

(iii) The project has not taken into account stoppage time and break down as projected working capacity are overstated and unrealistic since it is highly unlikely that the factory will operate efficiently throughout without bottlenecks for the whole year.

(iv) Financing part is 70% and 30% debt/equity ratio, but the Statement of Cash Flow has not illustrated receipt and repayment of 70% debt loan to finance investment cost.

(v) The project NPV computation did not include interest cost which is 70% of the project investment cost. I am concerned that the exclusion of interest cost implies that the project might not be viable and generate required returns.

(vi) Also best practices on project viability determination should include making a comparison of the computed project viability indicators and parameters against the indicators and parameters of a similar operational project. This was not performed for this project.

I recommend that Mkulazi Holding Company include a detailed analysis on how the discount rate is derived with the respective assumptions since the project finance involves debt equity ratio of 70:30, take note of the cited weaknesses and rewrite the feasibility study.

7.10 Air Tanzania Company Limited (ATCL)

Air Tanzania Company Limited (ATCL) has been operating at loss for the past 10 years consecutively from financial year 2006/7 to 2016/17 which has eroded shareholders' equity to negative balance. In the recent three years I started to note some improvement in its operations as net operating loss has decreased from TZS 38.72 billion in 2015/2016 to TZS 16.21 billion in 2016/2017, a decrease of TZS 22.51 billion equivalent to 58%. The decrease in loss is mainly attributed to the increase in total revenue from 2015/16 by 20% and decrease in total cost by 27%.

The Company has developed a five-year Corporate Strategic Plan (CSP) as a road map on implementation of its strategic objectives starting from 2017/2018. The plan includes strategies for maximization of revenue and cost containment measures to decrease losses and eliminate them in the foreseeable future. In line with its improvement, the Company is also making some reforms in its structure, internal operations and staffing to accommodate the needs of its rapid expansion.

The ongoing improvement in human capital, increase in number of flights, implementation of CSP through annual business plan and cost minimization provides a promising environment for company's growth. However, to fast track the operating efficiency and improvement, the Government financial support is vital to facilitate the company in settling the previous years' obligations which materially increases the operating cost through interest charges.

I therefore recommend that ATCL continue to focus on improving profitability and liquidity by increasing revenues and maintaining costs at reasonable level through instituting cost minimisation techniques, strengthening service delivery to customers and optimization of the available flight. I also recommend that the Government provide financial support to the Company to facilitate payment of previous years' obligations to relief from interest charges which accounts for significant portion of total cost.

CHAPTER EIGHT

MANAGEMENT OF EXPENDITURE BY PUBLIC ENTITIES

8.1 Introduction

From the evaluation of internal controls on management of expenditure I noted that Public Entities continued to incur ineligible and/or fruitless expenditures. Further, Public Entities had not improved the internal controls where some expenditure lacks proper authorization and approvals for payments of staff allowances which are not in guidelines, approved by Boards of Directors or contradicting with Treasury Registrar (TR) guidelines. The overspending beyond approved budgets increases debts to these Entities. I have also noted that large part of expenditures was incurred outside the core functions of the respective entities.

This chapter highlights the matters noted and recommendations issued to the following entities regarding expenditure management:

8.2 Review of Effectiveness of the Controls Over Expenditure

8.2.1 Reported Suspected Fraud at TFDA - Northern Zone Office

Public Entities expenditures are guided by laws, regulations, guidelines and policies developed by the Government and respective entities. All of these aim at safeguarding utilization of the public resources to active economic benefit of the resources spent.

Despite initiatives of strengthening controls in public entities, I noted an incident of suspected fraud at Tanzania Food and Drugs Authority (TFDA) Zonal Office. The suspected fraud was detected during an investigation conducted by TFDA Internal Audit Unit.

At TFDA Northern Zone Office I noted that, TZS 703 million were misappropriated by unscrupulous staff.

On reviewing the internal audit report, I noted misappropriation of funds due to weaknesses in controls. These included presence of forged bank payments of TZS 513.36 million in financial year 2017/2018 and TZS 703.01 million for the months of July, August and September 2018; and Transfer of funds of TZS 423.81 million which were not in bank statement.

The report also showed other control weaknesses like, presence of payments not supported by payment vouchers; bank reconciliation statements not signed by accountant and zone manager; lack of schedule for uncredited and unpresented checks and presence of unbalanced bank reconciliations.

Despite the disciplinary measures already taken and other ongoing investigations, I am concerned that the controls instituted are ineffective as they could not detect and prevent the incident before it occurred. This indicates that there might be fraudulent acts which go undetected.

I recommend that TFDA review on a regular basis, both preventive and detective controls for the purposes of safeguarding the public resources by minimizing risk of losses caused by misappropriation of funds and other resources.

8.2.2 Ineligible Expenditure Incurred Due to Interest on Delayed Compensation TZS 32.25 billion

Valuation and compensation are conducted according to Sect. 3 (1) (g) of The Land Act of 1999. The Land Acts provides that the payment of compensation should be fair, full and prompt. According to Regulation 13(2) of Land Regulations of 2001 and Regulation 19(1)-(3) of Village Land Regulations of 2001 compensations should be paid within six months after valuation, after that, interest is charged at the rate prevailing in the market at that time.

Export Processing Zones Authority (EPZA) acquired land at Kurasini Trade and Logistic Centre, earmarked Bagamoyo Special Economic Zone, Tanga, Ruvuma and Manyoni Special Economic Zones. EPZA recognized the land acquired in its books after approval of the valuation by the Chief Government Valuer. The EPZA records showed total accrued interest accumulated over 8 years to be TZS 31.02 billion equivalent to 46% of the original valuation TZS 67.24 billion.

In another similar case, I noted that valuation of land and properties at Kurasini residence was conducted in March 2015 following the order given by the Ministry of Land, Housing and Human Settlement in August 2013. Compensation was done by Dar es Salaam Water and Sewerage Authority (DAWASA) as the land was acquired for the purpose of establishing waste water ponds. The actual valuation was TZS 7.38 billion in 2015, which had increased to TZS 8.60 billion in 2017. The increase of TZS 1.23 billion was the compounded interest for two years as the result of delays in payment of the compensations.

I recommend that the Government and Public Entities acquire land based on availability of compensation funds to avoid unnecessary increase in cost of the acquired land.

8.2.3 Allowances Paid Contrary to Treasury Registrar Circulars TZS 1.88 Billion

Treasury Registrar Circular No. 1 of 2010 dated 22nd July, 2010 with reference number TYC/T/200/583/18, requires housing allowances to be for entitled staff such as Chief Executives, Directors, Heads of Units and leaders with salary scales of PUTS/PHTS/PGMS/PRSS 18-21.

Tanzania Bureau of Standards (TBS) had incurred a total of TZS 1.6 billion as staff housing allowance. However, I noted that, the amount was paid to un-entitled staff including employees under contract terms and trainees contrary to the requirements of the Treasury Circular and TBS guidelines on housing allowances.

Dar es Salaam Water and Sewerage Authority (DAWASA) had paid TZS 276.23 million as housing allowance being 15% of the basic salary to all staff regardless of the positions contrary to the Treasury Circular.

Despite TBS explanations that the allowances paid were approved by the Board during the 134th Board of Directors meeting held on 13th May, 2017 and thereafter by the Office of the Treasury Registrar, I still consider this to be in contradiction with the above circular.

I recommend the Treasury Registrar ensure that Government circulars in force are adhered to and if specific needs arise for some entities, provide clear guidance on those particular needs.

8.2.4 Absence of Guidelines on Allowances Paid to Employees in Public Authorities

Together with the presence of Treasury Registrar Circular No. 1 of 2010 dated 22 July 2010 with reference number TYC/T/200/583/18, every public entity has its laws, regulations and policies to guide allowances to its employees.

I noted cases where allowances were paid without proper guidelines or contrary to the guidelines. In DAWASA, while the Board of Directors approved fringe benefits (Car, Mileage, Medical and Housing allowance) not to exceed 40% of the basic salary, the Authority paid fringe benefit at 45% of the basic salary which is above the approved rate of 40%. The National Sugar Institute (NSI) paid TZS 22 million as extra module allowances to tutors of agricultural courses. However, the institute had not developed guidelines showing the rates to be used for such allowances.

I consider lack of clear guidelines for allowances creates loopholes in the public expenditure controls. As such, every entity becomes free to choose the rate at which allowances can be paid. This might lead to public entities spending more in non-core activities.

I recommend that the Treasury Registrar explore all fringe benefits paid in different public entities and develop guidelines that will assist the entities in paying them.

8.2.5 Increasing Staff Liabilities in High Learning Institutions

Every university/institute has its own regulations/policies guiding entitlements of allowances like fringe benefits and gratuities. The Regulations, among other things, provide guidance on payment of gratuities for staff working on contractual basis upon satisfactory completion of the contract. During the review of operations of five public higher learning institutions, I noted that staff liabilities remain high or have been increasing over time. These liabilities are mainly due to staff entitlements such as gratuities and responsibility allowances. From 2016/2017 to 2017/2018 such liabilities increased by more than 40% across the reviewed universities.

For example, from 2016/2017 to 2017/2018 liabilities relating to responsibility allowances for Mzumbe and Ardhi Universities increased to TZS 3.41 billion and TZS 2.26 billion, from TZS 1.49 billion and TZS 1.48 billion respectively. Also, the University of Dar es salaam and Mzumbe University had unpaid gratuities amounting to TZS 4.83 billion and TZS 525 million for staff who had successfully completed their service contracts. Sokoine University of Agriculture (SUA) had TZS 6.78 billion as staff liabilities outstanding since June 2017 consisting of house allowances and other staff accrued payables. Institute of Accountancy Arusha (IAA) which had also TZS 519 million outstanding staff liabilities recorded a decrease of only TZS 6 million (2016/2017: TZS 525 million).

Staff claims when not paid on time may demotivate members of staff. Gratuity serves as end of service entitlement to staff members who have completed their service contracts, so it is crucial that the payment is made on time.

While acknowledging the Government's efforts to verify all staff claims before they are paid, I urge the Government to consider the time taken in verification process. The longer the time taken in verification, the more the claims continue to pile up and thus increase the burden to the Government.

I recommend that the Government expedite the verification process and plan to settle the liabilities.

8.2.6 Accumulated Land Rent Not Paid and Recorded TZS 112.96 Million

Regional Vocational Training and Service Centre (RVTC) in Mwanza branch owns two plots of land, plot No.3 located at Nyakato with title deed No. 13220 of 6th November, 2000 with 7.24 acres and Plot No. 4 with title deed No.13221 of 6th November, 2000 with an area of 9.45 acres both located at Nyakato Industrial area in Mwanza. I noted that RVTC Mwanza has not been paying land rent since 2000 resulting in accumulation of liability of TZS 112.96 million to Mwanza Municipal Council.

I recommend that RVTC Mwanza liaise with Mwanza Municipal Council on the correct outstanding balance of land rent for settlement and proper record in their books of account.

CHAPTER NINE

REVIEW OF INVESTMENTS IN PUBLIC ENTITIES

9.1 Introduction

Tanzania Development Vision 2025 envisions to guide Tanzania from a low productivity agricultural economy to a semi-industrialized one led by modernized and highly productive agricultural activities, which are integrated with industrial production and services in both rural and urban areas.

As a process to reach the target of becoming a middle-income country by the year 2025, Tanzania has developed a Five-Year Development Plan (FYDP II) of 2016/17- 2020/21 which provides a comprehensive roadmap emphasizing on the use of Special Economic Zones (SEZs), One-Stop Centres and Trade Fairs where the impact of promoting investment and trade are fully realized.

In that regard, Public Entities such as Tanzania Trade Development Authority (TANTRADE), Tanzania Investment Centre (TIC) and Export Processing Zone Authority (EPZA) were given a leading role to promote, facilitate and coordinate both the trade and investment in Tanzania to support the investment and industrialization agenda.

Apart from the mentioned entities, other Public Entities also undertake various investments with the aim of supporting industrialization or future benefits in relation to returns from the investment. For investment activities relating to Social Security Funds and Governments Owned Banks, their matters have been discussed in detail in chapters 10 and 11 respectively.

Therefore, this chapter highlights the matters noted and recommendations related to investment by Public Entities which have a role to stimulate the economy through promoting investments and those which perform investment activities, except for Social Security Funds and Government Owned Banks.

9.2 Operational Review of Public Entities Charged with the Role of Promoting, Facilitating and Coordinating Investments and Trade

9.2.1 Tanzania Investment Centre (TIC)

During my audit I noted the following inefficiencies in the operations of the Tanzania Investment Centre (TIC):

(i) Absence of Operational Manual for Zonal Offices

TIC has managed to establish seven zones countrywide. The zonal offices are required to serve investors in an efficient and effective manner and also serve as a coordination base with Headquarters. TIC had a total of 9,698 investment projects with total capital investments of USD 187.42 million that are supervised by zonal offices (Eastern, Southern, Western, Southern highland, Northern, Lake and Central) as at the year ended June 2018.

However, I noted absence of approved operational manual that enshrines the boundary of zone offices and guides the zone managers on their functions and how to operate in their areas of vicinity. For example, I noted operational activities carried out by zonal offices differ from one zone to another.

Lack of a harmonized guideline or operational manual for zone offices may lead to un-streamlined working fashion which may be difficult for reporting of the harmonized achievements reached by zone offices.

I recommend that TIC develop guideline or the operational manual to guide zone offices on the harmonized approach countrywide.

(ii) Incentives to Investors Not in Line with Income Tax Act 2004

Sect. 20 (8) of the Investment Act 1997 requires the National Investment Steering Committee (NISC) to approve additional specific fiscal incentives and the Ministry of Finance have to discuss such additional fiscal incentives as approved by the NISC.

My review of the Directorate of Promotion and Facilitation of NIC noted that, NISC approved incentives to investors but the issued incentives were non-compliant with the Income Tax Act 2004 and therefore, the incentives were not granted to the investors.

Most of the investors requested an exemption of withholding tax on consultancy construction projects and were approved by NISC, but such exemptions contravene Sect. 83 (1) (c) of the Income Tax Act 2004 as amended 2016 Para 4(c) ii. Below are examples of projects with incentives:

Table 9: Project with Incentives Not in Line with Income Tax Act

S/n	Name of project	Incentive given by NISC	Incentives remarks
1	Mchuchuma & Liganga	Exempted VAT on cooking coal/high grade coal, and fumigation chemicals for separating Iron, Vanadium and Titanium. Exempted withholding tax on construction consultant Exempted SDL of 3% for 15 years	Not implemented
3	Goodwill Ceramics	Withholding tax on construction consultants	Not implemented

I recommend that the Ministry of Finance and Planning and other stakeholders resolve the matters and consider the best ways to streamline and harmonize the documents without contravening the tax laws.

(iii) Inadequate Funding to the Land Bank Fund

Sect. 6 (d) of the Tanzania Investment Act 1997 requires the Centre in consultation with Government Institutions and Agencies to identify investments sites, estates or land together with associated facilities of any sites for the purposes of investment. The Centre is also required to sensitize the regional stakeholders to set aside piece of lands for regional strategic investments and general investments, however, the Centre has no land register for investment activities.

The Centre has established the Land Bank System of which its purpose is to have piece of land available for assisting investors while the other objective of the system is to have the Land Bank Fund that can assist the Centre to manage its operations.

However, up to the time of my audit, I noted that the Centre had not been funded. Non-funding of the Land Bank Fund has negative impacts on the Centre in achieving the intended objectives in a timely manner.

I recommend that Tanzania Investment Centre (TIC) operationalize the Land Bank Fund so as to enhance the Centre's capacity for land development and smooth investments activities.

(iv) Absence of Sensitization and Awareness to Investors on the Existence of TIC Zone Offices

Sect. 6(g) of the Investment Act 1997 requires Tanzania Investment Centre (TIC) to provide and disseminate up to date information on benefits or incentives available to the investors.

During the site visit to 30 investors in 6 TIC zones during the period ended 30 June 2018, I noted that the investors were not conversant and aware of the existence of TIC zonal offices in their areas of vicinity.

Due to lack of awareness of the existence of zonal offices, the investors have been using agents in obtaining permits and licences while sometimes they have to travel to the executive office seeking the assistance that could be provided by zonal offices. Low investors awareness on the existence of the offices means that TIC is not achieving the goal of establishing those offices.

I recommend that TIC prepare additional investors workshops for awareness on the existence of zonal offices and the service that can be offered by the offices.

9.2.2 Export Processing Zone Authority (EPZA)

During the review of the operations under the EPZA I noted the following weaknesses: -

(i) Inadequate Facilitation of Investors under EPZA

I noted inadequate support to some investors who operate under EPZA license. Some noted challenges are caused by other Government entities such as TRA, TANESCO, NEMC and Local Government Councils.

During the site visits to 16 investors I noted that there were no mechanism and regional EPZA outlets to support investors which necessitated the upcountry investors to travel to Dar es Salaam for EPZA services. Some investors such as African Vegetables Limited, Africado Limited and Milama Processing who produce agricultural products were using Mombasa Port rather than Dar es salaam port due to delays caused by prolonged TRA clearing and loading procedures. Some investors such as Tanhin Quality Limited and Huacheng International Limited claimed to have been charged taxes or levies which according to EPZA licence are exempted. TANESCO's power cut without prior notice affects M/s African Dragon Limited. There are outstanding VAT refunds to some investors (Dekker Bruins Limited and Fides Tanzania Limited) for 2 years.

I recommend alignment of Governments agencies services for supporting investors under EPZA, as the above noted challenges may discourage the existing and potential investors if immediate appropriate actions are not taken.

(ii) Delay in Development of Special Economic Zones due to Partial Payment of Compensation to Beneficiaries

Among others, the core function of the Export Processing Zone Authority (EPZA) is to acquire lands in its name and develop for leasing to prospective investors. I noted that EPZA delayed payment of compensations to beneficiaries at Kurasini Trade and Logistic Centre, Bagamoyo, Tanga, Ruvuma and Manyoni for land acquired to develop Special economic zones although valuation, certification and approval by the Chief Government Valuer were available.

I noted a total of TZS 67.20 billion was land cost as per valuation which was to be paid to beneficiaries but only TZS 34.20 billion were paid during the past eight years.

I recommend that EPZA pay the outstanding debt to enable the development of investment zones.

9.3 Anomalies Noted in Public Entities Which Undertake Investments Activities

9.3.1 Non- Performing Investments

National Insurance Corporation (NIC) owns Medicare Insurance Scheme Product. The scheme provides cover for medical treatment to Group Business and Individual Medical Insurance Business. However, since 2013 the scheme has been making consistent losses. Table 10 below analyses the losses:

Table 10: Medicare Premium and Claims

Year	Medicare Premium Received (TZS)	Medicare Paid Claims (TZS)	Losses (TZS)
January-December 2013	149,619,923.00	261,993,363.92	(112,373,440.92)
January-December 2014	200,925,193.45	223,881,810.27	(22,956,616.82)
January-December 2015	211,136,819.17	306,067,330.60	(94,930,511.43)
January-December 2016	195,082,207.60	474,480,129.01	(279,397,921.41)
January-December 2017	158,088,083.86	262,896,291.77	(104,808,207.91)
Total	914,852,227.08	1,529,318,925.57	(614,466,698.49)

The underperformance was attributed to poor investment strategy, lack of effective performance appraisal and risk assessment which would provide a basis for decision making.

I recommend that NIC evaluate the justification for continuing with Medicare product and make decisions accordingly.

Also, at Reli Assets Holding Company Limited (RAHCO) I noted that, RAHCO had fixed deposits in UTT Microfinance and TIB Development Bank amounting to TZS 962 million and TZS 7.61 billion respectively. RAHCO Deposits in UTT Microfinance and TIB matured in November 2017 and June 2018 respectively. However, up to the time of audit in January 2019, UTT and TIB had failed to pay both principal and interests because of their liquidity constraints.

I recommend that RAHCO make close follow up to ensure interests and money invested are collected from TIB and UTT.

9.3.2 Deficiency in Collection of Rental Income

At National Insurance Corporation (NIC), I noted rental income from rental business properties were not recorded on time and reconciliations on rental collection were not performed by property's manager. As a result, rental income amounting to TZS 896 million from July to December 2016 for investment houses and life houses was not recorded in a timely manner. Failure to record and perform rental reconciliation on time increases the risk that the rent might not be collected.

I recommend NIC ensure that rental income is recorded in a timely manner and reconciliations thereon performed.

Also, at National Insurance Corporation of Tanzania Limited (NIC), I found no evidence of efforts to collect rent receivable from tenants of real estate business. During the financial year ended June 2017, I learnt that some tenants had vacated the premises without clearing their outstanding dues and management were unable to provide evidence of actions taken either by the Corporation or its agents to collect the outstanding amount from the tenants. The laxity resulted in outstanding rents amounting to TZS 7.4 billion as at the year end, 30th June, 2017.

I recommend that NIC make close follow up to ensure the outstanding rents are recovered and the tenants pay the rents on time.

The Kariakoo Market Corporation (KMC) reported outstanding rents amounting to TZS 219.70 million as of June 2018. However, KMC was unable to provide evidence to demonstrate effort made to recover the outstanding rents. As a result, some debtors such as Ms Lumit Co. Ltd (TZS 25.65 million) and Ms Mocuba Enterprises (TZS 26.23 million) were no longer tenants. Also, KMC had a deficit of TZS 87.65 million on amount received from parking fee collector, M/s General Public Traders. As per the agreement M/s General Public Traders was required to remit TZS 21 million per month to KMC. However, from July, 2017 to June, 2018 M/s General Public Traders remitted only TZS 164.35 million instead of TZS 252 million, leaving a difference of TZS 87.65 million. Further, I noted that there was no evidence of any measure taken by KMC to recover the difference of the amount due from parking fees collector.

I recommend KMC ensure that parking collector remit an agreed amount in every month and pay the outstanding parking fee.

9.3.3 Delay in Completion of NHC Housing Projects of TZS 245.55 Billion

The principal activities of NHC is to provide and facilitate the provision of quality housing and other buildings in Tanzania mainland for use by the general public while operating on sound commercial principles.

Para 2.1 of Investment Policy of NHC, 2011 illustrates criteria for selecting projects to invest which include; Return on Investment (ROI); Yield; Return on Equity (ROE); Payback Period; Net Present Value (NPV); Economic and Social Housing aspects and Regional diversification of the NHC housing portfolio.

My review of NHC projects noted construction of two NHC housing projects were stopped since 2017 due to lack of fund as detailed below:-

(i) Seven Eleven Residence (711-1) Project of TZS 142.55 Billion

Seven Eleven Residence (711-1) is housing project carried out at Plot 711 Kawe, Kinondoni Municipality, Dar es Salaam. National Housing Corporation (NHC) entered into contract with Estim Construction Company Limited on 04 April 2014 for design and construction through tender No.PA/066/2011-2012/HQ/W/03 at a total cost of TZS 105.11 billion for a contract period of 156 weeks from commencement date. On 04 November

2014, NHC signed an addendum for reallocation of project site from Ngano Housing estate plot No. 79-82 to plot No. 711-1 Kawe at a contract price of TZS 105.11 million (VAT Inclusive). The feasibility study was done in June 2014, 2 months after signing the contract. This implies that the contract was signed before a thorough evaluation of the project requirements.

The feasibility study provided the estimated cost of the project of USD 69.43 million equivalents to TZS 114.4 billion with completion period of three years up to 2017, and financing structure of 35% equity and 65% loan. In September 2017, NHC reviewed the project business plan and projected increase of project cost to TZS 142.55 billion; completion of project extended for two years up to 2019 and financing structure to be 37% equity and 63% construction loan.

My review on the progress of project noted that the construction stopped early 2017 due to lack of fund. The project had already spent TZS 26.31 billion from internal source which represent 20% of completion. As per the feasibility study NHC was confident with availability of funds and readiness to finance the project but up to the time of finalizing this report, there was no loan obtained from any financial institutions.

(ii) Golden Premier Residences (711-2) Project of TZS 103 Billion

Golden Premier Residences (711-2) is housing project carried out on plot 711/2 Kawe Beach Area. NHC entered into contract with CRJE (EA) LTD on 16th October, 2013 for proposed design and construction through tender no. PA/066/2011-2012/HQ/W/38 with total cost of TZS 64.37 billion (VAT inclusive). The contract price was increased to TZS 71.17 billion (VAT inclusive) through addendum of 3rd November, 2014.

The contract period was 130 weeks after commencement date. However, the feasibility study was done in June 2014, 9 months after signing the contract. This implies that the contract was signed before feasibility study.

Feasibility study indicated the estimated cost of the project of USD 43.61 million equivalents to TZS 71.86 billion, completion period of the project of three years to 2017, and financing structure of 15% equity and 85% construction loan. In September 2017, NHC reviewed the project business plan and projected increase of project cost to TZS 103 billion, extension of project completion period for two years to 2019 and financing structure to be 29% equity and 71% construction loan.

My review of the project noted that the construction of the project stopped in early 2017 due to lack of funds. The project had already spent TZS 34.87 billion (internal source USD 11.64 billion, loan from TIB Bank TZS 23.23 billion) which represent 30% of completion. The TIB loan was taken on 06th July, 2015 with a grace period of 36 months ended in July 2018. This implies that NHC use other source of finance to repay loan since the grace period had already finished while the project has not yet completed.

Management explained that they have made several follow-ups with the Ministry of Finance and Planning to grant approval to borrow after NHC attaining borrowing cap of TZS 300 billion without success. As a result, the project costs are expecting to increase due to various market factors and put the NHC at financial risk of return on investment and payback period.

In case NHC fails to get the required approval for the loans, and thus fail to complete construction of the on-going projects, NHC will be liable to pay damages amounting to TZS 99.99 billion to contractors and repay TZS 2.60 billion to the house buyers who had already deposited down payments.

I recommend that NHC make close follow-up with Ministry of Finance and Planning to ensure it is aware of the risk the Corporation is facing due to lack of approval of loan to finance the already established projects. I also recommend that NHC ensure feasibility study is conducted prior to entering into any construction contract.

CHAPTER TEN

PERFORMANCE OF GOVERNMENT-OWNED BANKS

10.1 Introduction

Government-owned banks are those banks which are wholly controlled by the Government. Recently, these Banks have not been performing well, leading to some of them being held under administration of the Bank of Tanzania (BoT). Out of six banks owned by the Government, four are operating at loss for three consecutive years and two of them were under BoT administration.

This chapter highlights the anomalies noted in the operation of these Banks and scope for improvement in different areas such as loans collections, non-performing loans, capital adequacy, portfolio at risk, credit decision in granting loans, supervision and follow-up on late and delinquent clients and projects. Performances of the following Banks (Tanzania Women Bank, TIB Corporate Bank, TIB Development Bank, Tanzania Agriculture Development Bank (TADB), Tanzania Postal Bank (TPB) and Twiga Bancorp were reviewed and the results are presented below:

10.2 Continuous loss making of Government Owned Banks

Four banks (67%) out of the six government owned banks I reviewed were operating at loss for two consecutive years. Of these banks, two (TWB and Twiga Bancorp) have been operating at loss for three consecutive years (refer Table 11). Also, I noted that TIB development wrote off loans of TZS 3,691 million during the year ended 31st December, 2017. The on-going losses are mainly attributed to inadequate appraisal of loans applications, limited collateral to cover the whole loan and weak follow-up for late and delinquent clients and weaknesses in credit decision process.

I am concerned that operating losses erode the core capital of the Banks and expose the banks to the risk of operating below minimum capital requirement which may lead to the banks failure to return customers deposits. There is also a risk of revocation of banking license and related sanctions by the BOT due to erosion of capital below the minimum requirement.

Table 11: Government Owned Banks Operating at Loss

Bank name	31.12.2017 (TZS)	31.12.2016 (TZS)	31.12.2015 (TZS)
TWB	(5,924,816,323)	(652,805,061)	(268,807,664)
TIB Corporate	(8,668,389,000)	(291,841,000)	5,302,570,000
TIB Development	(29,602,000,000)	(35,620,000,000)	15,675,000,000
	31.12.2015 (TZS)	**31.12.2014 (TZS)**	**31.12.2013 (TZS)**
Twiga Bancorp Ltd	(3,459,000,000)	(13,081,000,000)	(6,953,232,000)

Source: Auditors analysis

I recommend that the banks reassess and strengthen recovery measures and appraisal of credit application process to minimise the risks of granting loans to delinquent borrowers and losses from loans written off; institute stringent strategies on follow-up procedures for loans in arrears and non-performing loans and ensure all loans are secured and the pledged assets as collateral are reasonably insured to enable the Banks to recover whole defaulted loans in cases where collateral are damaged or destroyed. Review operating expenses of the banks with a view to minimizing the total costs.

10.3 Capital Adequacy Ratios Below BoT Minimum Requirements

Regulation 9(a) and (b) of Banking and Financial Institutions (Capital Adequacy Regulations), 2014 and Bank of Tanzania (BoT) circular No. FA.43/433/01/Vol III of 5th August, 2015 require every bank at all times to maintain core capital and total capital of 12.5% and 14.5% respectively of its total risk-weighted assets and off-balance sheet exposure. Regulation 19(2) of the Banking and Financial Institutions (Development

Finance) Regulations, 2011 requires a Development Financial Institution to maintain at all times a minimum core capital and total capital equivalent to 13% and 15% respectively of its total risk-weighted assets and off-balance sheet exposures.

From the review of six Government-owned banks, I noted that core capital and total capital ratios of five banks were below the minimum requirement stipulated in the Banking and Financial Institutions Regulation, 2014 and BoT Circular of 2015. The core capital and total capital ratios of the banks to their total risk-weighted assets and off-balance sheet exposure are given in Table 12 below:

Table 12: Capital Adequacy of Government-owned Banks

Description	**31.12.2017**		**31.12.2016**	
	Core capital (TZS in Million)	**Total capital (TZS in Million)**	**Core capital (TZS in Million)**	**Total capital (TZS in Million)**
TIB Development Bank				
Core and total capital	74,304	75,095	76,437	77,423
Total risk weighted assets	856,702		942,621	
Core and total capital ratio	**9%**	**9%**	**8%**	**8%**
BOT minimum core and total capital ratio	13%	15%	13%	15%
TIB Corporate Bank				
Core and total capital	15,342	16,134	21,394	22,379
Total risk weighted assets	235,269		179,958	
Core and total capital ratio	**6.52%**	**6.86%**	**11.90%**	**12.40%**
BoT minimum core and total capital ratio	12.5%	14.50%	12.5%	14.50%
Tanzania Postal Bank (TPB)				
Core and total capital	42,200.03	45,300.59	40,745.81	43,597.69
Total risk weighted assets	350,734		321,397.35	

Description	31.12.2017		31.12.2016	
Core and total capital ratio	**12%**	**13%**	**13%**	**14%**
BoT minimum core and total capital ratio	12.50%	14.50%	12.50%	14.50%
Tanzania Women Bank (TWB)				
Core and total capital	-2,597.45	-2,540.00	-894.07	-779.98
Total risk weighted assets	12,571.92		19,749	
Core and total capital ratio	-21%	-20%	-5%	-4%
BoT minimum core and total capital ratio	12.5%	14.50%	12.5%	14.50%
BoT required capital	15,000		15,000	

Source: Auditors analysis

I was informed by TIB Corporate Bank that the Ministry of Finance and Planning (MoF) has committed to capitalize the bank through TIB- Development Finance Institution (DFI) to meet required capital adequacy ratios. The Bank sought and obtained waiver from the Bank of Tanzania to remediate its capital position and return to the required levels by June 2018. TIB Development Bank explained that an additional capital of TZS 91 billion was allocated to TIB in the Government budget 2017/2018. The disbursement of TZS 50 billion was received at the end of December 2017. The Bank is making follow up with MoF for disbursement of the remaining balance of TZS 41 billion.

Non-compliance with BoT's requirements may lead to revocation of banking license and related sanctions.

I recommend that these banks review their capital levels with a view to considering capital injection to ensure compliance with BoT's requirement; ensure close follow up with the Ministry of Finance and Planning to capitalize the banks; analyse the reasons for capital erosion and implement strategies to restore their capital adequacy ratios to a level required by BoT and perform thorough review of operations of

TWB, liabilities and assets with a view to ensuring completion of merger with TPB.

10.4 Deficiency in Monitoring Overdraft Facility Limit

Records of loans and advances in TIB Corporate showed that six expired overdraft facilities and exposure balance were above the approved system limit. The total exposure balance of the noted six overdrafts was TZS 27.54 billion against approved system limit of TZS 24.92 billion. I consider that the noted deficiency is mainly caused by the lack of effective review and monitoring of overdraft facilities. The Bank is exposed to a risk of increased non-performing loan portfolio as the borrowers may default at later stage without renewing the existing expired facility and necessitate the institutions to charge off or fully impair the facility.

I also noted three instances where Core Banking System of Tanzania Postal Bank did not limit customers from withdrawing current accounts beyond approved limits. The total withdrawn balance was TZS 576.83 million against the system overdraft limit of TZS 565 million. The loan book also contains overdraft accounts of TZS 330 million which are long outstanding since 2009. Management deems them irrecoverable, however, they were unable to clarify why they had failed to recover the amount. Such lapses expose the Bank to a risk of loss due to non-recoverability.

I recommend that TIB Corporate and TPB adequately monitor loan overdraft facilities to ensure all clients utilize the facilities within their approved limit, enhance the system configurations controls to ensure withdrawals exceeding the overdraft limit are denied and strengthen controls to ensure outstanding overdrafts are frequently monitored for timely recoveries.

10.5 Non-Performing Loans (NPL)

Non-Performing Loans (NPL) are those loans which borrowers failed to make payments of interest or repayment of principal for more than 90 days. My review of Government owned banks noted significant deterioration in quality of the Bank's loan portfolio in five out of six reviewed banks. The bank's ratio of non-performing loans (NPL) to total portfolio has been constantly increasing beyond the industrial benchmark of 11.7% as stipulated in BoT Monetary Policy Statement of February 2018 and BoT target of 5%. Table 13 below shows the Non-Performing loans:

Table 13: Non-Performing Loans of Government Owned Banks

Bank name	30.06.2017	Gross loans & advances	Percent total loans	30.06.2016	Gross loans & advances	Percent to total loans
	(TZS in Million)- NPL	(TZS in Million)		(TZS in Million) - NPL		
TIB-Development (Group)	237,345	751,572	32%	265,375	809,009	33%
Tanzania Women Bank	8,017	22,548	36%	10,504	25,774	41%
TIB Corporate	6,672	136,231	5%	63	104,964	0.06%
TPB Bank	21,131	344,469	6%	12,420	307,238	4.04%
TADB	1,135	11,621	10%	1,081	3,969	27%

Source: Auditor's analysis from banks financial statements of 2016 & 2017

I also reviewed the Portfolio at risk (PAR) ratio of loans in arrears between 30 days and 90 days to gross loans and noted TWB and TIB Corporate to have high PAR of 9% and 22% respectively (refer Table 14). I consider that the Government need to take stringent initiatives to contain the level of NPL and PAR in TIB Corporate and TIB Development Banks.

Table 14: Portfolio at Risk Between 30 days and 90 days

	31st December 2017			31st December 2016		
Bank name	**Loans in areas (>30 days< 90 days) in Million**	**Gross loans (in Million)**	**Percentage**	**Loans in areas (>30 days< 90 days) in Million**	**Gross loans (in Million)**	**Percentage**
TWB	1,939.02	22,548.07	9%	3247.58	25,774	13%
TIB Corporate	50,403.09	224,171.45	22%	6325.68	196,396	3%

Source: Financial statements of 2017

I recommend that the banks enhance loan appraisal, administration, monitoring and recovery processes to improve the quality of the Bank's loan book and its related Non-Performing Loans. Also, explore their potential strategies to reduce NPL and PAR ratio to no more than BoT target of 5%.

10.6 Inadequate Collaterals for Loans and Advances

As of 31st December, 2017, TIB Development Bank credit accommodations was greater than 25% of core capital that were secured by security values of less than 125% of the total exposure contrary to Regulation 29 of the Banking and Financial Institutions (Development Finance) Regulations, 2011 which requires the security to be at least 125% of the credit accommodation. Further, there was an instance of unsecured credit accommodation in excess of 5% of core capital contrary to the requirements of same Regulation which requires credit accommodation above 5% of the total capital to be secured.

Management explained that some of the facilities were adequately covered during approval and disbursement stage and thus the excess unsecured balance was due to accrued interests and penalties. Table 15 below shows the difference between exposure and security. Inadequate security cover increases risk of loss to the bank in the event of default.

Table 15: Inadequate Collaterals for Loans and Advances

Customer name	Exposure 31 Dec 17 TZS '000	Security value TZS'000	Core capital TZS' 000	% exposure to core capital	% Security to exposure
CATA Mining Co. Ltd	53,342,466	30,405,615	74,304,000	72	57
Parrot Hotel Limited	27,163,509	25,800,615	74,304,000	37	95
Rialma Co. Ltd	11,303,874	13,386,357	74,304,000	15	118
TANESCO	34,156,846	-	74,304,000	46	0
Manawa Ginneries Co. Limited	8,194,393	7,260,000	74,304,000	11	89
Nsagali Co. Limited	6,223,770	-		8	0

Source: Auditors' analysis

I recommend that the Banks establish appropriate mechanisms to ensure that facility collateral cover is reviewed regularly for adequacy and additional securities are obtained from a customer to cover any increased exposure resulting from accrued interest and penalties.

10.7 Deteriorating Liquidity of the Government Owned Banks

During the review of deposit maturities, I noted a significant amount of the deposits held by the TIB development bank (from customers and other banks) casting doubt on the Bank's liquidity stability and ability to meet matured obligations given the long-term nature and deteriorating quality of the loan facilities granted to its customers. For instance, I noted that out of deposits of TZS 199 billion with maturity profile of less than 1 month, about TZS 88 billion matured within the year but the bank did not manage to honour the matured obligations.

The maturity profile of deposits held by the bank from customers and other banks as at 31st December, 2017 is described in Table 16.

Table 16: Deteriorating Liquidity of The Government Banks

Period to maturity	Amount TZS '000
Less than 1 month	199,367,035
1 – 3 months	124,619,815
4 – 6 months	27,573,042
6 – 12 months	49,239,573
Above 12 months	41,971,536

Source: TIB Development Bank -Financial statements of 2017

There is a risk that the Bank may fail to honour its matured obligations leading to increased reputational risk.

I recommend that TIB Bank review the maturity profile of the obligations in hand and establish market strategies to secure long term deposits as required by the Bank of Tanzania.

10.8 Deficiency in Loan Lending Process

10.8.1 Lack of Segregation of Duties in Loan Issuing Process

I noted a total of 1,270 loans with total amount of TZS 4.82 billion at TPB were created and disbursed by the same personnel in the year of income 2017 contrary to para 3.2.3.(b) of the Bank's Lending Manual which requires segregation of duties between personnel creating and disbursing loans in core banking system (Equinox). Lack of segregation of duties in loan issuing process increases the risk that dishonest staff may issue loans for personal advantage resulting in losses to the bank.

10.8.2 Control Weaknesses in Loan Restructuring Process TZS 206.09 Million

I also noted loans of four customers amounting to TZS 206.09 million at TPB bank which were rescheduled without approval by the Credit Risk Division as required by Sect. 7.8.2 of the Bank's lending manual. There was no second review and approval of loans rescheduled in the system. Further, five loan products of TZS 333.34 million were created in core banking system in favour of one Bank staff in the same day (19th July, 2017) and there was no evidence of approval of those loans.

Lapse in controls around loan rescheduling process may result in rescheduling of loans at personal advantage, exposing the Bank into the risk of losses.

I recommend that the TPB set configuration of controls in the system to limit the same person from creating and disbursing loans and ensure appropriate approval is obtained before rescheduling and creation of loans.

10.8 Mergers of Government Owned Banks

During the year under review, I noted two Government banks (Tanzania Women Bank (TWB) and Twiga Bancorp Limited) which were authorised by BoT to merge with Tanzania Postal Bank (TPB) following their inadequate financial performance and operating below the minimum capital requirement. The two banks (TWB and Twiga Bancorp) have been operating at loss for three consecutive years and maintained core capital of negative TZS 2,597.45 million and negative TZS 20,628.26 million respectively against required capital of TZS 15,000 million. The authorized merger aims at improving efficiency, oversight and performance of banks owned by the Government.

The authorized merger was effective from 17th May, 2018 for Twiga Bancorp and 3rd August 2018 for TWB. While Twiga Bancorp has a core capital and total capital ratios of negative 52.74% and negative 50.69% respectively, TWB has a core capital and total capital ratios of negative 21% and negative 20% respectively of its total risk weighted assets and off-balance sheet exposures.

While the intention of merging non-performing bank with good performing bank is good, the merger creates some challenges with different risk dimensions. For example, the underlying challenges of the non-performing bank might be obscured temporarily by the healthy condition of financial healthy bank but later emerge with strengthened ferocity that can permeate and bring down the new bank resulting from the merger. Also, the fact that non-performing banks come with losses which can erode the capital of the new bank and impact its subsequent operating efficiency, means that the amount of customers deposits at risk is increased.

I consider that the Government need to closely monitor the merging of these banks to avoid subsequent negative impact on operating efficiency of the newly formed bank. The Government should take precaution so that weaknesses of the poor performing banks do not spread in the new entity after merging.

CHAPTER ELEVEN

OPERATIONS OF SOCIAL SECURITY SCHEMES

11.1 Introduction

Social security schemes are schemes established for the purpose of providing social benefits to members of the community as a whole, or of particular sections of the community. In Tanzania the social security schemes are regulated by Social Security Regulatory Authority (SSRA).

SSRA was established under the Social Security (Regulatory Authority) Act, Cap 135 (R.E. 2015) with the main objective of regulating the Social Security Sector and providing for related matter. The Authority began to operate at the end of the year 2010. In light of its legal mandate provided in the Act, the Authority plays an important role in regulating and supervising the provisions of social security services in the country. The social security schemes regulated by SSRA among others include Health Insurance Scheme and Pension Schemes.

Health Insurance Scheme provides coverage for health care services. The National Health Insurance Fund (NHIF) was established as a Public Institution under the Act No.8 of 1999 [CAP 395 as Amended] to ensure quality health care services are available to public and private sector employees and other groups, and their respective legal dependants.

Pension Scheme is aimed at enabling people to live a respectable life where they can meet their basic needs even in the event of social and economic disasters that lead to reduction or cessation of income. Such disasters could be death or disability. Social protection also addresses reduced income that may result from retirement, maternity or sickness.

Up to 30th June, 2018, Tanzania had 5 Pension Funds namely Public Service Pension Fund (PSPF), GEPF Retirement Benefits Fund (GEPF), LAPF Pensions Fund (LAPF), PPF Pensions Fund

(PPF) and National Social Security Fund (NSSF). However, under a newly established Public Services Social Security Fund (PSSSF) Act No. 2 of 2018, 4 Pension Funds (PSPF, GEPF, LAPF and PPF) were merged into one Fund, that is PSSSF to serve the public servants. This arrangement will leave NSSF with the responsibility of serving private sector employees. The new Fund (PSSSF) started its operations on 1st August, 2018.

This Chapter highlights weaknesses noted in operation of National Health Insurance Fund, Workers Compensation Fund (WCF) and Pension Funds. The chapter also details deficiencies noted with the regulator, Social Security Regulatory Authority (SSRA).

The chapter also include summary of recommendations provided for improvement. For the merged Funds, it is my hope that, the recommendations issued to the individual Funds will be taken by the newly formed PSSSF for their implementation. The following are the findings and recommendations: -

11.2 Outstanding Government debt to the Social Security Funds TZS 2,390.8 Billion

I noted that all Social Security Funds except Workers Compensation Fund (WCF) have huge sums of nonperforming loans, mainly with the Government and its Institutions. About TZS 1,625.25 billion (68%) of the Government loans were due at the year ended 30th June 2018 (NSSF and NHIF) and 31st July, 2018 (LAPF, PPF, GEPF, LAPF and PSPF). Some of the loans matured since 2014. This situation exposes the Funds to credit risk. The Government debt to Social Security Funds as at 31st July, 2018 accrued to TZS. 2,390.08 billion as shown in the Table 17 below.

Table 17: Status of Government Debts to Social Security Funds

Social Security Funds	Total debt TZS (Billion)
LAPF	169.64
NSSF*	1,253.19

PPF	292.11
GEPF	10.04
PSPF	448.9
NHIF**	216.20
Total	**2,390.08**

* NSSF loan includes the contribution receivable amounting to TZS 127.89 billion from the Government as its share for construction of Nyerere Bridge in Dar es Salaam.

** NHIF loan includes the loan amounting to TZS 115.11 billion with no Government guarantee and signed agreement advanced to University of Dodoma to finance the construction of Benjamin Mkapa Hospital (Phase I and II).

Timely recovery of these loans is crucial for the Funds to be able to maintain their required levels of liquidity and be able to pay maturing obligations including pension liabilities.

To ensure sustainability of the Funds, I recommend that the Government and its institutions settle its obligations without further delays.

11.3 Long Outstanding Dishonoured Cheques TZS 836.80 Million

During my review, I noted cheques paid by contributors to LAPF, WCF and GEPF which were subsequently dishonoured when presented by the Funds to banks. The cheques involved a total of TZS 836.80 million which was not recovered from contributors for more than 12 months.

At LAPF dishonoured cheques amounting to TZS 74.93 million were dated as long as 2012 to June 2018. At WCF and GEPF dishonoured cheques amounting to TZS 412.84 million and TZS 349.03 million respectively remained outstanding for more than 12 months. At GEPF the dishonoured cheques balance was adjusted back into contribution receivable in the financial year ended June 2017 but omitted in the financial year ended July 2018 without any reasons.

The longer these balances remain unpaid the higher the risk that they will not be collectable in the near future thus jeopardising the financial capacity of the Funds.

I recommend that Management intensify efforts to recover the outstanding balances and take necessary legal action against the defaulters.

11.4 Delays in Recovering Double Payments from Pensioners TZS 218.31 Million

I noted that, LAPF paid erroneously 15 members a total of TZS 235.82 million as pension benefits. These members however, had already been paid by the Treasury. LAPF decided to deduct the same from their monthly pensions. It is only a total TZS 12.92 million that has been recovered from such deductions since 2011.

This trend shows that it will take 136 years to recover the remaining balance. I thus recommend that LAPF seek different options to recover the remaining balance.

11.5 Staff Separated from the Funds Before Settling their Outstanding Loans TZS 821.82 Million

Pension Funds provide staff loans to their employees who are required to repay the loans if for any reason before leaving the office.

However, at NHIF, LAPF and GEPF I noted some employees who had left the Funds without repaying their loan balances. The outstanding loans receivable from employees who had left the Funds were TZS 115.47 million, TZS 539.22 million, and TZS 167.13 million for NHIF, LAPF and GEPF respectively. LAPF and GEPF had already taken some measures to recover the balances but there was no evidence of any measure taken by NHIF for such loans.

I recommend that the Funds intensify their efforts to recover the outstanding balances and take necessary legal action against the defaulters.

11.6 Pension Funds Actuarial Deficits

Actuarial reports of pension Funds detail projections of future income and expenditure so as to assess its short, medium and long-term financial positions. The actuarial valuation reports for PSPF, PPF and LAPF reflected actuarial deficits and low funding levels. Compared to other Funds, the funding level of PSPF is the lowest of the other Funds' funding levels.

Following the merging of Pension Funds to form a new fund (PSSSF), the noted low funding level of PSPF may jeopardise the overall merged funding level as a result, the PSSSF's ability to meet benefits, manage operational costs as well as exploiting other promised investment opportunities will be doubtful.

Table 18: Funding level of Pension Funds Forming PSSSF

Fund's Name	Actuarial Date	Consultant	Fund Asset (A)	Fund Liability (B)	Actuarial Deficit	Funding Level (A/B)
			TZS 'Billion'	TZS 'Billion'	TZS 'Billion'	TZS 'Billion'
PSPF	30.6.2014	Muhana &Co Actuaries	1,306.71	12,460.22	11,153.51	10.5%
PPF	30.6.2017	Argen Actuarial Solutions	2,429.01	3,411.00	982.00	72.2%
LAPF	30.6.2016	Alexander Forbes Financial Services	1,169.10	2,688.20	1,519.10	43.5%
GEPF	30.6.2015	Muhana &Co Actuaries	336.27	536.15	199.88	62.7%.

Source: Financial Statements

I recommend that PSSSF seek different options to address the funding level risk.

11.7 Increase of Withdrawal and Early Retirements to Pension Funds

Withdrawal Benefit is payable to an active member who ceases to be employed in any circumstances where he/she is not eligible for pension. Early retirement is voluntary retirement of a member at the age of 55 before compulsory retirement age.

At LAPF, PPF and PSPF, I noted 44.31% increase in beneficiaries' payments to TZS 1,951.78 billion for the year under review from TZS 1,352.48 billion for previous year. The increase is mainly attributed to the increase in the number staff members who retire early from 2,562 in 2017 to 4,730 in 2018 an increase of 85%. This led to the increase in payments for withdrawals and early retirements from TZS 21.52 billion and TZS 158.05 billion in 2017 to TZS 53.59 billion and TZS 325.55 billion in 2018.

The increased early retirement is attributed to factors such as members who decided to retire at a voluntary age to avoid the new introduced formula which they consider to be unfavourable to them. The increase in withdrawal and early retirement affected the Funds' cash flows.

Further, I noted an increase in annualized ratio of benefits to contributions from 92.55% to 123.51% which signifies a decrease in cash flows of the Funds.

Table 19 below shows benefit payments, number of beneficiaries and benefit to contribution ratio for the financial period ended 31st July, 2018:

Table 19: Contribution and Benefit payments

Name	Year	Contributions (TZS-Billion)	Benefits-(TZS-Billion)	Withdraws-(TZS-Billion)	Earlier Retirements (TZS-Billion)	Benefits/Contributions (%)
LAPF	31-Jul-18	341.1	233.25	39.43	40.43	68.38 %

Name	Year	Contributions (TZS-Billion)	Benefits-(TZS-Billion)	Withdraws-(TZS-Billion)	Earlier Retirements (TZS-Billion)	Benefits/Contributions (%)
	30-Jun-17	291.29	140.49	16.37	19.62	48.23%
PSPF	31-Jul-18	815.40	1,383.19	1.78	263.10	170%
	30-Jun-17	771.35	988.70	1.21	118.29	128%
PPF	31-Jul-18	423.81	335.34	12.38	22.02	79%
	30-Jun-17	398.78	223.29	3.94	20.14	56%

Source: financial statements and auditor's analysis

I recommend that PSSSF advocate earlier for the advantages of any changes made with regard to members' benefits to avoid early retirements of and withdrawals by members of the Funds.

11.8 Land Under Disputes and Lack of Documents of Ownership

Pension Funds acquire lands for the investment undertakings. However, some acquired land lacked title deeds and other pieces of land have been occupied by local residents illegally.

PSPF bought 100 Plots at Mangamba area in Mtwara region but out of which 50 plots were occupied by local people. This led to a further request to the Municipal Council for another land at Mitengo area in the same region for the remaining 50 plots but some of the plots were also occupied by local residents at Mitengo. According to the Regional Officer In charge (ROI), the issue will be resolved when the area is allocated to PSPF and the Mitengo Plots will be left to local residents already occupying the plots.

PSPF bought plain plots and plots with buildings in Tabora and Shinyanga but they were still bearing the names of the previous owners as at the time of my audit.

Further, PPF does not have title deeds for 277 plots it acquired at Kiseke in Mwanza region in 2008. It was explained that the delay in getting the title deeds was mainly caused by change of municipality from Mwanza Municipality to Ilemela Municipality. My physical verification at Kiseke revealed more challenges including lack of beacons among the plots, weak control over invaders and invaders' structures and farms on the land.

The lack of title deed exposes the Fund to the risk of losing its plots in case someone who possesses the document claims to be the legal owner.

The lands conflicts hinder the intended goals of the Funds thus, I recommend that the Funds ensure that they have proper documents of ownership for all plots and take appropriate measures to remove all invaders.

11.9 Uncertainty of Recoverability of Funds Under Fixed Deposits TZS 123.7 billion

Funds invest in fixed deposits accounts with various banks for earning interests. However, I noted the following risks facing the investments:

LAPF, PPF, GEPF, WCF and Ubungo Plaza Ltd had fixed deposits amounting to TZS 55.17 billion with Bank M which is under administration of BoT from 2nd August, 2018 due to critical liquidity problems and is unable to meet its maturing obligations. Since the recoverability of the fixed deposits with Bank M is in doubt, Management need to make close follow up with BoT to ensure recovery of their deposits.

GEPF and WCF had invested TZS 1 billion and TZS 2.15 billion respectively with Covenant Bank for Women (Tanzania) Ltd of which banking license was revoked by BoT as it was critically undercapitalised. On 27th April, 2018 GEPF received TZS 1.5 million from Deposit Insurance Board (DIB) being depositors Insurance Compensation pursuant to the Banking and Financial Institutions Act 2006. The fate of the invested money will be determined in accordance with the Law of Bankruptcy.

PPF and GEPF had fixed deposits of TZS 65.38 billion with TIB Development Bank as at 31st July, 2018. Due to the bank liquidity constrains, the Fund decided to roll over TZS 45.1 billion which matured during year under review. This brings doubt on the recoverability of the funds from the bank.

I recommend that the Funds' Management make a thorough analysis of risks involved before making investments of their members' funds. I also recommend that the Funds make close follow up to ensure the invested funds are recovered.

11.10 Low and Non-Performing of Funds' Subsidiaries

Some of the Funds' subsidiaries companies were not performing as intended. The companies not performing are Mkulazi Holdings Co. Ltd and Mzizima Properties Company while investments undertakings run by Ubungo Plaza Ltd (UPL) were noted to have been underperforming.

According to Implementation Report of Mkulazi Holdings Co Ltd (jointly owned by NSSF and PPF) provided that installation of plant was expected to commence in January, 2018 and completed by June, 2018, whereas production of sugar and allied products was to commence by September 2018.
Mkulazi planted sugarcane on 1000 out 4,856 hectares at Mbigiri farm and expected to harvest them in August 2018 for the plant. Further, I was informed that out-growers had already planted 645 hectares which were expected to be harvested by March, 2019 through loans from Azania Bank with expectation to sell the canes to Mkulazi and repay the loans.

However, during the site visit in May 2018 I noted that the milling plant had not yet been installed.

LAPF and Dar es salaam City Council (DCC) jointly formed a company named Mzizima Properties Co. Limited on 29th December, 2010 with the purpose of establishing and running of Trucks Parking yards at Mbezi Luis plot No. 109, Block 'A' with a size of 3.89 hectares. LAPF owns 60% of shareholding of the Company and had already provided TZS 692.25 million for compensating the previous owners of the land.

However, I learnt that, later LAPF pulled out from the project for the reasons that DCC admitted another partner to the project and appointed a consultant of the project without informing LAPF. Eventually the parties agreed to dissolve the Company and that DCC to refund LAPF TZS 40,000 per square meter. This brings a total of TZS 975.73 million.

Ubungo Plaza Ltd (UPL) is owned by NSSF (35%), PSSF (35%) and National Insurance Corporation (T) Ltd (30%). I noted that the Plaza has a designated automatic parking system which operates under loss. In the year under review, the parking generated a loss of TZS 10.63 million, while TZS 31.91 million was made in the previous year. UPL's various equipment, water system and hotel decorations were not in good condition as they were exposed to salt and rust which will totally be damaged if necessary actions will not be taken. For the two financial years ended June 2017 and 2018, UPL incurred legal fees expenses amounting to TZS 721.95 million as it does not have a legal officer. I also noted significant rent receivable as of June 2018 amounting to TZS 7.55 billion out of which 86.09% are due from Blue Pearl Hotel & Apartments that was evicted on 9th November, 2017.

I recommend that the Funds ensure investments operate as intended and ensure recovery of invested money in Mzizima Properties Company Limited and those from Blue Pearl Hotel & Apartments.

11.11 Inadequate Supervision of Investment by Pension Funds

I noted inadequate supervision of investments by the Funds as follows:

Azania Bank manages disposal of Kiseke low cost houses in Mwanza on behalf of PPF from July 2008 although the contract to that effect was signed on 15th November, 2011. As per the contract, the bank was required to pay PPF 80% of sales proceeds and retain 20% as liquidated facility which was to be paid upon full payment by the buyer; to prepare and submit quarterly reports on liquidated facility; and to communicate the applicable rate to PPF at every beginning of the year. However, applicable rate and quarterly reports on liquidated facility were not submitted to PPF by the bank and PPF did not maintain reconciliation of liquidated facilities and interests earned.

Further, Azania Bank failed to notify and remit TZS 445.25 million from 20% liquidated credit facility of 84 housing units in previous years. The Fund wrote a letter with reference No. PPF/CD.26/97/02/15 on 29th October, 2018 requesting the bank to remit the same to the Fund whereby only TZS 326 million were received on 5th December, 2018.

Records of PPF indicated that 288 housing units were liquidated while records of Azania Bank showed 251 units, thus registering a difference of 37 housing units.

I recommend that PPF ensure that the reconciliation of liquidated facilities is done in a timely manner and the bank honour the terms and conditions of the contract and reconcile the noted difference of 37 housing units not liquidated yet.

11.12 Deficiencies in Systems and Operational Controls of Funds

During my review, I noted various weaknesses in Information Systems and operational control of the Funds that resulted in losses, fraud and doubtful transactions.

I noted that LAPF members' loans have been manually managed by the Finance Department, as there is no module in the accounting system that handles the recording and interest calculations. For instance, the retirement date was usually not inserted in the system which forms the basis for calculating the interest from house loans. As a result, when the retiring member has not lodged or delayed lodging the claim, the interest income will still be charged while the loan has already matured. This has led to overstatement of the interest income. I found that the interests for the year under review were overstated by TZS 108 million while TZS 319 million were overstated in previous period.

At GEPF, I noted accounting system allows one person to handle all stages of a transaction from the beginning to the end. In addition, payments for various activities amounting to TZS 399.57 million were made without proper approval. Under this situation errors and irregularities may go unnoticed.

I recommend that PSSSF address all information systems issues to ensure completeness of records of merged funds.

Further, from the review at GEPF, I noted three staff from Mwanza, Tanga and Arusha regional offices created a total of 91 fictitious members in the Fund Master System. They posted contributions amounting to TZS 809.97 million for 84 created members. Eventually, TZS 339.75 million was paid in favour of 35 fictitious members. Despite the disciplinary measures taken against the unscrupulous employees, the incidents indicate serious control weaknesses. I thus recommend that PSSSF conduct verification of its members and pensioners for a better take-off after merging.

At NHIF, I noted the following anomalies: there were a total of 100,032 active NHIF cards that received medical services with claims totalling to TZS 3.61 billion while their principal members had not made any contributions; I identified 149,939 over-age dependants with claims totaling to TZS 14.81 billion; there were 156 cards that were registered more than 20 times usage in a particular month and 132 cards that registered activities in at least two different geographical regions on the same day; I also identified 682 cards of principal members with more than five active cards of dependants ranging from 7 to 18 dependants; and I identified a total of 181,335 instances of expired cards that are still active and found a total of 1,232 expired cards that were used to receive medical services with claims totaling to TZS 31.06 million.

The above noted anomalies are contrary to the NHIF Compliance Manual and circulars. I recommend that Management implement facility and regional level controls to validate cards used and making consistent membership contributions as required by the law and internal policies.

Review of bank reconciliation statements at NSSF revealed unknown direct debits in bank accounts amounting to TZS 493 million of which some date back from 2004. There was no evidence of management follow up with the respective banks for these transactions. Unknown direct debits in bank accounts are prone to fraud.

I recommend that NSSF ensure that all unknown direct debits in the bank accounts are identified and reconciled.

My review of retirement benefit obligation at NSSF for retired staff noted that the Core Fund Management System (CFMS) database contains 129 members with unreasonable details. Some of the members were too old such as 146 years while some have not yet lodged their claims 20 years after attaining the retirement age. Incorrect data entry in the system can lead to payment/accrual of pension benefits to ghost beneficiaries leading to fictitious benefit payments.

I recommend that NSSF ensure the annual pensioner's verification exercise is performed comprehensively to include updates of the pensioner details in the System database.

11.13 Pension Funds Tax Related Matters

At PPF, I noted pending tax appeal cases at the Tax Revenue Appeals Tribunal and the Court of Appeal of Tanzania in which the PPF is contesting tax assessments on interest income from Government Bonds for the years 2007 and 2010. I also noted a pending tax appeal before the Tax Revenue Appeals Tribunal in which the Tanzania Revenue Authority (TRA) is challenging the decision of the Tax Revenue Appeals Board for the year 2005. As per the tax consultant report, TZS 236.90 billion were assessed as tax liability from financial year 2005 to 31st July, 2018.

I was informed that tax appeal cases were pending following the on-going out of the court negotiation with TRA and Ministry of Finance and Planning for tax settlement.

I recommend that PSSSF ensure close follow up on negotiation with TRA to resolve the matter as early as possible.

I further noted that Public Services Pension Fund (PSPF) received a notice of a tax payment of TZS 234.3 billion in respect of assessment of corporate tax for four financial years, from 2011/2012 to 2014/2015. The Trustees of PSPF referred the matter to Attorney General to make legal review of the matter as the Fund believe that it was exempted from tax since its inception on 1st July, 1999.

I recommend that the newly established Public Services Social Security Fund (PSSSF) make close follow ups on negotiation with Tanzania Revenue Authority (TRA) and resolve the matter in a timely manner.

11.14 Investment in Azania Bank Limited

Azania Bank Limited (formerly 1st Adili Bancorp Limited) is a bank established in 1995. The major shareholders of the bank are National Social Security Fund (NSSF) 35.27%, PPF Pensions Fund (PPF) 30.53%, Public Service Pension Fund (PSPF) 16.31%, LAPF Pensions Fund 15.35%, East Africa Development Bank Limited (EADB) 1.54%, Staff and other minority shareholders 1%.

As I have reported in my previous reports, since its establishment, Azania Bank Limited has never submitted its financial statements to CAG for audit. In that regard, I failed to access performance of the invested funds in Azania Bank. Following the merging of LAPF (15.35%), PPF (30.53%), and

PSPF (16.31%) into one entity (PSSSF), PSSSF is a majority shareholder with 62.19%. This implies that PSSSF has a controlling interest over the operations of this bank. Thus, Azania Bank is indirectly owned by the Government through PSSSF.

The Pension Funds collectively own 97.46% of the paid-up share capital of Azania Bank Limited.

Therefore, Azania bank is supposed to be under the control of the Treasury Registrar and therefore, required to submit its financial statements for my audit pursuant to Article 143 of the Constitution of URT and Sect. 9(a) iii & iv of the Public Audit Act No. 11 of 2008.

11.15 Non-compliance with Investment Limits Set by SSRA and BoT

The Social Security Regulatory Authority (SSRA) and the Bank of Tanzania (BoT) issued investment guidelines, in accordance with Sect. 26(2) of the Social Security Regulatory Authority Act, 2015 which sets limits on various permissible areas of investment for Pension Funds, Banks and Financial Institutions. The limits are 20-70% of total assets in Government Securities, 10% on loans and 30% on real estate. Furthermore, Sect. 27 of the SSRA Act requires Pension Funds to exercise management of members' funds at the best interest of the members and not to the contrary.

However, at PSPF I noted that investment in direct loans to the Government and real estate were above the set limit contrary to the above provisions. Likewise, the NHIF's investment in direct loans to the Government was above the set limit contrary to the above set limit. See below Table 20.

Table 20: Investment Categories and Limits at PSPF and NHIF

	Limit	2018	2017
Public Service Pension Fund (PSPF)			
Investment Category	**% of total Assets**	**% of Actual investment**	**% of Actual investment**

	Limit	2018	2017
Government Securities	20-70	0.31	1.84
Direct Loans to the Government	10	34.09	26.54
Real Estate	30	36.15	28.31
National Health Insurance Fund (NHIF)			
Direct Loans to the Government	10	18.65	15.82

Source: Financial Statements

I am concerned that non-compliance with set limits may expose the members' funds to financial risks.

I recommend that PSPF and NHIF abide by the regulatory requirements and avoid plans that are not in the best interest of the members' funds to minimize investments risks.

11.16 Uncertainty of Recoverability of Pre-1999 Contributions to PSSF and Back Purchase to LAPF TZS 261.3 billion

In accordance with the Public Service Pension Fund Act, the effective commencement date of the Fund with respect to collection of contributions payable to the mandatory scheme was 1st July, 1999. The benefits accrued prior to 1st July, 1999 for retirees are met by the PSPF but require funding from the Government.

In March 2013, the Government set out a financing arrangement to liquidate TZS 716.6 billion as part of the unfunded liability relating to benefits already paid by the PSPF up to 30th June, 2010. Under this arrangement, the Government committed to pay an agreed amount equally over a period of 10 years.

However, I noted that the amount due from the Government in relation to pre-1999 was TZS 186 billion since TZS 393 billion had already been paid out of TZS 579 billion supposed to be paid up to July 2018. This implies that PSPF cash flow was affected by paying members' benefit which accrued prior to 1st July, 1999 without being refunded.

Likewise, LAPF Pensions Fund recognised back purchase receivable amounting to TZS 107.3 billion in 2007/2008 when Government agreed to pay the Fund TZS 10 billion annually for the period of 10 years at an interest rate of 11.8% per annum. Government's liability to LAPF was established in June 2005 through an actuarial valuation that was done in the process of converting the LAPF from a Provident to Pension Fund. A repayment period of ten years was supposed to end on 30th June, 2017. However, up to the year ended 31st July, 2018 the amount due from the Treasury in relation to back purchase was TZS 75.3 billion.

Timely recovery of these receivables is crucial for the sustainability of the newly established Public Services Social Security Fund (PSSSF) which will inherit the liabilities from the two Pension Funds.

To ensure the sustainability of a newly established Fund, I recommend that the Government honour its obligation to Public Service Pension Fund (PSPF) and LAPF Pensions Fund by settling its obligations.

11.17 Delay in Payment of Retirement Benefits

Para 3.3 of NSSF benefit manual requires all claims to be processed and payment made within 14 days from the date of lodging the claims. This applies to old age pension, survivor's benefits and withdrawal benefits. Contrary to that, I noted delays in payment of benefit amounting to TZS 769.42 million to 12 members for periods ranging from 21 to 91 days, which denies beneficiaries rights.

I recommend that NSSF harmonize and strengthen internal processes to ensure timely payments of retirement benefits to beneficiaries.

11.18 Long Outstanding Contribution Receivables at NHIF and NSSF TZS 84.79 Billion

Registered employers are required to remit monthly contributions to Social Security Funds not later than 30 days after the month in which that amount is due. NSSF records of 30th June, 2018 shows outstanding contribution receivable of TZS 61.78 billion for more than one year. NSSF was unable to provide evidence of follow up of the long outstanding contributions.

At NHIF, I noted contribution receivables of TZS 23.01 billion and TZS 7.16 billion outstanding for more than 30 days and one year respectively. Lack of timely follow up and collection of contribution receivables may result in loss to the Funds.

I recommend that NSSF and NHIF establish stringent mechanism of follow up on the outstanding contribution receivables to ensure they are collected without further delay.

11.19 Declining of National Health Insurance Fund's Asset

I reviewed the actuarial report for the year ended 30th June, 2016, which was released in May 2018 and noted that the Fund's assets equal to 5 times the annual benefit payments and expenses incurred in the year ended 30 June, 2016 and that the Fund remains financially sound in the short-term.

However, according to the report, the projected point of deficit had been reduced from year 2040 as reported in the actuarial report of 30th June, 2013 to year 2025. This implies that as the projected claims continue to escalate, contributions and investment income would not be sufficient to cover; hence, the Fund will need to realize or sell assets to meet the claims.

Despite the fact that annual contribution receipts continue to exceed the annual benefit payments and the Fund does not have any liquidity concerns for the short-term, the benefit expenses have been growing at a faster rate than the contributions income and hence the assets have been growing at a declining rate. In this regard, in year ending 30th June, 2024, total claims are projected to represent 99.2% of total gross contributions before allowing for expenses, the ratio of claims to contributions is projected to increase to 104.8% in the following year.

The decrease in the Fund's cash flow was expected due to acceleration in growth of benefits claims. This is because the informal members have equal opportunity to receive health benefits given to formal employees in all facilities licensed by the Fund in the country. Despite contributing only 2% of the total contributions, the informal members[3] consume 20% of total benefit expenses.

Analysis of contributions against benefit expenses from four packages of informal members (toto afya card, clerics, kikoa and student) for the year ended 30th June, 2018 and 30th June, 2017 noted a deficit of TZS 27.23 billion as shown in Table 21 below.

Table 21: Trend of Contributions Against Benefits Claims

Name	Year	Total contributions (A)	Total claims (B)	Excess of claims over contributions (B-A)
Toto Afya Card	30-Jun-18	2,278,065,631	8,123,611,169	5,845,545,538
	30-Jun-17	573,780,970	2,117,204,867	1,543,423,897
Clerics	30-Jun-18	687,059,973	2,243,878,100	1,556,818,127
	30-Jun-17	783,446,270	1,051,620,455	268,174,185
Kikoa	30-Jun-18	2,355,627,403	12,649,172,607	10,293,545,204
	30-Jun-17	1,335,023,958	5,361,853,498	4,026,829,540
Student	30-Jun-18	6,139,391,901	9,830,262,440	3,690,870,539
TOTAL		**14,152,396,106**	**41,377,603,136**	**27,225,207,030**

Source: Auditor's analysis

[3] Informal members represent members who are not in formal employment such as below 18 years (toto afya cards), staff of religious denominations (clerics), private group of entrepreneurs and students.

A key element to ensure sustainability of the Fund is to monitor and control the rate of future benefits claims escalation. If this trend continues, the informal members' packages will erode the surpluses and impair financial soundness of the Fund as explained by the Actuary.

I recommend that the Fund review the rate of each group in order to match it with the expected claims. The Fund may also request Government to fund the deficit with the view to protecting the Fund from depletion of its resources and ensure that the services are affordable to the informal members.

11.20 After Service Health Insurance (ASHI) Benefits

The National Health Insurance Fund (NHIF) has begun to provide medical benefit for retirees since 01st July, 2009. These benefits apply to a retiree, who was a member of the Fund and his/her legal partner (wife or husband) to get medical care for the rest of their lives. A member must be 55 years old for voluntary retirement or statutory retirement age of 60 years.

Currently, the retired NHIF members are eligible to be covered for the rest of their lives and without having to pay any additional contribution whenever they have paid at least 120 monthly contributions (i.e. 10 years of continuous contributions). If the member has not made 10 years of contributions, they are required to make a lump sum contribution of 1% of their salary for the outstanding period.

The actuarial report of 30th June, 2016 shows the expected cost of covering retirees upon retirement of 80% of their contributions for the 10-year-Period to retirement. However, notably growing population of early retirees (refer to para 11.6 of this chapter), pose a risk of increasing claims from retirees benefits which may affect the fund cash flow, since the retirees will be receiving medical services without contributing. I recommend that NHIF institute a mechanism to monitor after service health Insurance benefits in such a way that a certain percentage of contributions will be earmarked to cover the future expected benefit expenses from beneficiaries.

CHAPTER TWELVE

ADMINISTRATION OF LOANS BY PUBLIC ENTITIES

12.1 Introduction

In executing its mandates, Public entities secure loans to finance various activities they undertake. These loans might be either foreign or local and differ in their nature and magnitude of risks. Administration of these loans is of great concern as they are secured against various assets that bear public interests.

I have reviewed serviceability of respective loans by looking thoroughly on ability to make repayments, amounts that have become overdue and associated risks with pledged assets.

From the review of loans administration by 4 Public Entities, I have observed anomalies and provided recommendations as follows:

12.2 Mysterious Purposes of Loan from Azania Bank TZS 372.76 Million

As at 30th June, 2018 Cereals and Other Produce Board (CPB) reported a loan balance of TZS 372.76 million from Azania Bank Ltd. This loan was neither directed nor approved by the Board of Directors as there was no Board at the time it was acquired. Further, CPB's management could neither provide loan contract nor minutes of management meeting for my review, thus I could not establish the purposes and conditions of the loan.

There is risk that the borrowed funds might be misused as there is no evidence establishing the purpose of the loan. I thus recommend that CPB establish the purposes, conditions and utilisation of the loan and account for its acquisition without the Board's approval.

12.3 Underperformance of Project Due to Ambiguous Credit Terms

In October 2012, the Ministry of Finance borrowed USD 178.13 million from the Export-Import Bank of India to finance DAWASA water supply projects in Dar es Salaam and Chalinze. The loan contract provided that 75% of goods and services for the project be procured from India. This meant that the contractor, machinery and major equipment were to be procured from India. I learnt that, USD 41.36 million from the borrowed funds were allocated for Chalinze water project and was given to contractor from India namely M/s Overseas Infrastructure Alliance (India) Pvt Ltd – Pratibha Industries Ltd. However, the project stopped at the stage of 75% for the reason that sub-contractors were not paid. Also, I noted that DAWASA did not receive any funds from the loan to manage the project.

The loan arrangement has caused the project not to be completed.

I recommend that the Government make follow up with the Indian Government to resolve this controversy of loan management and enforce the main contractor to complete the project.

12.4 Long Outstanding Loan Balance TZS 47.40 billion

In 2003, the Government of the United Republic of Tanzania borrowed a total of TZS 77.03 billion from three international financial institutions and lent the same at an interest of 11.5% per annum to DAWASA for the purpose of rehabilitation of water infrastructure in Dar es Salaam region. Repayment was expected to start from 2010 but up to 2014 DAWASA could not repay any amount. The loan has already accumulated interests amounting to TZS 100.87 billion by the year 2014.

The Government decided to restructure the loan by waiving the whole interest amount and part of principal amount to TZS 47.40 billion of which the first instalment was scheduled to start in July 2018. However, DAWASA's management is of the view that it will be difficult to pay the loan instalments as collections from water tariffs cannot even meet operating costs.

DAWASA seems to have been overburdened by the loan and this may affect the operations of DAWASA in the process of settling the loan amount. I thus urge the Government to consider the possibility of relieving DAWASA with this burden to enable it to start providing water service smoothly.

12.5 Non-compliance with Loan Covenant

Clause 20.2 of the loan agreement between National Housing Corporation (NHC) and East African Development Bank (EADB) requires NHC to maintain the debt service ratio of at least 1.5:1. The agreement elaborates that the debt service ratio implies Earnings Before Interest Tax, Depreciation and Amortization (EBTDA) over outstanding loan balance.

I noted that on 30th June, 2018 NHC had debt service ratio of 0.63:1 which is lower than indicative ratio in the contract. Non-compliance might create difficulties to NHC on accessing funds for its projects in the future. NHC management should ensure compliance with all loan covenants and seek approval from lenders should there be any potential breach.

12.6 Need to Amend Contract Provision to Accommodate Late Disbursement of Loan

I noticed that loan amounting TZS 601.73 million was disbursed to Ardhi University (ARU) on 29th December, 2017 from Tanzania Education Authority (TEA). However, Clause XI(i) of the loan agreement between ARU and TEA requires repayments to start on 30th November, 2017 which is earlier than disbursement date. Further repayments were scheduled to continue every year on anniversary of the first instalment.

The late disbursement of the loan had an effect on interest amount and repayment date of the first and subsequent instalments as the loan was not disbursed as planned.

I recommend that ARU liaise with TEA so as to amend repayment schedule as per clause XI(i) in order to come into common understanding.

12.7 Slow Pace of Loans Recovery by TEA

Tanzania Education Authority (TEA) among other functions, provides financial support to educational institutions in different projects or programmes aimed at improving access, equity and quality of education. During the year ended 30th June, 2018, I noted loans receivable from various education institutions amounting to TZS 4.17 billion which were due to be received by TEA. However, only TZS 197.30 million (an equivalent of 4.7%) was received from borrowers during the year. Slow pace of loans recovery is mainly attributed to inadequate follow by TEA and lack of strategic action plan for loan collections. Details under ***Annex V.***

Slow recovery of loans from institutions restrains TEA's liquidity and hence affects its ability to fulfil its core functions, specifically, lending to other institutions in need.

I recommend that TEA enhance its loan collection method and institute more aggressive measures to speed up collection of the loaned funds.

CHAPTER THIRTEEN

PERFORMANCE OF WATER AUTHORITIES

13.1 Introduction

Performances of Water Authorities are being measured through various targets set in Memorandum of Understanding between the Ministry of Water & Irrigation and the Water Authorities with close supervision from Energy and Water Utilities Regulatory Authority (EWURA). The indicators of performances include: protection of customer interests (service accessibility and quality of service); sustainability of the water authorities; metering ratio; revenue collection efficiency; operational costs; and infrastructure and environment sustainability.

This chapter highlights significant deficiencies noted in the performance of Water Authorities and other crosscutting matters affecting water provision services as detailed below:

13.2 Unacceptable Water Loss TZS 47.18 Billion

Non-Revenue Water (NRW) is water that has been produced but lost before it reaches customer. NRW is calculated using water produced and water connected to customers. The percentage of NRW is one of the key performance indicators of efficiency of water authorities. According to EWURA, the acceptable level of NRW for Urban Water Supply and Sanitation Authorities (UWSSAs) is equal to or less than 20%. This target was supposed to be achieved by all UWSSAs by 2018. The Ministry of Water & Irrigation and UWSSAs agreed also on intermediate targets that are to be achieved each year through Memorandum of Understanding requiring Water Authorities to continually monitor water production in terms of quantity and quality.

My review noted that NRW continued to be one of the major challenges to the Water Authorities. The main causes of NRW are old infrastructure leading to leakages, illegal connections, unreliable power supply, meter by pass, meter user registration, water theft, shallow distribution pipes exposed to the risk of being damaged, high percentage of unmetered customers and inaccurate customer data base making it extremely difficult to track all the customers.

From the review of operations of 15 Authorities I noted that NRW targets set were not achieved leading to total loss of TZS 128.21 billion (Acceptable loss being TZS 81.03 billion while unacceptable loss was TZS 47.18 billion) based on the available data of the quantity of water produced and water connected to customers. Table 22 below provides more details:

Table 22: Loss due to Non-revenue Water

S/N	UWSSAs	Total % NRW	Acceptable % NRW -	Water Loss-Total NRW (TZS in Millions)	Acceptable loss- MOU (TZS in Million)	Unacceptable Loss (MOU)- TZS in Million
1	Njombe	35	20	457.84	261.63	196.22
2	Mwanza	38	30	3,218.23	2,540.71	677.52
3	DAWASA	46	25	24,763.65	13,458.51	11,305.14
4	Arusha	47	39	10,690.88	8,863.61	1,827.27
5	Dodoma	28	27	6,226.31	5,919.38	306.93
6	Lindi	34	30	186.65	163.25	23.40
7	Iringa	27	25	2,637.18	2,423.88	213.30
8	DAWASCO	45	25	60,020.44	33,344.69	26,675.75
9	Tabora	36	30	1,989.90	1,658.25	331.65
10	Bukoba	49	30	2,104.01	1,288.17	815.84
11	Chalinze	32	30	842.27	789.63	52.64
12	Moshi	22	20	2,552.91	2,352.92	200.00
13	Babati	48	32	1,578.44	1,052.30	526.15
14	Morogoro	39	30	5.945.12	4,526.74	1,418.38
15	Musoma	63	30	4,997.51	2,383.93	2,613.58
	Total			**128,211.34**	**81,027.60**	**47,183.77**

Source: auditor's own analysis

I recommend that UWSSAs reduce the levels of NRW to the set target by installing bulk meters; metering all customers;

manage water pressure in the distribution networks and replacing old with new distribution networks equipment.

13.3 Low Level of Debt Recovery at Water Authorities TZS 97.58 Billion

Effectiveness and efficiency in revenue collection of Water Supply and Sanitation Authorities (WSSAs) is analyzed through collection efficiency and account receivable turnover.

The credit policy of the UWSSAs is to recover bills due within the following month and to disconnect from water service any customer who has accumulated his/her bills for more than ninety (90) days without paying. In testing implementation of the policy, I identified low level of debt recovery within water authorities as I identified significant receivables which had been outstanding beyond the credit limits policy. Such accumulations of account receivables balances of TZS 97.58 billion includes TZS 39.59 billion (41%) as Government debts and TZS 57.99 billion (59%) as other category i.e commercial customers, domestic customers, industrial customers and religious customers. Large outstanding balance of account receivables is mainly caused by inadequate close follow up on debtors' collections and non-compliance with UWSSAs policy by not disconnecting water services to defaulting customers as required by the credit policy.

The non-recovery of debts effectively decreases the Authority's liquidity and thus forces the Authority into unnecessary financial constraints. Breakdown of the respective accounts receivable with respective authority are in the Table 23 below:

Table 23: Significant Long outstanding Account Receivable

S/N	UWSSAs	Government Debt- Million	Commercial, Domestic & Industrial Debt-Million	Total-Million
1	DAWASA & DAWASCO	26,958.61	41,941.39	68,900.00
2	Kigoma	420.66	796.42	1,217.08

S/N	UWSSAs	Government Debt- Million	Commercial, Domestic & Industrial Debt-Million	Total-Million
3	Bukoba	364.00	429.19	793.19
4	Morogoro	578.13	1,682.92	2,261.05
5	Moshi	1,525.00	305.28	1,830.28
6	Singida	275.00	231.11	506.11
7	Tanga	1,996.00	2,601.83	4,597.83
8	Mwanza	2,212.81	3,689.59	5,902.40
9	Chalinze	111.00	556.70	667.70
10	Dodoma	1,634.00	2,300.64	3,934.64
11	Lindi	86.51	374.13	460.64
12	Kashuwasa	1,212.60	442.67	1,655.27
13	Mtwara		1,517.56	1,517.56
14	Arusha	1,354.01	230.49	1,584.50
15	Iringa	864.31	890.77	1,755.08
	Total	**39,592.64**	**57,990.69**	**97,583.33**

Source: Financial Statements

The amounts are very significant and might have impaired the operations of the authorities as significant funds are held by customers instead of being used in implementing the authorities' activities.

UWSSA's management need to develop action plans that delineate how the outstanding receivable will be collected and enforce the same to collect these receivables.

13.4 Non-Attainment of Customer Target DAWASA and AUWASA

The main driving factor in the growth of water demand in the service areas of WSSAs is the growth of population. Therefore, one can expect water demand to increase at a rate, which is equivalent to population growth rate. Water service coverage has been analysed based on two indicators namely population directly served and population living in area with water network.

Review of Arusha urban water supply and sanitation Authority (AUWASA) and Dar es Salaam Water and sewerage Authority

(DAWASA) noted there are non-achievement of customer targets as per their set. Proportion of population with direct access to water supply figure is lower than the target.

I noted that, the population covered in Arusha Urban Water Supply and Sanitation Authority (AUWASA) stood at a customer base of 49,107 equivalent to 44% of the city's population.

Also, I noted DAWASA's total number of customers connected with water is 222,913 which is 49% of the target set of 450,000 by 30th June, 2018. Failure to meet the strategy of 450,000 customers leads to a high percentage of population living without direct access to water and also impacts the authority by not attaining its targeted revenue.

I recommend that DAWASA & AUWASA review, re-plan and implement the strategies as stated in the strategic plan.

13.5 Liquidity Problem Experienced by Water Authorities

A total of 11 out 20 Water Authorities I reviewed during the year experience deteriorating financial performance as a result of consecutive losses and liquidity problems which indicates inability of the authorities to rejuvenate in the near future. The situation hinders these authorities from honoring their current liabilities when they fall due as per analysis in Table 24.

Table 24 below indicates the analysis of some of the Water Authorities facing the problem of deteriorating working capital:

Table 24: Liquidity Problem Experienced by Water Authorities

UWSSAs	Deficit Incurred (TZS)	Accumulated Losses (TZS)	Current ratio (recommended ratio 1:1)
	Year 2017/2018		
DAWASCO	8,769,933,000	86,418,819,000	0.58:1
Iringa	1,233,783,388	613,937,228	
DAWASA	-	99,065,752,000	0.85:1

UWSSAs	Deficit Incurred (TZS)	Accumulated Losses (TZS)	Current ratio (recommended ratio 1:1)
Lindi	47,000,987	1,190,343,424	0.29:1
Masasi	414,926,075	2,306,068,294	
Moshi			0.97:1
Mtwara	117,976,132	2,783,219,933	0.93:1
Mwanza	378,442,392	141,440,413	0.95
Njombe		383,170,813	0.57:1
Singida		1,093,695,417	0.91:1
Tabora	471,675,799		

The above ratios indicate the existence of a material uncertainty that may cast significant doubt about the ability of these entities to continue as going concern entities if no immediate action is taken by the Government to improve their financial capabilities.

I recommend that UWSSAs develop a strategy to rescue the authorities noted with liquidity problem.

13.6 Absence of National Sewerage Policy and Act

My audit of Dodoma Urban Water Authority observed that the authority does not have procedures for disconnecting defaulting sewerage customers. From the discussion with management I noted absence of National sewerage policy and sewerage Act which addresses sewerage issues. Further I noted that the issue cut across all water authorities.

I recommend that the Government establish National Sewerage Policy and Sewerage Act which will guide all sewerage matters within the country. Presently, all UWSSAs should establish proper disconnecting default procedures for customers connected to sewerage services.

13.7 Inadequate Sewerage Infrastructures

My review noted that there is low level of sewerage coverage of population while demand for connection is high but impeded by the high cost of service connection and investment of aiding infrastructures such as oxidation ponds and sludge drying beds.

For instance; at Tanga city, about 10km of the total 36 km sewer network is highly dilapidated and this has continued to cause challenges and losses to the authority in terms of rehabilitation which if delayed may have health aftermaths. Sewerage coverage at Tanga City is only 9.7%. I noted Tanga UWASA discharges its collected waste water directly to the Indian Ocean without any form of treatment causing pollution and bad image on operations. This is caused by the lack of waste water treatment facilities in the city.

Dodoma City only 20% of the population of about 500,000 is being served/connected to the sewerage network. This is caused by lack of lateral sewers in most of built up areas. Further, existing waste stabilization ponds are not capable of handling generated waste. As a result, during the year DUWASA reported revenue of only TZS 1.32 billion. However, based on EWURA standards the sewerage revenue is expected to be 40% of revenue from clean water of TZS 12.49 billion i.e. TZS 4.99 billion. Further, I observed that Swaswa pond is located close to residential houses and agricultural farms of the residence of that area. Moreover, I noted Swaswa dams are full which may overflow in case of heavy rains.

The current sewerage infrastructure may not meet the current and future demand of the rapidly growing Dodoma City.

I recommend that the mentioned authorities increase sewerage service coverage as there is a tall order to achieve the national target of 30% by year 2025. I also recommend that the authorities improve and sustain waste water collection and disposal.

13.8 Inadequacy Water Distribution Infrastructure/ Network

The Memorandum of Understanding between MoW and UWSSAs requires UWSSAs to develop and carry out proper maintenance of water networks connected to supply water. Further, the MoU operational guidelines of technical procedures require UWSSAs to ensure that the facilities and infrastructure for water supply are properly maintained and a comprehensive preventive maintenance program is in place.

The review noted some of the water authorities such as Dodoma UWSSA, DAWASA, Tanga UWSSA, Lindi UWSSA, Mwanza, UWSSA, Njombe UWSSA, Chalinze UWSSA, Musoma UWSSA, Morogoro UWSSA are facing challenge in fulfilling their responsibility in providing safe, reliable affordable water supply to the entire population due to existence of old pipes and outdated water distribution network. Most of UWSSAs are still depending on old network in the distribution system that causes leakages and reduces the level of UWSSAs coverage of population with access to reliable water. Water leakages reduce water to be distributed to customers.

My review observed that, these authorities strive to get funds for replacement of the outdated networks. However, the pace of implementing projects using own funds do not match the rapid population growth, and therefore some management such as Dodoma Urban Water Authority have submitted request for funds to the Ministry of Water and Irrigation.

Table 25: Inadequacy Water Distribution Infrastructure/ Network

S/N	UWSSA	Coverage of the total Population with access to water
1	Babati	67%
2	Masasi Nachingwea	44%
3	Arusha	55%
4	Dodoma	52%
5	Singida	74%
6	Shinyanga	62%
7	Njombe	53%
8	Chalinze	60%

Source: Directors reports of 2017/18

Management of mentioned UWSSAs should fast track the study to establish the current population against water demand. Thereafter, look for funds to develop other sources of water and should expand water networks to meet the rapid expansion of the cities.

13.9 Irregularities in Customer Billings

The Memorandum of Understanding between UWSSAs and MoW requires water authorities to have a continuous monitoring of water production and distribution in terms of quantity and quality. Also, as per the Water Act, the Authorities are supposed to install water meters for the purpose of measuring the amount of water produced and supplied to the customers.

My review noted that some UWSSAs have not managed to install meters for all their customers and thus billing to those customers are based on estimates which are prone to errors and eventually might result in commercial loss. Unmetered customers were particularly noted in UWSSAs of Dar es salaam, Musoma, Morogoro, Lindi, Namtumbo, Babati, Njombe and Arusha. It was further observed that unmetered customers pay a flat rate based on estimated monthly consumption. I also noted some UWSSAs which have unbilled customers in their database. For instance, DAWASA has an average of 22,319 (10% of total customers) customers billed based on estimates, 16,336 (7.6% of total customers) unmetered customers for more than 10 years and 53,202 (26% of total customers) unbilled customers.

Estimated billing has adverse impact on UWSSAs revenue as actual consumption might be higher than the estimates while unbilled customers are prone to the risk of fraud as dishonest employees might be colluding with customers for personal advantage. I recommend that UWSSAs managements address the above anomalies by instituting measures that will ensure metering and billing issues are resolved. All customers to be metered and ensure meters are read every month in order to issue realistic bills that are based on metered consumption.

CHAPTER FOURTEEN

MANAGEMENT OF GOVERNMENT SUBVENTIONS TO PUBLIC ENTITIES

14.1 Introduction

While the Government strives to improve the agricultural sector through provision of subvention on agricultural inputs for the aim of uplifting productivity and improve citizen's well-being, I found several weaknesses in the distribution process of inputs to farmers as highlighted in the following paragraphs:

14.2 Deficiency in Distribution of Cotton Pesticides and Sprayers to Farmers

During the year under review the Government directed Tanzania Cotton Board (TCB) to issue cotton inputs free of charge to all cotton farmers. To facilitate the distribution exercise, special documents such as Delivery Note (DN) and Form No. 4 were designed and applied. Delivery note was used when inputs were delivered to Ginneries while Form No. 4 was used on delivery to farmers. In 2017/2018 inputs with total cost of TZS 19.9 billion were purchased and distributed to farmers.

While reviewing the special audit report from internal audit unit, I noted the following deficiencies in the distribution process:

i. Form No.4 shows some farmers were given more pesticides compared to the cultivated acres, particularly for distributors and local government officials.

ii. In most cases, one person signed the delivery of pesticides on behalf of other farmers using different or similar signatures.

iii. Farmers reported to have taken pesticides while there were no supporting signed form No.4 and some entries in form No. 4 were supported with fake delivery note numbers and were not signed by local government officials (Ward Chairman) to confirm that the distribution took place.

iv. About 90% of pesticides distributed by ICK Company in Misungwi District were collected by Wards Chairmen but not supported by signatures of the farmers who received the pesticides.

v. In another district, pesticides were sold to farmers instead of giving them free as directed by TCB. This was noted by reviewing payment attachments from KCCL Company's agent worth TZS 2.84 million.

vi. In most areas especially those served by KOM Company, one form was used to distribute both pesticides and sprayers hence, making it difficult to identify if the distribution was for pesticides or sprayers. Most sprayers did not seem to have been distributed to farmers through form No. 4.

vii. Form No. 4 included farmers' names which were different from receipt books.

viii. Poor record keeping by S&C Ginning Company thus hindering audit trails as pesticides distributed to Bunda, Butiama and Busega Districts could not be traced due to lack of distribution records while Simiyu Commodities Company failed to provide distribution list of pesticides to famers.

ix. Loss of two boxes of DUDUALL 450 EC with 40 bottles of pesticides held by S & C Ginning Companies, company's operational manager explained that the two boxes were stolen. However, there was no evidence to prove that.

I consider that the noted deficiencies are mainly resulted from inadequate monitoring and supervision of distribution exercise by the TCB through district task force and distribution agents.

I recommend that TCB design an effective and efficiency supervision and motoring of distribution process of cotton inputs to minimize the noted deficiency including among others, improving Form No. 4 to include more information such as type of input distributed, volume of inputs and distribution phase; and designing special form for distribution of sprayers.

14.3 Delay in Delivery of Agricultural Inputs to Famers

Cashewnut Board of Tanzania (CBT) entered into contract with Bajuta International Ltd for supply of 15,000 Metric Tonnes of Sulphur 99.5% for contract sum of TZS 18.9 billion. According to the delivery schedule, 7,500 Metric Tonnes of Sulphur were required to be delivered before 30th May, 2018 and the remaining 7,500 to be delivered before 30th June, 2018. However, the whole cargo was delivered in August 2018 (2 months delay) contrary to the agreed timeframe and no liquidated damages were deducted for the delayed delivery. Delay in delivery of agricultural inputs might adversely affect the production and misalign with season.

I recommend that CBT ensure strict compliance with terms and conditions on delivery times of agriculture inputs to avoid the risk of mismatch with agricultural seasons due to delay in delivery.

CHAPTER FIFTEEN

MANAGEMENT OF PROPERTY, PLANT AND EQUIPMENTS

15.1 Introduction

Property, Plant and Equipment (PPE) these are Non-Current assets maintained and utilised by an entity in the process of provision of its services or in production of its commodity.

Most of the Public Entities face challenges in locations, quantity, conditions, maintenance, depreciation and maintenance of Registers for their Non-Current assets. My review of management of PPE in the Public Entities noted the following anomalies:

15.2 Transfer of Assets from TANESCO to ETDCO Without Transfer Documents TZS 844.74 Million

During the Physical verification of assets of Electrical Transmission and Distribution Construction and Maintenance Company Limited (ETDCO) I found that, the company has in its disposal various assets such as buildings, motor vehicles, as well as office equipment all valued at TZS 844.74 million. The assets were transferred from TANESCO as a parent company to ETDCO, however, there were no any legal documents validating the transfer of ownership to ETDCO. It is thus difficult to ascertain the owner of the assets between TANESCO and ETDCO.

I recommend that TANESCO finalize legal transfer of the assets to ETDCO.

15.3 Lack of Documentary Evidence for Investment Made in ETDCO by TANESCO TZS 1 Billion

During the review of the share capital composition of ETDCO, I noted that TANESCO subscribed TZS 1 billion to share capital; however, the share certificate was not issued to TANESCO to recognize its ownership of the shares. This situation makes it difficult to substantiate investment made by TANESCO to ETDCO.

I recommend that TANESCO ensure it obtains the share capital certificate for the investment it made in ETDCO.

15.4 Revaluation Balances not Approved by the Board TZS 34.13 Billion

BUWASA revalued its assets in April 2018 for TZS 34.13 billion from TZS 12.40 billion to TZS 46.53 billion and incorporated the valued assets in the financial statements as at 30th June, 2018. However, the Management adopted the report without being reviewed and approved by the Board contrary to the best practices that after valuation the report should be sent to the Board of Directors for its review and approval.

I recommend that the Management seek the approval of the Board and then adjust the financial statements accordingly.

15.5 DAWASA's Waste Stabilization Ponds Not Used Effectively TZS 2.02 billion

During the physical verification of DAWASA's assets at Mikocheni area from 18th to 22nd June, 2018, I found that there were waste stabilization ponds of the total cost of TZS 2.02 billion which were not used to their capacity. DAWASA's engineer explained that the ponds stopped to be used for a very long time for unknown reasons and there are no other alternative plans to utilise the ponds.

I recommend that the Authority utilize the ponds for the intended use to their maximum capacity.

15.6 DAWASA's Unsettled Compensations for Land TZS 2.22 Billion

Reg. 13(2) of Land Regulations of 2001 and Reg. 19(1) -(3) of Village Land Regulations of 2001 require compensations for land to be made within six months after valuation failure of which interest will be charged at the rate prevailing in the market at that time.

Further, Sect. 22 (1) (k) of Land Regulations of 2001 provides that payments of compensation should be made to acquire the right of occupancy when there is a need for compulsory acquisition of land for public purposes.

Contrary to the above provisions, DAWASA carried out land valuation on 16th August, 2013 for 136 owners at Kurasini area in Dar es salaam for the purpose of acquiring it for establishment of waste water ponds. A total of 95 beneficiaries with a total amount of TZS 6.39 billion were compensated and 41 remaining ones with a total amount of TZS 2.22 billion were not compensated yet up to 30th June, 2018. Delay in payments of compensation to beneficiaries leads to delays in commencement of the project. Further, it may attract interests as per the above provisions.

I recommend that DAWASA make payment of compensations to avoid interests and ensure that the project takes off as planned.

15.7 Lack of Title Deed by HESLB and a Plan for Resumption of Construction Head Office at Mikocheni B

Higher Learning Students Loans Board (HESLB) has not yet obtained title deed in its own name for Plots No 496-509, 492-495,436,464, 478 and 480 at Mikocheni B. The land was given by Tanzania Institute of Education (TIE) by the lease agreement between HESLB and TIE on 18th October, 2010 with paid compensation on land of TZS 769.23 million as per a Lease agreement. The title is still in the name of the Tanzania Institute of Education (TIE).

HESLB had started construction of the Head Office from financial year 2016/2017 with TZS 2.27 billion being utilized. However, to date construction is still at the foundation stage. I further noted that the construction had been stopped by the

Treasury Registrar letter with Reference No. CEA.170/344/01 dated 14th June, 2016 to Chief Executive Directors (HESLB), ordering cessation of the construction. I recommend that HESLB seek clarification for the stop order and further keep pursuing TIE for the tittle deed.

15.8 Non-Development of 90% of 265 Acres on Kizumbi Teaching Centre of MOCU

Moshi Co-operative University (MOCU) owns land with 265 acres at Kizumbi Training Centre (KTC). The land has been idle and underdeveloped for a long time. I noted that 90% of the land has not been developed at all. Further, the land has been encroached by farmers and other pastoralists as there is no fence enclosing it. If measures are not taken, land disputes with the invaders may arise.

I thus, recommend that MOCU consider developing the land to avoid possibility of land disputes.

15.9 Delay in Completion of Construction of Campus Classrooms-cum-Lecture Theatres at Mzumbe University TZS 2.8 billion

Mzumbe University entered into a contract No. PA/013/2015-16/GWND/22 with M/s Afriq Engineering & Construction Co. Ltd for construction of classrooms-cum-lecture theatre at Mbeya Campus commenced on 1st September, 2016 and completion date was to be 1st July, 2017.

During the site visit in October 2018 I learnt that the construction was yet to be completed. Progress certificates revealed that payments amounting to TZS 1.42 billion had already been made equivalent to 50% of the total construction cost of TZS 2.8 billion.

I recommend that Mzumbe University make close supervision to ensure the construction is completed without any further delay.

15.10 Long Outstanding Work in Progress for Building and Machinery

Review of SIDO's fixed assets observed that in 2008 SIDO entered into an agreement with Korea International Development Agency (KOICA) to build the capacity in agro-processing in Tanzania through construction of two agro-processing cum Production centres in Dar es Salaam and Morogoro.

However, as of December 2018 the construction had not been completed yet. I noted that KOICA did not proceed with construction as per agreement but rather provided a sum of USD 400,000 equivalent to around TZS 639.98 million for SIDO to proceed with project. SIDO did not manage to proceed with the project because TZS 1.06 billion was required to complete the project.

I recommend that SIDO hold negotiation with KOICA to see the possibility of completing the project.

15.11 SIDO Inadequate Management of Build, Operate and Transfer Arrangement

Build, Operate and Transfer is an arrangement where SIDO and investors agree on construction of various buildings and later the investor transfers the buildings to SIDO after a period of 15 years. In this arrangement, SIDO provides investors with a piece of land for construction of buildings as specified in Bill of Quantity and contracts.

I noted that SIDO has no standard prescribed materials that ought to be used in the construction; there are no conditions (general or specific) attached to the contract for clarification of the contract needs, obligations, duties and liability for failure to comply with the terms of the contract; SIDO does not have an Estate Manager who would foresee all the construction process; and that SIDO does not supervise and monitor the projects.

I recommend that SIDO develop a plan and strategies to address all the above noted weaknesses in the management of BOT.

CHAPTER SIXTEEN

PROCUREMENT AND CONTRACT MANAGEMENT

16.1 Introduction

Procurement and Contract Management in Public Sector is guided by the Public Procurement Act, 2011 and its Regulations of 2013.

To ensure that procurement activities are undertaken consistently to a high standard, efficiently and economically so as to achieve economy, social and environmental benefits, compliance with Public Procurement Act, 2011 and its Regulations of 2013 are highly emphasized and monitored by the Public Procurement Regulatory Authority (PPRA).

During the review of procurement processes in Public Authorities and other Bodies, I identified following deficiencies: -

16.2 Medical Store Department (MSD) Awarding of 'Call Off Orders' Without Performance Guarantee

Reg. 29 (1) of Public Procurement Regulations (2013) requires the successful tenderer to submit a performance security to guarantee faithful performance of a contract. Further, MSD Special Condition No. 8 and General Condition No. 10.1 of framework contract requires a supplier to submit performance security of 10% of the call off order amount awarded.

From the review of 31 call off orders I found that 6 (19.4%) suppliers did not submit performance guarantees with total amount of USD 291,323; while 1 (3.2%) call off order made, supplier submitted performance guarantee of USD 71,630 which is less than the required USD 102,247 or 10 per cent of the call off order amount awarded. The remaining 24 suppliers (77.4%) submitted performance guarantee equal to 10% of call off order amount as required.

I also noted that, there is no close follow up on extension of the bank guarantee when its time expires while a supplier has yet to deliver all quantities required.

I recommend that MSD ensure that its suppliers comply with the above provisions on performance securities and make close follow up on expiration of the submitted securities before full delivery.

16.3 Payment of Liquidated Damages TZS 420.82 Million

MSD entered into a contract No. MSD/003/2011-2012/HQ/W/03 on 13th May, 2013 with M/s China Railway Jianchang Engineering Co (T) Ltd for renovation of MSD's Headquarters in Dar Es Salaam for a contract sum of TZS 7.39 billion. The contract was scheduled to commence on 22nd June, 2013 and completed on 21st June, 2015, but completion date was extended to 30th July, 2016.

On 23rd March, 2018 the Contractor raised invoice No. 1465 for TZS 1.83 billion as costs of additional works. However, the invoice to support this payment showed that TZS 420.82 million of the claimed amount was for loss and expenses incurred by the Contractor due to:

i. delay of 43 days in issuance of demolition permit;

ii. delay of 63 days in issuance of building permit;

iii. delay of 20 days in awaiting structural engineer's approval; and

iv. 180 days spent on MSD procurement process approval on variations and changes in design.

There was no value for money received on payments of TZS 420.82 million. I thus recommend that the Department make complete arrangements before entering into any contracts.

16.4 Inadequate Management of Contracts by TANAPA

TANAPA was carrying out two projects, one from 06th May, 2017 with JECCS Construction & Supplies Ltd and another from 09th February, 2017 with Secao Builder Co. Ltd with the total contract cost of TZS 961 million. The contract periods for these projects ended on 17th February, 2018 and 10th October, 2017 respectively however, up to the time of writing my report (February 2019) about one (1) year from the scheduled completion date the said projects had not been completed yet. These projects were included in the corporate strategic plan of TANAPA of 2013/2014 to 2017/2018.

There were no any efforts exerted by TANAPA to ensure the projects are completed. I recommend that TANAPA conduct frequent monitoring and evaluation of the contracts to ensure that they are implemented as per the agreements.

16.5 Improper Evaluation of Tender for Re-branding TPB Bank PLC Logo TZS 495.75 Million

Reg. 203 (1) of the Public Procurement Regulations, 2013 (amended 2016) requires tender evaluation to be consistent with the terms and conditions prescribed in the tender documents and such evaluation to be carried out using the criteria explicitly stated in the tender documents and Regulation 213 provides criteria of the lowest bidder.

During the year, TPB engaged into procurement of re-branding the Bank's logo. The tender Evaluation Team proposed M/s CI Group Marketing Solution with the price of TZS 224 million as a successful bidder. However, the Tender Board through circular resolution cancelled the award to M/s CI Group Marketing Solution on the grounds of delay in re-branding of Kijitonyama as a model branch. The Tender Board then awarded the next ranked bidder M/s Jupiter Company Limited at a cost of TZS 495 million.

The decision made by the Tender Board increased cost of the design by TZS 271 million which is 120% of the lowest recommended bidder's price who also had experience of the work. So, the bank incurred such huge expenses just to avoid delay in logo design which would not prevent the smooth operations of the Bank. This is a questionable decision because the cost with an increase of TZS 271 million cannot be justified for the logo design.

I recommend that TPB's Tender Board and Management conduct thorough due diligence in implementing their duties with respect to procurement activities.

16.6 Unapproved TPB's Procurements TZS 247 Million

Reg. 69 (7) of the Public Procurement Regulations (2016) requires a procuring entity to prepare procurement plan for all those requirements which have been budgeted for.

However, during the year under review, I noted additional payments amounting to TZS 247 million made on planned activities as shown in the Table 26 below:

Table 26: Unapproved TPB's Procurements

Procurement Details	Amount Allocated (TZS)	Total amount paid (TZS)	Difference (TZS)
Procurement of severs for Rubicon banking system database	345,540,000	548,848,256	203,308,256
Renovation of Temeke Branch	350,000,000	394,609,051	44,609,051
Total	**695,540,000**	**943,457,307**	**247,917,307**

I recommend that TPB make proper allocation of funds and plan effectively for the procurements they intend to effect during a year.

16.7 Variation of Contract Price Without Approval TZS 685.33 Million

Reg. 61 (4) of the Public Procurement Regulations (2013) forbids variation of contract to more than 15% of the original price without prior approval of budget approving authority.

During the review of Tanzania Bureau of Standards (TBS) procurements, I noted that in executing contract PA/044/2017-18/HQ/W/03 for Construction of Sample receiving block, Fence and Guard's House TZS 498.26 million were spent over and above the approved TZS 162 million, thus, making overspending of TZS 336.26 million without proper authority.

I recommend that TBS abide by its approved budget in the implementation of procurements and if need arise add extra funds then seek required approval.

16.8 Non-compliance with Regulation 232(1) of PPR TZS 20.37 Billion

Reg. 232 (1) of the Public Procurement Regulations (2013) states that "the accounting officer shall send a copy of the award letter to the Chief Executive Officer of the Authority, the Controller and Auditor General, the Attorney General and the Internal Auditor General."

However, at Cashewnut Board of Tanzania (CBT) the Board did not send copies of letters of award to the Chief Executive Officer of the Authority, the Controller and Auditor General, the Attorney General and the Internal Auditor General for the two contract it entered into with M/s. Mocrops Tanzania Limited for supply of 105 Litres of Hexaconazole 5g/l worth TZS 1.47 billion and M/s. Bajuta International Limited for supply of 15,000 MT of sulphur (99.5%) with total cost of TZS 18.90 billion .

I recommend that CBT always make sure that copies of all awarded contracts are submitted to above offices as required by Reg. 232(1) of the Procurement Regulations 2013.

16.9 Liquidated Damages Not Charged TZS 1.98 Billion

DAWASA entered into a contract No. DAWASA/CW/2012-2013/10 with M/s Serengeti in Joint Venture with NSPT Limited for drilling of twenty (20) boreholes at Kimbiji and Mpera at the contract price of TZS 19.82 billion.

Clause 8.7 of the contract stipulates that when the contractor fails to complete the works within the agreed period of time, the contractor should be charged delay damage at the rate of 0.05% of the final contract price per day but not exceeding 10% of the final contract price.

The accepted completion date was 31st December, 2015. The Delay damages had to apply from 1st January, 2016 to reach the maximum of 10% on 18th July, 2016, that is, 200 days equivalents to TZS 1.98 billion.

DAWASA was required to claim TZS 1.98 billion due to delay, however, it did not. I thus recommend that DAWASA claim for the same from the contractor.

16.10 SUMATRA Revenue Sharing with LGAs Without Justification TZS 381.62 Million

Article 7.1 of Memorandum of Understanding requires fees collected by Local Government Authorities from all motor cycles and tricycles to be shared on equal basis with SUMATRA.

My review revealed that SUMATRA remits 50% of its collections from motor cycles and tricycles made by SUMATRA regional offices to LGAs.

This is contrary to the requirements of Article 7.1 of the MoU which require sharing of collections made by LGAs and not those made by SUMATRA. I thus recommend that SUMATRA share only collections made by LGAs.

16.11 Delays in implementation of Projects as per Contract Between CPB and TANFAS Enterprises Limited

The Cereals and Other Produce Board of Tanzania (CPB) and TANFAS Enterprises Limited entered into a contract on 22nd February, 2017 on the agreement that TANFAS would provide consultancy services for designing, installation supervision and commissioning of sunflower oil and Maize flour Mills at CPB Kizota Complex in Dodoma at a contract sum of TZS 270.41 million.

Further, on 7th March, 2017, the Board of Trustees of NSSF and CPB signed a Loan agreement which stipulated that CPB would secure a loan of TZS 3.67 billion for installation of Dodoma Maize Mill, Construction of Dodoma Sunflower Oil and Procurement of Maize grain and Sunflower.

The specific Terms and Conditions of this contract require TANFAS to deliver the project within 6 months (i.e. 22nd August, 2017) from the date of signing this agreement (i.e. 22nd February, 2017), but up to November 2018, over 15 months from the expected delivery date, TANFAS neither delivered nor started the project according to the contract. There was no any explanation provided in the notification from the consultant to CPB in providing reasons for the delay, as per requirement of Reg. 21(21.2) of the Public Procurement Regulations.

I recommend that CPB seek for legal advice and actions towards TANFAS for delay in the implementation of the project and for not abiding by the terms of the contract.

16.12 Anomalies in Contract for Supply, Installation, Commissioning & Training for Science Laboratory Machineries and Equipment in Dodoma University (UDOM)

University of Dodoma entered into a contract No. RFQ/PA/041/2017-2018/G/14 LOT 2 with M/s Technotrade Investment Ltd for supply, installation Commissioning and

Training for Science Laboratory Machineries and Equipment at a contract price of TZS 2.33 billion.

According to Reg. 59(1) of PPR 2013 any formal contract arising from the acceptance of tender whose value is TZS 1 billion or more should be vetted by the Attorney-General before the contract is signed by the parties. However, I noted that, the contract was signed by the parties before being vetted by the Attorney General. Further, the contract does not disclose relevant obligations of the parties to the contract.

I recommend that UDOM ensure clear terms of the obligations in the contract are being availed and known by each party.

16.13 Delayed Delivery of Procured Goods and Services at Dodoma University (UDOM)

University of Dodoma (UDOM) made procurements amounting to TZS 201.32 million for various Dialysis Supplies vide contracts No. RFQ/PA/041/2017-2018/G/11 LOT 2-3 with Ms. Anudha Limited TZS 151.32 million; and No. RFQ/PA/041/2017-2018/G/11 LOT 2-3 with M/s Hasafa Health Sciences Ltd TZS 50 million.

The supplies were supposed to be delivered on 11th July, 2018. However, up to 30th December, 2018, the procured items were not yet delivered, and no liquidated damages were charged to the supplier contrary to Sect. 77(4) of PPA 2011 requiring liquidated damages to be charged on the contractor, supplier or service provider for undelivered goods or delayed services or works.

I recommend that UDOM make close follow up and ensure the goods are delivered to the required specifications and quantity.

16.14 Advance Payments of TZS 1.07 Billion for Services not Received in More Than Three years

RAHCO made advance payment of USD 500,000 equivalent to TZS 1.07 billion to Advisor STG South Africa for consulting services of Standard Gauge Railway in 2015. However, the service was not provided to the company till the time of the audit in February 2019, being three years from when advance payment was made in 2015. The contract period was 12 calendar months from the signing of the contract on 20th May, 2015.

I was informed by RAHCO Management that the matter is in the Court of Law for legal actions.

16.15 Idle OCS 121 System at MAMC Mloganzila Campus in Muhimbili University of Health and Allied Sciences (MUHAS)

On 16th December, 2014 MUHAS entered into a contract with SUMSANG C&T Corporation, a South Korean based company to supply and install among other things, software namely "OCS 121 System Viewer". The software was installed on 26th July, 2017 with contract price of USD 1.42 million.

My physical verification of the effectiveness of the software revealed that, the installed software was idle because it does not meet the specifications outlined in the contract. Also, I noted that the software deviated from the user's requirements as it lacks modules contrary to the specifications, and thus it was not ready for its intended use. This was revealed when User Acceptance Test (UAT) was performed to the system by MUHAS.

I recommend that MUHAS make close follow up with the supplier to ensure they demand the additional features of the software in order to operationalize the software.

16.16 Delay in Completion of Victoria Place Project of TZS 34.14 Billion at NHC

Victoria Place is an NHC housing project located on Plot No 36 and 37 along the New Bagamoyo Road- Kinondoni Municipality in Dar es Salaam Tanzania. The estimated capital investment of project was TZS 34.14 billion whereby financing ratio was 70% NHC equity and 30% loan from Financial Institution. On 23rd

December, 2013 NHC took loan from Bank M amounting to TZS 15 billion for the project. NHC entered into a contract with Group Six International Ltd on 23rd December, 2013 vide contract No. PA/066/2012-2013/HQ/W/12 costing TZS 30.28 billion (VAT inclusive) to be completed within 24 months (December 2015) after commencement date.

My review of the project implementation status noted an extra cost incurred for the Project without relevant justification. Initially the feasibility study proposed the construction of 200 units to be built in 17 flats, at a cost of TZS 34.14 billion. However, during execution I noted reduction in work load to 88 units to be built in 14 flats at a cost of TZS 41 billion, an increase of TZS 6.86 billion from initial cost. The abnormal increased in cost of TZS 6.86 billion resulted from reduction in work load was not supported by justifiable evidence. Moreover, I noted that Environmental Impact Assessment sent to NEMC was for 10 flats contrary to what is being built.

I also noted absence of Addendum on the alteration of Project work load to reflect the changes made in design and general construction of the works from the original signed contract. This is contrary to the requirement of Sect. 60(11) of PPA, 2011 (as amended in 2016) which stipulates that, any contract or amendments should be signed by parties in order to be enforceable. The changes made were supposed to be properly captured with respect to the main contract so as to safeguard the Corporation in case of any legal proceedings.

I recommend that the Management make proper follow up on the execution of the project to ensure there is completion of the work despite the challenges involved. I also recommend that NHC management ensure all the changes made in work load are reflected in the addendum to the contract.

16.17 Unrecovered Liquidated Damages from Terminated Contract by NHC

On 13th July, 2017 NHC terminated the contracts with M/s Herkin Builders under contract No. PA/066/2012-2013/HQ/W/07 Lots 3.4, 6 and 7 for construction of residential apartments at Mwongozo area and M/s Afrem Contractors with contract No. PA/066/2013-2014/HQ/W/89 for drilling boreholes and water reticulation system, these contracts were terminated due to delay in completion of their work for the periods of 3 and 2 years respectively.

I noted that following termination of contract NHC has yet recovered liquidated damages of TZS 810 million (10% of contract sum) from M/s Herkin Builders and the performance guarantee for the tenders had expired before the date of termination contrary to requirement of clause 51.1 of general conditions and clauses 40 and 41 of special conditions of the contract which give the right to charge liquidated damages.

On 20th July, 2017, NHC awarded the Directorate of Property and Development (DPD) of NHC a contract for completion of outstanding scope of tender No.PA/066/2012-2013/HQ/W/07 Lots 3.4,6 and 7 and PA/066/2013-2014/HQ/W/89 for 56 days at an extra cost of TZS 162.73 million however, the work is yet to be completed up to December, 2018.

I recommend that NHC recover the liquidated damage from the terminated contracts as required by clause 51.1 of the contract. NHC should also enhance project supervision and ensure performance securities for the tenders are always active until completion of the contracts.

16.18 Disqualification of Tender Without Concrete Reasons TZS 563.32 Million by TANESCO

TANESCO awarded tender to M/s Agro Vision Limited under a contract No. PA/001/2016-17/HQ/G/01 for supply of Hand-held X-ray Spectrometer at the cost of TZS 1.89 billion. However, during the review of the contract I noted that M/s.

Infratech Limited was a qualified bidder at a bid price of TZS 1.33 billion. Management explained that the tender was not awarded to M/s Infratech Limited because the bidder did not comply with tender validity period; failed to submit bid security on time and did not attach the registered power of attorney. However, I found that, M/s. Infratech Limited had submitted the bid security from Commercial Bank of Africa (Tanzania) Limited with reference No. CBAT/469/2016 with validity period from 20th January, 2017 to 20th May, 2017. The bidder also submitted the power of attorney which was attached on bid opening ceremony form 9A, contrary to Management explanations.

I further revealed that, the awarded bidder (M/s Agro Vision Limited) was not responsive bidder because its bid did not indicate the type/model number of spectrometers and the percentage of humidity as per requirements of technical specifications of bidding document. In accordance with Reg. 206 (2) of Public Procurement Regulations, 2016 the tender from M/s Agro Vision Limited was supposed to be rejected as non-responsive and not made be responsive by subsequent correction or withdrawal of the deviation or reservation. The additional TZS 563.32 million paid to M/s Agro Vision Limited after rejecting M/s. Infratech Limited with the price of TZS 1.33 billion was avoidable and that unnecessary to TANESCO.

I consider that the reason provided by the evaluation team for rejecting the lowest bidder was not valid as the questioned documents were available in the tender file.

I recommend that TANESCO investigate this anomaly and take disciplinary measures against the personnel involved in the evaluation to ensure the company does not incur such huge expenses due to negligence in future.

16.19 Unjustifiable reasons for Re-tendering TZS 689.19 Million

TANESCO entered into a contract with M/s Interbest Investment Co. Ltd for Supply of Toughened Glass Disc

Insulators for Transmission Line, LOT 1 (Shinyanga-Bulyanhulu 220KV) and Lot 2 (Chalinze-Hale-Iyungi 132 KV) for TZS 689.19 million vide contract No.PA/001/2015/HQ/G/120.

Review of Tender file noted that the contract was awarded to M/s Interbest Investment Co. Ltd after re-tendering. Prior to re-tendering the Tender Board approved contract negotiation on 28th September, 2016 in favour of the lowest evaluated bidder M/s Peak Traders at a bid price of TZS 582.32 million but the same was later rejected by the same Tender Board on ground that the quoted price was too high compared to the available budget of TZS 30 million. However, from the confirmation of available funds which was submitted to the chairman of Tender Board through Memo No. SMP/MP/PMU/15/31/526 for approval of tender notice and bidding document of 28th July, 2015 indicated a budget of TZS 710 million. Therefore, the reason of rejecting the lowest bidder on the ground of budget constraint and awarding another bidder at higher price by TZS 106.87 million after retendering was not justifiable.

I therefore recommend that TANESCO investigate the matter and take necessary actions against individuals involved. In future ensure any retendering is supported with justifiable reasons.

CHAPTER SEVENTEEN

SPECIAL AND FORENSIC AUDIT

17.1 Introduction

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

Following such provision in the Act, the Office of the Controller and Auditor General conducted 9 special audits in some of the Public Authorities during the year under review.

Public Entities in which special audits were conducted are National Insurance Corporation (NIC), Shirika la Usafiri Dar es salaam (UDA/ UDART), National Social Security Fund (NSSF), Tanzania Institute of Education (TIE), National Health Insurance Fund (NHIF), Tanzania Posts Corporation (TPC), University of Dar es Salaam (UDSM), Mkwawa University College of Education (MUCE) and Tanzania Commission for Science and Technology (COSTECH).

Key findings of the special audits presented in this report are the summary of the audit observations; the detailed findings are available in the respective reports and can be obtained from the Authorities who requested the special audit. The key findings in summary are as follows:

17.2 National Health Insurance Fund (NHIF)

National Health insurance Fund in Mara Region opened a bank account No. 30310004066 on 08th March 2013 with NMB Musoma branch namely NHIF Benefit Account Mara. The purpose of the account was to pay contracted service health providers who are registered by the NHIF in Mara Region. This audit was conducted purposely to identify and establish individuals who participated in facilitating the dubious payments covering a period from May 2013 to March 2016 from the account. The audit noted the following: -

17.2.1 Fictitious Payments to Suppliers TZS 2.61 Billion

The audit discovered an embezzlement of TZS 3 Billion. These payments were meant to be made to health service providers using crossed cheques however, the payments were made in cash contrary to NHIF's Regulations. The related cash book entries fraudulently indicated that the payments were being made through cheques, but the corresponding bank statements revealed that these amounts were drawn in cash.

Enquiry from NMB bank indicated that customers were paid according to their needs and the cheques submitted to the counter were open. It is evident that the perpetrators succeeded in carrying out these misappropriations due to weaknesses in the internal controls of the NHIF accounting system.

Examination of cash books, bank statements and payment vouchers ascertained that, out of TZS 3 billion, TZS 2.61 billion were fictitious payments as they were confirmed to have not been received by the beneficiaries. Out of the remaining TZS 393.47 million paid, payees of TZS 350.87 million could not be traced while payee of TZS 42.6 million were not found due to closure of their business. Four NHIF Staff were responsible for receipt of those payments from bank.

I recommend that relevant Authority take appropriate actions against the members of the staff involved in the suspected fraud. Also, the Office of Mara region account for the unconfirmed TZS 42.6 million and provide names of suppliers paid a sum of TZS 350.87 million.

17.2.2 Payments Made Contrary to TISS Regulations TZS 404.93 Million

Reg. 6.5 (d) of the revised NHIF Financial Regulations (2011) requires that all payments exceeding TZS 10 million to be made using TISS and all instructions about the initiation and approving of TISS should be followed as instructed by a circular on TISS payments.

My review of bank statements, cash book and payments vouchers revealed that a total of TZS 404.93 million was paid to suppliers in cash contrary to TISS regulations. Appropriate action should be taken against the officers involved for non-compliance with TISS Regulations.

17.2.3 Absence of Payment Voucher to Cash Payment TZS 1.26 Billion

Para. 5.1 of the NHIF Accounting Procedure Manual (2011) requires all payments to be made on the strength of payment vouchers with supporting documents and should bear evidence of approval by relevant authority for making such payments.

Supporting documents (payment vouchers) for payment amounting to TZS 1.26 billion made in cash to various health service providers were missing during the exercise. This is an indication that cheques were written and sent directly to bank without payment vouchers and the bank statements didn't disclose the respective names of the suppliers paid. Absence of supporting documents and payment vouchers create doubt on the genuineness of the services provided by the respective health services providers.

I recommend that NHIF's management in Mara region provide justification for these payments and the names of payees. Appropriate action should be taken against the custodians of the payment vouchers.

17.3 University of Dar es Salaam (UDSM)

I investigated whether the University is getting its revenue from the consultancy activities conducted by its employees while using the goodwill and facilities of the University. From the assessment and reviews of contract entered between BICO and NHC of TZS 5.49 billion, I noted mismanagement of BICO for individual's benefits as explained below:-

17.3.1 Conflict of Interests Between BICO Managers and Owners of a Subcontracted Consulting Engineering Firm

BICO is an engineering consulting firm registered under Engineers Registration Board (ERB) with Registration Number 035 for consulting activities on behalf of UDSM. On 9th September, 2013, NHC entered into contract with BICO to implement a contract for a contract price of TZS 3.60 billion. Thereafter, on 20th October, 2016 BICO and NHC signed an addendum for additional scope for TZS 1.79 billion (50%) excluding local taxes and third-party services for TZS 100 million making the whole contract sum to be TZS 5.49 billion.

However, I noted that while the procurement process was in progress, BICO and a private consulting engineering firm signed a subcontract on 27th August, 2013 for the above contract to share consulting income based on the proportion of expert staff. BICO was represented by two members, one who had a power of attorney at the same time is a lead negotiator and another who was a technical expert.

Audit follow up on the ownership of the subcontracted consulting engineering firm revealed that the BICO's representatives were also the shareholders of the firm, where the technical expert owned 40% and the lead negotiator owned 20% of the shares of the firm. This was done purposely so that the major percentage will go to the private company of BICO's representatives, hence BICO as a public entity will benefit with the revenue of shares of only 24.4%. Also, BICO's representatives used BICO as upfront company to avoid government taxes such as withholding taxes as payments were from NHC to BICO.

From the signed agreement, BICO was entitled to only 24.4% of the contract sum and the remaining 75.6% was entitled to BICO representative company. Regarding conflict of interest, the technical expert received USD 340,000 as a professional fee under the subcontracted consulting engineering firm portion and not as BICO expert.

I recommend that the University of Dar es Salaam involve law enforcement bodies for further investigations and appropriate actions to be taken.

17.3.2 Overpayment of Students Research Funds TZS 225.18 Million

The offer of Centre for Climate Change (CCCS) scholarship requires that "field research allowance to be payable as per the Vice Chancellor's approval which is TZS 4 million to TZS 10 million for masters students and from TZS 12 million to TZS 20 million for PhD students". I noted the amount payable to university students of Msc and PhD were above the acceptable range set which resulted in overpayments amounting to TZS 225.18 million to students. I recommend that UDSM's Vice-Chancellor instruct the CCCS's management to observe the rates approved by the University Council in the prospectus and other directives instead of using personal discretion and judgement; also, the matter to be investigated and necessary action against the officers involved in the above anomaly that led to mismanagement of the university's resources.

17.3.3 Uncompetitive Procurement Processes USD 112,757

Tanzania Partnerships Program (TPP) is required to adhere to the Public Procurement Regulations by inviting quotation from other suppliers to obtain competitive prices.

I noted that TPP made procurement with total amount of USD 112,757 (equivalent to TZS 235.44 million) without competitive quotations to determine the most cost-effective prices. TPP's management explained that procurement process was very expensive and cumbersome in terms of timeframe that would have been used to acquire the contractors. I consider that, in absence of competition, value for money could not be obtained.

I recommend that UDSM ensure compliance with the requirements of the Public Procurement Act and its Regulations to obtain value for money from its procurements.

17.3.4 Institutional Fees Not Contributed of TZS 2.97 Billion

Research projects are required to contribute at least 12% of the total project research cost to the institutional overheads. I learnt that, there were 83 projects from December 2013 to March 2018 with total cost amounting TZS 25.91 billion thus, all the projects had to contribute a total of TZS 3.11 billion. However, only TZS 141.12 million were contributed by 11 projects. This is equivalents to 4.5% of the required contributions. This is an evidence that research projects at the University are not adequately managed and thus the University is not benefiting well from those projects as it should.

I recommend that the University ensure that the research policy is complied with in contributing to the institutional overheads and design an effective and vigorous mechanism of collecting all contributions from all projects.

17.3.5 Inadequate Management of Intellectual Properties and Technological Development

UDSM's Intellectual Property Policy of 2008 requires the University to obtain legal protection for the Intellectual Property, advertise and commercialize the IP assets as deemed appropriate for the interest of the University, researcher and the general public.

From 2007 to April 2018, the University filled only one invention on a method of obtaining juice from banana by a mechanical process which was filled on 16th September, 2009. The University for a decade managed to publish 2,983 researches and from the year 1981 to January 2018, the University through Technology Development and Transfer Centre (TDTC) managed to design, manufacture and transfer about 66 different types of machines and more than 35,769 units of machines but only one invention was patented. This is an indication of non-promoting IPs of the University.

There are no strong mechanisms to assess patentable inventions/innovations results outweighing the filling invention disclosure to obtain a patent.

I recommend that UDSM develop comprehensive database for easy tracking and assessment of the patentable inventions or innovations. Also, develop strong mechanisms for assessing patentable inventions or innovations and consider provision of incentives for best performers in the area of IP.

17.3.6 Over Enrolment of Student by 560%

In 2016/2017, the UDSM enrolled more than 560% of the students in its enrolment plan. This means enrolled students were above University capacity. Moreover, I noted that the enrolment was not cascaded down to the extent that each college understood the number of students it will be willing to enrol (number of students that each college/school/institute and contribute to the overall goal of the University). Discussion with some officials indicated that such higher enrolment rate was not commensurate with other University inputs such as human resources and infrastructure so as to smoothly accommodate such massive enrolment. Higher enrolment jeopardizes in the quality of education and its graduates and thus in long run impact national development.

I recommend that UDSM prepare and implement a coherent enrolment plan that will result from an objective assessment of the needs and capacity of the University.

17.4 National Insurance Corporation Tanzania Limited

I conducted special audit on the procurement regarding Computerized Life and Non-Life Insurance System at the National Insurance Corporation (NIC) and noted the following:

17.4.1 Genisys Configurator System Software Procured Not Fully operational USD 3.59 Million

The relevant contract was signed on 18th June 2012 between NIC and a vendor for a contract period of Seven (7) months. NIC Management accepted the Life Assurance and No-life Insurance System (Genisys Configurator) by signing User Acceptance Test Report and the payments of USD 3.59 million was made to the vendor while the System is not fully functional.

The Genisys Configurator Software was expected to integrate three aspects of NIC functions of Life Assurance, Non-Life Insurance and Accounts functions. During the GC system audit on Accounts Components I found that the only functioning part of the system is the processing of acknowledgement receipts. This system is not useful in producing any financial reports or statements as the respective modules are not functional, as such, NIC is compelled to use the legacy system (UNISYS).

Management confirmed that, the GC system is partial in use and cannot accept new insurance items (products), rates and policy period. The life system cannot either make allocation of premium from group clients or process claims. I also noted absence of Key Performance Indicators (KPI) for the GC System functionalities as test results displayed in a print screen where all non-functionality is displayed with message "error encountered".

Value for Money may not be realized as the intended objectives were not achieved due to the fact that the GC system is not fully functional.

Furthermore, I noted discrepancies in the annual premium revenue collections of TZS 67.03 billion between data maintained in excel (TZS 81.94 billion) against GC System (TZS 14.91 billion) from 2015 to 2017. The manual documentation facilitates inaccurate reporting of revenues which could be mitigated through effective implementation of the GC System.

I recommend that NIC liaise with the vendor to ensure that all the pending issues as per Functional Requirement Document are resolved and that the system becomes fully functional as intended.

17.5 Mkwawa University College of Education (MUCE)

This special audit assessment was based on the contracts entered between Mkwawa University College of Education (MUCE) and M/s MNM Engineering Services Ltd, CATIC International Engineering Ltd, Epitome Architects ltd formally Land Plan Icon Limited for consultation and construction of twin lectures theatre that would accommodate 1000 students each wing adding up to 2000 students. During execution of the project the following discrepancies were noted:-

17.5.1 Escalation of Project Cost TZS 5.48 billion

In July 2010, MUCE awarded construction contract for the project to M/s MNM Engineering Services Limited for the contract sum of TZS 3.62 billion. The construction was envisaged to start on 4th July 2010 and expected to be completed by 30th September 2011. During implementation the scope changed due to topographical issue and resulted in variations of TZS 1.08 billion VAT inclusive equivalent to 30% of the original price and made up the contract price to be of TZS 4.71 billion. This variation amount was not approved by the Governing Board of the University.

These variations could have been avoided only if the Consultant proceeded with topographical survey as submitted in his proposal and outlined in the Consultancy Agreement. On 28th November, 2012, the contract was terminated due to default of the contractor. Upon contract termination, the contractor was eligible to be paid TZS 2.67 billion based on actual work executed.

On 9th May, 2013, the new contractor M/s CATIC International Engineering Limited was engaged at a contract price of TZS

4.74 billion. During implementation there was a work suspension of 582 days which escalated cost by TZS 991.70 million that would have been avoided contrary to Sect. 22.1 of Consultancy Agreement, cost of poor workmanship from the previous contractor which resulted in additional works of TZS 259.67 million and interest on delayed payment of TZS 178.64 million. All these made project budget sum to CATIC to be TZS 6.17 billion. These variations are not justifiable because most of them were due to contractors' faults.

The consultant's scope also changed twice leading to variations of consultant price from the original TZS 122.84 million to TZS 263.07 million. The variations made the total project cost to be TZS 9.10 billion. This cost is higher by TZS 4.10 billion (82%) from the consultant's fair estimate of TZS 4.99 billion. Also, it is higher by TZS 5.36 billion (151%) against the original contract price of TZS 3.75 billion as per MNM Engineering & EPITOME Architects limited.

I recommend that the Government closely monitor its projects including smooth funds disbursement for project implementations to avoid unnecessary cost overrun following project suspensions resulting in interests and penalties.

17.5.2 Failure to Execute the Court Judgment to Recover Damage/Loss

The termination of the contract caused severe delays in completion of the project for more than seven years which led to escalation of prices due to lapse of time from uncompleted works valued at TZS 2.04 billion to the new contract price of TZS 4.74 billion.

After termination of contract with M/s MNM Engineering Services Limited, MUCE filed a civil case in the Commercial Division of the High Court in Dar es Salaam against M/s MNM Engineering Services Limited.

On 16th March, 2016 the Court ruled the case No. 165 of 2014 against MNM Engineering Services Ltd and directed the contractor to pay MUCE TZS 6.99 billion as the contractual sum, and all damages for breach of contract. Also, contractor was directed to pay interest at the commercial rate and all cost of the suit to MUCE. However, the contractor has not honoured the Court's ruling.

I recommend that MUCE liaise with Attorney General's Office and Ministry of Education Science and Technology so as to identify the assets of the defaulter; and develop a mechanism for recovery in the presence Attorney General's Office.

17.5.3 Payment of Advances Without Security Guarantee TZS 543.53 Million

Sect. 53.1 of the Contract requires MUCE to pay the contractor the advance payment of 15% of the contract sum after the signing of the contract while Sect. 54.1 requires the contractor to furnish the performance bond to the client 30 days after signing the contract amounting to 10% of the contract price.

I noted that, on 01st July, 2010 MUCE paid advance payment of TZS 543.53 million before submission of the required performance bond to the contractor contrary to the above provisions of the contract. However, on 5th July, 2010, four days after payment of the advance, the contractor submitted bond from KCB Bank. However, my interview on whether the bank guarantee was conducted in due diligence EPITOME Architects Limited confirmed that the confirmation by the KCB Bank was done orally.

The Court Commercial Division directed defendant to pay plaintiff the amount guaranteed of TZS 362.35 million. KCB Bank responded that it did not issue a performance guarantee by order of MNM Engineering Services Ltd for the construction of a Lecture Theatre. So, this was a loss to MUCE.

The above noted malpractices are evidence that due diligence was not practised leading to non-compliance with terms and conditions of the contract.

In view of the above, the Consultant (EPITOME Architects Limited) did not act diligently and therefore is responsible for the loss and should be held accountable.

17.6 Tanzania Posts Corporation (TPC)

I conducted special audit on unreconciled balance sheet items at the Tanzania Posts Corporation (TPC) and the following were noted during the assignment:

17.6.1 Improper Removal of Unreconciled Bank and Cash Deposits TZS 3.62 Billion & USD 103,474.96

I revealed that TPC reversed unreconciled items without proper investigations and justifications. A total TZS 1.45 billion were banked but not recorded in cash book and they were removed from unreconciled items without supporting documents to validate the reconciliations. Unreconciled cash book debits amounted to TZS 2.17 billion and USD 103,474.96 were adjusted and removed from the bank reconciliation statement without justification.

Management explained that, traceability of cash book debits items against the bank statement was difficult as cash collected are usually banked in lump sum while the cash book is booked with individual cash debit transactions and also because of manual posting of the cash book, most of the debit entries were incorrectly double posted.

Removal of unreconciled bank deposits or cash deposits from the bank reconciliation statement without following accounting treatment poses a risk of fraud. Thus, I recommend that TPC reinstate those incorrectly removed items in the reconciliation statement and then determine the source and nature of the unreconciled bank and cash deposits in consultation with respective banks.

17.6.2 TPC Maintains 31 Dormant Accounts

Due to the diversity of its operations, Tanzania Posts Corporation maintains 202 bank accounts with different banks. From the review of the bank accounts operation and management I noted that, 31 bank accounts owned by the head office are dormant (28 CRDB accounts and 3 NBC accounts) and posing a risk of using unauthorized account. Maintenance of dormant accounts poses risk of fraud and increases bank charges to the corporation.

I recommend that TPC management seek the Board of Director's approval for closure of the dormant accounts.

17.7 Shirika la Usafiri Dar es Salaam (UDA) and UDA Rapid Transport (UDART)

From the special audit of UDA and its subsidiary company UDART, I report the following key findings:-

17.7.1 UDA's Shares Sold Without Approval of the Treasury Registrar

On 4th June,1974, UDA had 15,000,000 shares. Issued and paid up shares were 7,119,679 (47.5%) and unallotted shares were 7,880,303 (42.5%) of total shares. On 22nd February, 2011, the Board of Directors of UDA entered into a contract with M/s Simon Group limited (SGL) to sell the unallotted 7,880,303 shares of UDA at a price of TZS 145 per share for a total price of TZS 1.14 billion. SGL paid only TZS 285 million, leaving TZS 857.64 million not paid. This was contrary to Public Corporation Act and the Treasury Registrar Act since the Board of Directors had no power to sale UDA which was 100% owned by the Government prior to the sale of its un-allotted shares in February 2011.

The shares were later returned to the Treasury Registrar by SGL in February 2016. However, the financial statements of UDA do not reflect the returned shares, hence, it is a misstatement to the users of the financial statements.

The Government lost its benefit as the shareholder due to the unlawful decision of the Board of Directors of UDA for a period of 3 years from August 2013 to February 2016 by selling its unallotted shares without any benefit.

I recommended that for decisions affecting any Government-owned company's capital and operations, it is important to involve all relevant authorities as required by laws. Also, the returned unallotted shares of UDA should be allotted to Government so that the Government becomes the majority shareholder.

17.7.2 Increase in UDART's Capital Without Approval of Treasury Registrar

UDART Company was established on 19th December, 2014 with the capital of TZS 1.5 billion (15,000 shares of TZS 100,000 each). Of the total shares, 14, 850 are owned by UDA which is equivalent to 99% and Simon Group Limited owns 150 shares equal to 1%.

However, during the review, I noted an increase in the capital from TZS 1.5 billion to TZS 225 billion (that is, from 15,000 shares at TZS 100,000 each to 2,250,000,000 shares at TZS 100 each). These changes of shares and capital were also not registered by Business Registrations and Licensing Agency (BRELA).

Further, I observed that, the second shareholder, the Treasury Registrar, was not involved in the process of increasing the number of share and the share capital.

I recommend that Government, UDART and all other stakeholders discuss and agree on the need to increase UDART share and capital.

17.7.3 UDART Company Operated Under Loss TZS 6.78 Billion

Dar es Salaam Bus Rapid Transit began its operations on 10th May, 2016. The assessment of 8 months period from the commencement of the project to 30th December, 2016, I noted that UDART Company had been operating under loss as total expenditure was far above its revenue by TZS 6.78 billion. Total expenditure was TZS 26.57 billion while revenue was only TZS 19.78 billion. Further reviews noted that the loss was also contributed by inaccurate reporting of expenditure such as:

i. UDART reported fuel cost of TZS 6.02 billion while Fuel ledger indicates only TZS 4.79 billion. This means there was an overstatement of TZS 1.25 billion.

ii. UDART paid a total of TZS 750 million to a contractor for construction of Bus Terminal Fences at Kimara, Ferry Kivukoni, Ubungo and Morocco. However, only Kimara Fence was constructed for TZS 241.69 million while the three fences were not constructed. The charged TZS 508.31 million in respect of the three stations were confirmed not have been refunded and thus there is possibility of being misappropriated.

I recommend that UDART ensure the amount overstated is revised accordingly. Also, the unaccounted sum of TZS 508.31 million should be recovered and appropriate legal actions be taken against those responsible.

17.7.4 Fruitless Government Investment

The Government through the Treasury Registrar owns 3,488,651 shares in UDA equivalent to 49% of issued and paid up shares. These Government shares value ranged between TZS 2 billion and TZS 4.32 billion according to the Property Valuation report done in year 2012. However, the Government had never received any dividends from its investment in UDA since its establishment. The Board of Directors Reports for the years 2015/2016 and 2016/2017 indicated consecutive losses as the reason for non-payment of dividends. Hence the Government’s investment in UDA has been fruitless since it was made. I thus recommend that the Government closely monitor UDA's operations.

17.7.5 Insufficient Number of Rapid buses

The first phase of project implementations was required to be serviced by 305 buses. However, the route is serviced by a fleet of only 140 buses equivalent to 45.9% of 305 buses needed. The shortage of 165 buses equivalent to 54.1% raised the challenge of delay in transporting passengers. Buses are so crowded, and its depreciation is expected to be higher than expected because they carry more passengers than the normal capacity. I recommend that DART accelerate the bidding process to increase new buses to meet current needs to provide better quality services.

17.7.6 Cessation on Supplying Smart Card to Passenger due to High Cost of Purchasing

Supplying of Smart card was suspended due to higher production cost of the cards than their selling prices to the passengers. I learnt that the production cost of a card is TZS 4,500 including all Government taxes and importation costs while the Government announced that the card be sold at TZS 500.

I recommend that UDART liaise with the Government to find a solution to this matter since the use of the smart cards would help more in curbing losses of revenue than using paper tickets.

17.7.7 Unreported TRA Debt in UDA's Accounts TZS 5.35 Billion

I noted that TZS 5.35 billion owed by TRA have not been reported as part of the UDA's debt. This debt has been confirmed by the Tanzania Revenue Authority through letter with reference No. TRA/CCE/C/1 of 31/1/2018. Of the debt, TZS 2.11 billion is a penalty due to non-paid tax claims.

I recommend UDA recognise its debt to TRA TZS 5.35 billion in its financial statements for fair presentation.

17.8 Tanzania Commission for Science and Technology (COSTECH)

During my special audit of COSTECH, I noted the following issues:

17.8.1 No Regulations That Are Governing COSTECH/NFAST Activities

The National Fund for the Advancement of Science and Technology (NFAST) was established by Sect. 23 (i) of The Tanzania Commission for Science and Technology Act, No. 7 of 1986. Sect. 25 (4) of the Act, states that the Minister may, by regulations published in the gazette provide for the regulations and administration of the Fund. However, up to June, 2018 there were no regulations with respect to the Tanzania Commission for Science and Technology Act, 1986. Management informed me that the matter has already been communicated to the responsible Ministry several times and is in the process of being written. But the pace of working on the matter seems to be slow. Lack of regulations for the COSTECH Act leads to loopholes in implementation of the Act and brings ambiguity in interpretation and guidance.

I recommend that the Commission in collaboration with the Ministry propose the amendment of the COSTECH Act, 1986 and prepare its regulations to improve efficiency and performance of the organization.

17.8.2 Misuse of Recruitment Permit

On 25th July, 2012, the Permanent Secretary PO-PSM permitted COSTECH to carry out a head-hunting exercise regarding two positions of which PSRS could not manage to get the right candidates i.e. Director of Social Science and Chief Research Officer.

However, on 18th and 19th December 2012 COSTECH conducted head hunting exercise for other ten (10) positions which were not part of the permitted positions for head hunting contrary to recruitment procedures.

Management stated that they had been granted permission to recruit. However, the said permission to recruit was granted on 25th April, 2013 while the said posts had already been filled.

17.8.3 Misuse of Managerial Power

COSTECTH provided the Ifakara Health Institute (IHI) with a total of TZS 800 million in different periods of time without proper authority of the COSTECH Board of Commissioners. IHI confirmed receipt of the funds and utilized, but I could not ascertain utilization of the funds as they were mixed with other funds. In addition, COSTECTH provided Dar Techno Hama Business Incubator (DTBi) with the total of TZS 1.1 billion at different periods of time without any contract. Also, DTBi is being hosted at COSTECH's premises free of charge of rent and all utility costs. These costs are all being covered by COSTECH despite the fact that DTBi is a privately-owned company since 2011.

I recommend that COSTECH follow the laid down procedures in granting funds and ensure the two entities IHI and DTBi spend the funds on the intended purposes and properly account for them and submit the accountability report to COSTECH.

17.8.4 COSTECH Released Grants without Contract TZS 1.73 Billion

Clause 4.1.5 of the Grant Manual requires that, once a grant application is successful the applicant has to sign a contract before the funds are released. However, I noted that during the period of 2011/2012 to 2016/2017, COSTECH released grants amounting to TZS 1.73 billion to 10 researchers without contracts. I thus recommend that management of COSTECH ensure compliance with the laid down procedures in granting funds and ensure the TZS 1.73 billion granted are used on the intended purposes and properly account for.

17.8.5 Funds Withdrawn by World Bank After Mis-procurement TZS 1.15 Billion & USD 716,207

I noted that World Bank funded TZS 1.15 billion under Tanzania Science and Technology Higher Education Project (STHEP) to increase bandwidth capacity to STM 1. This project was regarded by World Bank as mis-procurement due to non-adherence to procurement law and regulations and failure to seek for no objection from the Bank during evaluation stage to awarding contract stage. COSTECH uses TZS 1.17 billion from other sources which were to implement other planned projects. Further, USD 716,207 regarded as mis-procurement on the projects was refunded to World Bank directly from FDR.

I recommend that COSTECH strictly comply with conditions attached to the donor funds to encourage the donors to continue funding the projects under the Commission.

17.8.6 Failure to Utilize Donor Funds Within Specified Timeframe TZS 1.31 Billion

The COSTECH Commission failed to implement capacity building activities funded by the World Bank within the time. As a result, USD 530,440 and USD 64,035 equivalent to TZS 1.17 billion and TZS 140.88 million were respectively refunded to the World Bank and to SIDA. I consider that this is mainly caused by poor planning and laxity in adhering to the donor funds conditions. I thus recommend that COSTECH strictly comply with conditions attached to the donor funds.

17.8.7 Embarking on Non-Viable Projects TZS 874 Million

I noted COSTECH does not assess viability of the project before awarding funds. My review of five projects (Sweet potato value chain actors mapping project, increasing poultry productivity through thermal stable vaccine for control of respiratory diseases project, research for improving cassava productivity, research on enhancing utility on proven forestry option to revive the home garden and testing a stratifies model for commercialized traditional beef cattle production in Tanzania project) with total cost of TZS 874 million were noted to be completed without viability study which as a result, caused mentioned funded projects to lack continuity and non-achievement of intended objectives.

I recommend that the Commission ensure viability and continuity of its projects it embarks on to attain of value for money and benefit citizens or the intended community.

17.8.8 Absence of Detailed Research Database of Research and Projects

I found that COSTECH has no database with records of types of researches or projects conducted, results obtained, lessons learned and way forward for each research or project undertaken in order to have a strong reference for decision making and advice. I recommend that COSTECH establish and implement a mechanism and a tool to capture and achieve adequate records and information.

17.8.9 Deficiency Noted on Implementation of ICT Park Project

The Government planned to develop an ICT Park village in order to catalyze technology growth. The ICT Park was intended to be developed with suitable infrastructure which will attract massive investments of ICT companies. COSTECH was thought to be a suitable institution to undertake the project idea. In financial year 2012/2013; TZS 5 billion was transferred by the Government as startup capital. However, implementation of the project face a number of challenge as explained below:

i. **Unfavourable Terms and Conditions of MoU to COSTECH**

COSTECH and Export Processing Zone Authority (EPZA) entered into MoU and joint agreement for implementation of the ICT Park project on 26th May, 2014. The terms set into the MoU are unfair to COSTECH as pointed out below: While the agreement require parties to contribute equal capital for the project, the terms of contribution were different. EPZA contribution was to forgone lease rent for ten (10) years on the 300 acres of land which was computed to be TZS 3.94 billion. The same amount had to be contributed by COSTECH in cash. However, I noted COSTECH made a compensation of TZS 1.17 billion to the same area which EPZA claimed to be its contribution as the forgone rent for 10 years. In addition, the agreement requires COSTECH to facilitate compensation for residents located in 438 acres of land instead of 300 acres. COSTECH was to disburse funds to EPZA which should make compensation of the project area. The compensation rate per acre was TZS 3.4 million. In that regard the cost of land for compensation was supposed to be TZS 1.02 billion (300 acres x TZS 3.4 million) excluding interest for delayed payment and other land development costs.

I noted the total area compensated by COSTECH was more than 383.307 acres at a cost of TZS 1.71 billion instead of 1.02 billion. This means COSTECH overpaid TZS 693.2 million contrary to the MOU and joint agreement. The overpayment was due to extra area compensated and of interest due to delayed compensations. All of those that were contrary to MoU and joint agreement were not supposed to be covered by COSTECH.

I recommend that COSTECH review the MoU and the joint agreement and negotiate favourable terms for both parties under a win-win situation if it is to remain in the agreements.

17.8.10 Performance Report for TTMS Funds Not Prepared TZS 8.42 Billion

Tanzania Communication Regulatory Authority (TCRA) has been disbursing Telecommunications Traffic Monitoring System (TTMS) funds to COSTECH since September 2015. A total of TZS 8.42 billion has been received by COSTECH from TCRA for the period from September 2015 to June 2017. According to Clause 4 (i) of Guideline for Use of TTMS Funds in NFAST, COSTECH is required to provide to the Ministry of Education, Science and

Technology, performance reports of the TTMS Funds on quarterly and annual basis.

However, I noted that performance reports were not prepared and submitted to the respective ministry, contrary to the above cited clause of the guideline. As a result, the Government (Ministry) does not have an appropriate feedback on TTMS funds for decision making.

I recommend that COSTECH provide performance report of TTMS fund to the Ministry and other stakeholders as required.

17.8.11 Unrecovered Loan TZS 469.25 Million

In financial year 2011/2012, COSTECH started a program of issuing loans. The program had TZS 648.5 million which were issued to 3 institutions due to failure to recover TZS 469.25 million. I found that the program failed, and no new loans were issued since then. The institutions which failed to service their loan are: CARMATEC TZS 255 million, Tanzania Engineering & manufacturing Design TZS 147.5 million and Tanzania Automotive Technology Centre TZS 66.75 million. The programmes initiated by the Commission may not be well researched and sometimes lack close supervision, monitoring and evaluation at the time of implementation.

I recommend that COSTECH devise proper actions to be taken against the defaulters of the loans and to recover the loaned amounts.

17.8 National Social Security Fund (NSSF)

In July 2018, I commissioned investigative audit focusing on the Accounts Receivables for the years 2015/2016 and 2016/2017, Investment in Financial Securities and Properties, Utilization of the Acquired ERP, and Human Resources Management. Some of the key findings from the audit are as follows:

17.8.1 Loss from Acquisition of Land TZS 4.17 Billion

The Fund entered into a contract on 16th September, 2010 and 12th October, 2010 with two landlords for acquisition of 277 (first landlord) and 180 (second landlord) acres at Kiluvya for TZS 3.32 billion and TZS 1.62 billion respectively. From the review of valuation report of 277 acres, I noted that the value of the land as of October 2010 was TZS 416.40 million while the estimated market value for the 180 acres was TZS 720 million. Therefore, the acquired land was overpriced by TZS 2.90 billion and TZS 900 million respectively which led to a total loss of TZS 3.80 billion. The first landlord reported to TRA a selling price of TZS 900 million instead of TZS 3.32 billion, as a result stamp duty of TZS 24.24 million was underpaid by NSSF.

Furthermore, I noted another loss of TZS 370 million incurred by NSSF by purchasing 67.4 acres of land from counterfeit owner at Nunge Bagamoyo. The District Court in Civil Case No.7 of 2003 and High Court in Civil Appeal Case No.7 of 2006 determined that the seller was not the owner of that land sold to NSSF. Generally, NSSF incurred a total loss of TZS 4.17 billion in land acquisitions and underpaid stamp duty of TZS 24.24 million.

I recommend that the Fund's Board and Management take necessary action to those who were involved in the whole process of acquiring the land which resulted in a loss of TZS 4.17 billion to NSSF.

17.8.2 Investment in Vodacom Shares Yielding Lower Return than Government Securities TZS 47.5 Billion

Sect. 9(1) and (2) of the Social Security Scheme Investment Guideline of 2015 requires the Board of Trustees of every scheme to invest on investments which is above return on Treasury bonds and Treasury bills and if the fund needs to invest on the investment which is lower than Government Securities requires the approval from the Bank of Tanzania.

NSSF invested TZS 47.5 billion in acquiring 64,000,000 shares in Vodacom with lower return than Government Securities contrary to the Investment Guideline. The expected returns of Vodacom shares (dividend) in 2017 was 2% while the Yield to maturity for 5 years Treasury bond for the auction of 12th April 2017 was 17.92% and Treasury bill was 15% which is higher than the return on Vodacom shares. On 5th April, 2017 NSSF requested BoT for waiver to invest in Vodacom shares, however, on 10th April, 2017, NSSF's Board of Trustee approved the Fund to spend TZS 40 billion before receiving the waiver from the BoT.

On 20th April, 2017 the BoT denied the waiver on the ground that opportunity cost to invest in Vodacom Share is very high as Vodacom prospectus does not provide enough information that indicates clearly that the investment is viable and its return in the future will be above from the Government securities hence Investment in Vodacom shares by the Fund was of high-risk. Despite the technical advice from BoT not to invest in Vodacom shares, on 28th April, 2017 the Fund purchased 47,058,820 shares amounting to TZS 39.99 billion and later additional shares of TZS 7.59 billion.

This is a non-compliance with Social Security Scheme Investment Guideline of 2015 by undertaking investment which yield lower return than Government Securities without getting waiver from BoT, had put the resources of the Fund at risk of low return compared to the available alternatives.

Administrative remedial actions should be considered to ensure that the Fund's investments offer feasible return. Similarly, proper actions should be taken against officials who were involved in the decision to invest in Vodacom shares which had lower return than Government securities contrary to the Investment Guideline, 2015.

17.8.3 Irregular Issue of Loan to NSSF Members and Staff for Purchase of Shares in Vodacom TZS 1.86 Billion

The Fund issued a loan of TZS 1.65 billion and TZS 206 million to staff and members for purchase of Vodacom shares respectively at zero interest rate. However, there were no formal agreements between the Fund and the beneficiaries. Also, recoveries of loan issued to members have remained uncertain. The issued loan to members was contrary to benefits stipulated in part V of the National Social Security Fund Act 2015.

Lack of written contract on the advances made for purchase of Vodacom shares between the Fund and loan beneficiaries puts the Fund's monies into default risks.

The Fund should formalize the loans issued and specify terms and conditions pertaining to the funds advanced for purchasing Vodacom shares. Institute rigorous measures to recover the advanced funds to avoid loss of the Fund's monies.

17.9 Tanzania Institute of Education (TIE)

I conducted special audit on assessing eligibility of all cost incurred for printing 44 text books for standard I to III and form one to form six to Tanzania Institute of Education (TIE) and the following deficiencies were observed: -

17.9.1 Assessment of 44 basic Textbooks Did Not Observe the Guideline for Evaluation of Books

During 2014 TIE was mandated among other things, producing, publishing and distribution textbooks for Primary Schools (Standard One to Six) and Secondary Schools (Form I to Form VI). During the Financial year 2014/15 TIE produced and published 44 different Basic Textbooks for Primary Schools at a cost of TZS. 25.59 billion.

In May 2017, TIE discontinued distribution of the textbooks following indications of some contents' technical faults. The assessment on the extent of technical faults conducted by panel of teachers revealed that 21 and 23 textbooks contained major faults and minor mistakes respectively. However, the assessment results were derived unguided and therefore not reliable as it ignored Guideline for Evaluation of Books of 2015.

Non-application of the guideline during assessment invalidates the results as there no assurance on the existence of the technical faults in the books. Both the Ministry of Education and the Institute should evaluate the quality of the 44 book's contents by using the Guideline for Evaluation of Books of 2015.

CHAPTER EIGHTEEN

PERFORMANCE OF EXTRACTIVE INDUSTRY

18.1 Introduction

Extractive Industry covers exploration and extraction of raw materials from the earth to be used by consumers. The extractive industry consists of any operations that remove metals, minerals and aggregate from the earth. Extractive process may include oil and gas extraction, mining and quarrying. The country is known for its endowment in mineral resources and gas deposits but there are still weaknesses identified which might hinder realization of the value of it to the economy.

My audit involved review of the effectiveness of the controls being executed by various Government key players in the sector such as the Ministry of Minerals, State Mining Corporation (STAMICO), Stamigold Company Limited and Tanzania Petroleum Development Corporation (TPDC).

18.2 Review of STAMIGOLD Company Limited Operations - Biharamulo

I conducted a special audit at Stamigold Company Limited with the aim of verifying its assets and liabilities before a planned voluntary winding up process after the sustained losses made by the company. Further, the audit aimed at identifying if the company had ability to settle its liabilities. The scope of the special audit covered a period of three years from 1st July, 2015 to 30th June, 2018. The following is the summary of the major findings:

18.2.1 Consistent Decline in Gold Production Resulting in Losses

Stamigold Company Ltd is a subsidiary company of the State Corporation (STAMICO). It is the state-owned mining company whose ownership is 99% while 1% is owned by Treasury

Registrar. This is the gold mine that took over operations from African Barrick Gold Mines after its acquisition by STAMICO.

My review of production reports, draft financial statements and other relevant reports for three consecutive years showed consistent decline in production of gold from 14,286 ounces in 2015/2016 to 6,011 ounces in 2017/2018 equivalent to 58% decrease. The production decline resulted in a decline in sales in the respective years where sales revenue was TZS 60.11 billion; TZS 39.02 billion and TZS 17.93 billion in years 2015/16; 2016/17 and 2017/2018 respectively (Table 27). This was a decrease in sales of TZS 42.187 when compared to sales in 2015/2016 and 2017/2018 equivalent to approximately 70%.

Table 27: Production, Sales and Expenses/Cost Trend for Three Years

Year	Production (Ounce)	Sales Revenue (Billion)	Production Costs (A) (Billion)	General Expenses (B) (Billion)	Total Costs (A+B) (Billion)	Losses (Billion)
2015/16	24,073	60.112	44.286	27.538	71.824	12.306
2016/17	12,774	39.017	33.085	25.433	58.518	19.496
2017/18	6,011	17.925	14.669	11.715	26.384	8.457

Source*: Special audit report*

I learned that, some of the reasons for the consistent losses were high plants and machinery renting costs which increased production cost; decline in efficiency in gold production where STAMICO produced between 0.7 and 2 grams per ton as compared to production of 10 to 25 grams per ton by the Barrick Gold Mine, the former owner. I noted also that, deterioration of plants used in separation of cyclone where tailings could not efficiently be captured resulting in a loss of gold valued at TZS 10.45 billion.

Further, other reason was fraudulent acts committed by the former general manager and 11 staff who were alleged to collude with contractors and suppliers. Lack of efficient security around the gold mines also led to incidents of theft of gold concentrates. There were also uncontrolled expenses which resulted in extreme running costs.

Despite the under production and losses reported for the three years, I noted that the operations improved in the last half of the financial year 2017/2018 (January – June 2018) following the change of the managing director in December, 2018. During this period the company managed to settle liabilities relating to staff salaries which had been outstanding for five months. Further, performance reports during this period showed that, the company had revenue exceeding expenses by TZS 2.211 billion (Revenue being TZS 15.033 billion and expenses of TZS 12.82 billion). This implies that, the Company has an opportunity for future good performance with focused and committed management.

Based on the above findings, I consider that the bad performance is mainly attributed to the leadership and inadequate investment monitoring and evaluation by the owners (STAMICO) and the Government through the Ministry of Finance and Planning. I also consider that a period of three years was long enough for STAMICO to investigate the reasons of the consistent losses and rescued the situation before it gets worse.

I recommend that, the Government through STAMICO and the Treasury Registrar strengthen regular investment monitoring and evaluation which will assist early identification of any signs of non-performance and hence provide timely guidance and proper action before things get worse.

18.2.2 Large Outstanding Liabilities incurred by Stamigold Company Ltd

Subject to decline in performance and gold production, company's liability was up to TZS 95.08 billion as of 30th June, 2018. These liabilities constituted trade debts, staff debts and public entities debts, legal and other debts. Details in Table 28.

Table 28: Schedule of Outstanding Liabilities

No.	Liability type	Amount (TZS)
1	Trade payables	46,918,391,799.76
2	Legal liabilities	16,586,395,644.74
3	Tax liability	1,983,029,952.82
4	Staff debts	165,370,336.67
5	Environment rehabilitation provisions	29,417,713,000.00
6	Other liabilities	17,591,969.89
	Total	**95,088,492,703.88**

I noted that the increase in liabilities was caused by different reasons including change in actual price for supplies and goods as compared to contracted prices; company underperformance due to declining production and sales leading to decrease in ability to pay suppliers and contractors; Supply of services and goods contrary to contracted quantities resulting in the increased expenses; non- compliance with tax laws where taxes due such as Pay As You Earn (PAYE) and Skills Development Levy (SDL) amounting to TZS 5.38 million and TZS 1.26 million respectively were not paid on time.

Part of the liability is attributed to security services provided by SUMA JKT to Stamigold under a contract at TZS 97.2 million per month from January 2016 to January 2017 whereby the amount due had not been paid and the liability reached TZS 2.03 billion as of 30th June, 2018. The amount due under security services include a period when SUMA JKT offered services without any contract from January 2014 to January 2016 and January 2017 to June 2018. The liability was also caused by an increase in price by USD 173,629 from USD 1.24 million stated in the contract to USD 1.416 million for the contract of supply of reagents between Stamigold and a vendor. In addition, the outstanding liability was partly due to the oversupply of food whereby Alpha Choice Company Ltd supplied 37,660 kgs of tilapia which were more than four times of the actual annual demand of 7,200 Kgs, the vendor also supplied 32,868 Kgs of meat against the contractual demand of 8,400 Kgs also four times increase.

Despite the stated outstanding liabilities of TZS 95.08 billion, Stamigold had total assets that amounting to TZS 387.89 billion as of January 2016 which are four times outstanding liabilities. However, since the valuation of assets was carried out in 2016, the current value of assets might have changed significantly and result in new liabilities to total assets ratio.

I consider that the above instances are mainly caused by the weaknesses in monitoring contracts and lack of concise forecasts of requirements when tendering for supply of goods and services. I'm also of the view that these deficiencies were due to intentional misappropriation of company's resources by former the management, since the same company has shown improvement after the change in management.

I recommend that Stamigold and STAMICO strengthen contract monitoring and ensure adherence to the contract agreements. I also, recommend that Stamigold continue to plan and prioritize the mode of discharging the outstanding and maturing liabilities. Furthermore, Stamigold should carry out valuation of assets to determine the current value of company's assets.

18.2 Review of Operational Efficiency of Tanzania Petroleum Development Corporation (TPDC)

I reviewed strategic and operational efficiency of Tanzania Petroleum Development Corporation (TPDC). The audit specifically aimed at reviewing the efficiency of the corporation in managing Natural Gas Data Sales and Natural Gas Blocks (4/1B and 4/1C) in providing required contribution to the nation.

Below are some of the noted issues:-

18.2.1 Slow Pace in Implementing Directives of the Ministry of Energy and Minerals (MEM)

TPDC as a ational oil company, has been requesting an exploration license on Blocks 4/1B and 4/1C. While responding to TPDC's request made on 15th October, 2015, MEM explained that the Government was in the process of reserving the blocks for the public interests and that had intention to create good environment for awarding the blocks to TPDC. Therefore, TPDC was instructed to (i) make value addition on blocks 4/1B and 4/1C by acquiring additional G & G data and preparation of geological and prospects evaluation reports, and (ii) conduct a statistical and economic analysis on the significance of strategic partner model versus the normal PSA and advice the Ministry accordingly. The outcome of these instructions would facilitate the Minister to give consent on the procurement of strategic partner.

I reviewed the progress of the implementation of the Ministry instructions and noted that, TPDC had created various economic value additions to the aforementioned blocks by conducting; environmental impact assessment, risks assessment, economic and financial viability while 2D seismic data was done by WesternGeco and ION GXT between 1999s and 2000s, with respective interpretations completed in 2017. However, there was no evidence that, TPDC had submitted the instructed information/reports to MEM to facilitate the Minister in giving consent. Instead TPDC continued requesting exploration license and latest request was made on 18th February, 2018. However, MEM has been emphasizing on the provision reports/documents as were directed and stated in Sect 44(4) of the Petroleum Act, 2015 on Minister's consent.

I consider that, in absence of the reports and documents stated in the instructions delays the Minister in giving consent and further process of awarding the Blocks to TPDC. I am also of the view that this with unspecified timeframe on implementation of the issued instructions from MEM to TPDC to accomplish value addition activities.

I recommend that TPDC expedite the value addition process of blocks 4/1B and 4/1C as a key input to the Government towards the prospect of gas industry in the country. Further, TPDC should produce and submit to the Ministry of Energy a report pertaining value addition made to the blocks and statistical and economic analysis on the significance of strategic partner model versus the normal PSA.

18.2.2 Absence of Contingent Plan to Respond to Continue Decline of Brokers Financial Position

TPDC has contracted brokers for selling its seismic data. I reviewed the efficiency of contracts in meeting the intended objectives. I noted that, in 2018 only one broker out of five made sales of USD 174,000 while the other four had no sales at all. I further, noted that decline in sales could have been caused by a significant decline in share prices of the blockers in the international stock market. The share prices of three brokers (WesternGeco as a subsidiary of Schlumberger Ltd, ION GXT and CGG Robertson) declined by 62%, 89% and 99% for a period of five years up to 10th December, 2018 (Table 29 refers). The mentioned challenges and financial distress for such decline in share price were largely attributed to the global decline in the Oil and gas sector.

Table 29: Share Price Analysis of Data Sales Brokers

Name of Company	Observed Duration (in years)	Peak price in observed duration	Current Price	Percentage Decline
Schlumberger Ltd	5	USD 117.50	USD 45.10	61.62%
ION GXT	5	USD 69.45	USD 7.53	89.16%
CGG Robertson	5	€240.63	€1.41*	99.41%

*Source: CGG website and yahoo finance 10th December, 2018. * CGG had rights issue in 2016 that caused further decline of share price*

In my previous year (June 2017) Natural Gas Data Sales audit report, I identified the need to assign responsibility within TPDC personnel the role of gathering intelligence on oil market risk so that it can respond intelligently on negative effect of the market.

However, TPDC has not established a mechanism of gathering market intelligence which would involve establishing market risk intelligence unit staffed with skilled personnel. In that regard, TPDC has not been able to capture the aforementioned challenges and financial distress facing brokers' operations and as a result the corporation does not possess any contingent plan to curb the existing challenges including declining seismic data sales.

In the absence of market intelligence gathering mechanism and contingent plan on challenges facing data sales brokers, I consider these challenges to adversely affect the ability of TPDC to stimulate and accelerate exploration and production of Oil and Gas sector.

I reiterate my previous recommendations that TPDC establish the market risk intelligence unit to advise management on global market risk. Further, TPDC should assign personnel with appropriate level of skill to deliver on responsibility, and develop a contingent plan to mitigate the impact of declining ability to stimulate and accelerate exploration and production of Oil and Gas

18.2.3 Non-Acquisition of 3D Seismic Data to Attract Partners for Exploration

In its report on Strategic Partnership of November 2016 and Budget of 2017/2018, TPDC explained the necessity of data acquisition to Block 4/1B and 4/1C for strategic partnership consideration. TPDC's existing data in the area is 598.1 Kms of two 2D Seismic data acquired by TPDC, WesternGeco and ION GXT in 1999s and 2000s. TPDC has initiated process to improve these data by entering into contract with M/s ION GX technology on 15th December, 2015 to carryout 2D infill non-exclusive multi-client marine seismic survey over deep sea blocks 4/1B and 4/1C. However, the contract was terminated in 2017.

Due to change in technology and termination of the above contract, TPDC started pursuing acquisition of 3D seismic data where on 29th January, 2018 sent proposal letter to MEM explaining the advantage it can obtain through use of existing BGP explorer (Ship) in Zanzibar to research oil and Gas in blocks 4/1B and 4/1C. Therefore, in 2017/2018, a total of TZS 4.5 billion was budgeted to acquire 3D Seismic Data in Blocks 4/1B and 4/1C to upgrade the existing 2D seismic data.

However, as of 30th June, 2018 only TZS 24.79 million (0.6%) was released by the Government and as such major activities were not implemented. Management explained that, in the financial year it had allocated enough fund for acquisition of 3D seismic data in the 2018/2019 budget, nevertheless no fund has been received in the first half of 2018/2019.

I consider that, acquisition of 3D seismic data is vital for furtherance of exploration activities which includes; data interpretation and pinpointing structural and stratigraphic and more importantly attracting partners for blocks exploration and development.

I recommend that TPDC liaise with the Government through MEM to plan on solicitation of funds necessary for acquisition of 3D seismic data for further development of the two gas blocks.

CHAPTER NINETEEN

TAX COMPLIANCE IN PUBLIC ENTITIES

19.1 Introduction

Public Entities are required to comply with tax laws including timely remittance of tax returns. However, as reported in previous years, I noted that public entities continue to delay in remitting or not remitting taxes deducted from employees' income and withholding tax attracting fines and penalties. Further, inadequate filing of VAT returns which lead to difficulties in claiming VAT input tax.

Despite emphasis put on every entity to use EFD receipts, I noted that some entities do not have EFD machines particularly those making sales. I further noted non-compliance with withholding tax requirements due inadequate translation of Tax Laws. In detail, I noted the following anomalies relating to tax matters: -

19.2 Presence of Unresolved Tax Assessments Resulting from Inadequate Translation of the Tax Laws

According to Sect.7 (1) and (2) of Income Tax Act of 2014 individual income from the employment should include payments of wages, salary, payment in lieu of leave, fees, commissions, bonuses, gratuity or any subsistence travelling entertainment or other allowance received in respect of employment or service rendered. Further, Sect. 7(3)(l) of the Income Tax Act 2014 exempts housing allowance, transport allowance, responsibility allowance, extra duty allowance, overtime allowance, hardship allowance and honoraria payable to an employee of the Government or an institution the budget of which is fully or substantially paid out of Government budget subvention.

I noted that, SUMATRA, Tanzania Insurance Regulatory Authority (TIRA) and Shinyanga Urban Water Supply and Sanitation Authority (SHUWASA) had not included allowances (housing, responsibilities and annual leave) paid to staff in calculating the PAYE. As such, there was no income tax deducted and submitted to TRA in relation to allowances paid. Calculation was paid based on the basic salary and not gross salary. Likewise, Tanzania Civil Aviation Authority (TCAA) had been withholding tax from its generated revenue 2% and paying Skills Development levy (SDL). In addition, TCAA had been deducting PAYE from gross instead of basic salary as it is an entity fully funded by Government budget which is exempted by the income tax. TCAA had not sought clarification from TRA.

Also, RAHCO has overpaid PAYE amounting to TZS 451.6 million from the year 2011 to 2015 as the result of assessment which regarded it as a profit-oriented entity while actually it is a fully Government entity depending on the Government subventions. As such, RAHCO is claiming tax refund relating to extra amount of PAYE amount deducted from gross salary instead of basic salary.

At TIRA, there was a disagreement on deduction of PAYE from allowances paid to employees. Management of TIRA clarified that, the income tax provides exemption for Government entities. Therefore, I noted that TIRA had taken efforts to seek clarification from TRA and the Ministry of Finance and Planning on whether it is required to deduct tax from allowances paid to employees; however, no response had been received. Table 30 below lists allowances not subjected to income tax.

Table 30: Employee Allowances Not Charged Income Tax

SN	Name of Entity	Description	Amount (TZS)
1	Tanzania Insurance Regulatory Authority (TIRA)	House allowance, Transport allowance, acting allowance and utility allowance.	755,229,227
2	Shinyanga Urban Water Supply and	House allowance, Lunch allowance and	205,645,000

SN	Name of Entity	Description	Amount (TZS)
	Sanitation Authority (SHUWASA)	responsibility allowances.	
3	SUMATRA	Annual leave allowance	684,418,835
4	RAHCO	A claim on tax refund for over deduction of PAYE in 2011 to 2015 caused by considering RAHCO as profit-oriented entity while it is a fully government entity depending on government subventions.	451,600,000

In a similar case, PSPF had not paid assessed corporate tax amounting to TZS 199.76 billion in respect of tax on investment income for the years 2011/12, 2012/13 and 2013/14. The reason stated was the exemption provided under Sect. 47 of the Public Service Retirement Benefits Act No. 2 of 1999. The exemption was based on the background of the Fund whereby it started with significant financial shortfalls and there was a need to raise adequate funds for payment of benefits.

I consider that, TRA and the Public Entities have opportunity to make clarifications on the tax laws that trigger tax assessments. Recurring incidents of non-compliance with income tax by the public entities signify different understanding of the income tax among public entities which in turn results in unnecessary tax negotiations leading public entities to having large tax liabilities which further erode financial resources of the public entities in subsequent years.

I recommend that TRA as the entity entrusted with implementing tax laws to regularly provide clarification on tax laws to public entities for enhanced tax compliance in public sector.

19.3 Non-filing/late Submission of Returns for VAT, PAYE, SDL and Withholding Tax to TRA

Sect. 15 and 66 of VAT Act, 2014 and Regulation 20 of VAT Regulations, 2015, stipulates that VAT is payable on or before 20th day of the following month of the business that is a due date of submitting the return. Further, Sect. 83 (l) and (A) of the Income Tax Act (Cap 332) of 2008 as amended in Sect. 28(3) of the Finance Act 2016 requires withhold of withholding tax for payments made in respect of provision of services at the rate of 15% for foreign firms; 2% and 5% for the supplier of goods and services respectively for local companies.

Despite my reports of the prior years, I noted that public entities have not improved tax returns filing system to comply with requirements of tax laws and regulations. For example, National Construction Council (NCC) and National Insurance Corporation did not file VAT returns for an amount of TZS 38.73 million in the financial year ended June 2018 hence, VAT returns were not submitted to TRA.

Ngorongoro Conservation Area Authority (NCAA) did not charge TZS 63.5 million as VAT on the disposal of assets. In addition, NCAA had under declared total sales in the VAT returns by TZS 1.6 billion (TZS 125.1 billion instead of TZS 126.7 billion) resulting in under declaration of the output tax of TZS 285 million.

I also noted that National Insurance Corporation (NIC) delayed remittance of VAT returns which were due since the beginning of the year and were submitted in February 2018. I noted also that, 13 Public Entities had incidents where withholding tax and Skills Development levy were not deducted and remitted to TRA from the suppliers of goods and services. (Table 31 refers)

Non-compliances with tax laws attract penalties and interests against public authorities' resources which in turn utilizes funds budgeted to implement other activities. Further, the Public Entities facilitate suppliers of goods and services to avoid tax.

I recommend that the Public Entities comply with tax laws by ensuring timely filing of tax returns and remittance to TRA of respective taxes.

Table 31: Entities which did not deduct withholding tax and Skills Development Levy (SDL)

S/n	Name of Entity	Description
1	TPDC	Payment to Tanzania Standard Newspapers (TSN) for advertisement services TZS 3.7 million
2	Dodoma Urban Water Supply and Sanitation (DUWASA),	DUWASA did not submit biannual returns for PAYE, SDL and withholding tax to TRA. DUWASA did not file monthly SDL returns to TRA
3	National Insurance Corporation (NIC)	The Corporation did not collect on time all withholding tax certificates from its tenants. As a result, the Corporation had significant amount of withholding tax receivables which is not supported by withholding tax certificates which lead to provision for impairment of receivables TZS 451 million as at 30th June, 2017.
4	Dar es Salaam Institute of Technology (DIT)	DIT did not withhold tax for payment of TZS 10.41 million on consultation and security.
5	DAWASA	In 16 payments equivalent to 44% of payments made to various service providers, withholding taxes were not deducted. Amount of withholding tax in this regard was TZS 60.24 million.

S/n	Name of Entity	Description
6	Open University of Tanzania (OUT).	Due to usage of small rates, amount withheld resulted to non-remittance of TZS 10.44 million
7	Shinyanga Urban Water Supply and Sanitation (SHUWASA)	The Authority did not deduct withholding taxes on various payments made to suppliers TZS 5.30 million.
8	Tanzania Investment Bank (TIB)	- Did not file monthly Skill and Development Levy (SDL) returns to TRA. - The Bank offers loans to its staff at a preferential rate of 4% per annum. The statutory rate during that period was 16% which would attract fringe benefit. However, the Bank did not deduct this fringe benefit tax in the months when the statutory rate was below 16% (12% from March 2017 to July 2017 and 9% from August 2017 to February 2019) and remit them to TRA. - Late payment of withholding taxes on interest offered on fixed deposit.
9	Tanzania Ports Authority (TPA)	- VAT reconciliation between general ledger and monthly returns are not performed on monthly basis. This has been noted for all months. - VAT on wharfage collected by Tanzania Revenue Authority was not disclosed in monthly VAT returns however the corresponding liability has been recorded in the Authority's books. - Contrary to Sect. 71 of the Value Added Tax Act of 2014, the Authority does not issue

S/n	Name of Entity	Description
		adjustment notes to customers for the cancelled invoices made subsequent to filing the monthly VAT returns.
10	Babati Urban Water Supply and Sanitation	• The Authority did not file semi-annual and annual returns for withholding tax, PAYE, SDL and Workers Compensation Fund. • The Authority was convicted for non-compliance and was liable to pay a fine not exceeding TZS 20 million. • Deducted withholding taxes amounting to TZS 4.28 million were not remitted to TRA.
11	ATCL	• Delay in remittance of statutory deductions such as PAYE, SDL, WCF, PPF and PSFP. Example is the month of January 2017 and June 2017.
12	Arusha Urban Water Supply and Sanitation (AUWASA)	• Authority did not file the semi-annual and annual returns in respect of withholding tax, PAYE, SDL and WCF as required by respective laws.
13	TANESCO	• Statutory deductions, for temporary employees, did not submit Social Security Contribution, PAYE and SDL to the relevant Authorities that are National Social Security Fund (NSSF) and Tanzania Revenue Authority (TRA)

19.4 Outstanding Taxes and Duties not paid by Public Entities

Tanzania Broadcasting Corporation (TBC) had a total of TZS 2.27 billion (excluding fines and penalties) outstanding which has not been remitted to TRA as VAT payable in accordance with Sect. 66(1) of the Value Added Tax Act, 2014. TBC management explained that it was on discussion with TRA regarding the payment plan while application for tax waiver lodged to the Ministry of Finance and Planning had not received response. TBC also, applied for the remission of interest and penalties on 25th September, 2018.

Also, Tanzania Telecommunication Company Limited (TTCL) had not paid excise duty amounting to TZS 234.41 million which has been outstanding since 2015. I was informed that payment was pending completion of the ongoing reconciliation between TTCL and TRA.

I recommend that Public Entities ensure taxes are paid in timely manner to avoid fines and penalties.

19.5 Lack Proper Recording and Filing of VAT Returns

Sect. 69 (1) (b) of VAT act of 2014 requires any VAT register entity with negative balance with TRA to claim the refund semi-annually. Also, Sect. 16 (1) (b) requires any registered taxable person to claim input tax incurred during the month.

I noted that, Reli Assets Holding Company Limited (RAHCO) had a balance of input tax amounting to TZS 31.09 billion as at 30th June, 2018 relating to period between June 2016 and June 2018. In another case, RAHCO made advance payment to YAPI MARKERZ a payment which attracted input VAT of TZS 53.3 billion and this input VAT was not recorded in RAHCO's books of account. There were also no tax returns filled to TRA in this regard. Considering the above two cases, RAHCO has input VAT credit of TZS 84.39 billion. However, I noted that, RAHCO had not lodged refund claims to TRA.

Further, I noted that RAHCO had output VAT of TZS 3.11 billion during the year. However, the company had not filed returns in regard on this output VAT as required by VAT Act. This would result in fines and penalties as a result of failure to file returns on due dates.

I recommend that RAHCO ensure proper recording of every input and output VAT and hence improve its filing returns process as required by the VAT Act.

19.6 Outstanding VAT with Respect to NICTBB TZS 10.83 billion

I noted that, TTCL is the manager of NICTBB and therefore identified as a taxpayer with respect to NICTBB services and thus filing tax returns for NICTBB.

I learnt that TTCL has been incurring cost on running the NICTBB operations by receiving management fees. In this regard, TTCL recorded output VAT amounting to TZS 10.83 billion as operation costs to NICTBB in the year ended June 2017. This amount of VAT is outstanding since then and had no corresponding input tax is has been recorded because TTCL has not been reimbursed by the Ministry. As a result, the arrangement has created the tax liability to TTCL which I consider increases the expenses of TTCL unnecessarily.

I recommend that TTCL and the Ministry resolve the issue of payment of VAT in respect of NICTBB.

19.7 Public Entities Failing to Demand and/or Issue EFD invoices

I noted eleven entities which either procured goods and services without demanding EFD invoices/receipt or made sales without issuing EFD receipts as required under Regulations 24 and 28 (1) of EFD Regulations, 2010, (Revised Edition, 2012). Table 32 below provides more details.

Table 32: List of Public Entities That Received or Paid with No Legal EFD Acknowledgement Invoices

S/n	Name of Entity	Description
1	Tanzania Postal Corporation	Payments to suppliers that were not acknowledged with legal EFD receipts. TZS 515.96 million.

S/n	Name of Entity	Description
2	Babati Urban Water Supply and Sanitation Authority (BAWASA)	Payments to third parties were not supported by EFD tax invoice TZS 16 million.
3	TAFORI	Payments made to suppliers which had no invoices from vendors TZS 35.34 million.
4	National Health Insurance Fund (NHIF)	Payments made to various suppliers of services and goods were not supported by EFD cash receipts TZS 2.2 million
5	Kariakoo Market Corporation	Procurement of works/goods not supported by EFD acknowledgement receipts TZS 56.16 million.
6	Mkulazi	Payments for goods and services lacked sufficient EFD receipts from suppliers TZS 15.76 million.
7	National Examination Council of Tanzania (NECTA)	NECTA has not issued EFD receipts to its customers for the year ended 30th June, 2016 contrary to instructions issued through letter with Ref. No. TRA /CDR/T.30/222/VOL.III/142.
8	SUMATRA	Payments for goods and services not supported by EFD receipts TZS 431.45 million
9	Institute Of Rural Development Planning Dodoma (IRDP)	The institute has no EFD machines hence had not started issuing EFD receipts.
10	MUHAS	The institute has no EFD machines hence had not started issuing EFD receipts.
11	SUWASA	Payment of TZS 18.56 million made to suppliers lacking Electronic Fiscal Device (EFD) Receipts.

Making payments that are not acknowledged through with EFD receipt/invoices may facilitate tax avoidance leading to loss of Government revenue. Penalties from such non-compliances cause nugatory expenditure to public entities.

I recommend that Public Entities adhere to the requirements of the EFD Regulations, 2010, (Revised Edition, 2012).

19.8 Non-fulfilment of Obligation in Implementation of KFW Project at SENAPA

On 16th December, 2013, the Government of Tanzania through TANAPA, entered into a finance agreement with KFW and Frankfurt Zoology Society, for Serengeti Ecosystem Development and Conservation Project in Serengeti National Park as well as the adjacent districts of Ngorongoro Projects. The total cost of the project was estimated to be EUR 24.12 million.

KFW agreed to Finance EUR 20.5 million while Frankfurt zoological Society (FZS) agreed to finance EUR 1 million and the remaining amount EUR 2.62 million would be financed by TANAPA in kind. The project duration was 5 years and the project inception date was 11thJuly, 2014.

The finances were meant to be used on construction of protected area infrastructure (such as ranger and staff houses, visitor centre, water pipeline); establish rural land use plans; formalize user rights; develop resources management zone development plan; and establish Community based wildlife and Forest Management Areas and strengthening their management.

Further, the finances were also intended to rehabilitate and construct strategic rural roads in Serengeti and Ngorongoro Districts, support to SENAPA Outreach Department and elaborate or implement a strategic outreach and benefit sharing programme, support community initiated rural, social and economic infrastructure projects and their sustainable management.

All taxes and other public charges are to be borne by the Government or TANAPA, and KFW have a right to refuse to make disbursements after 30th June, 2018 as stipulated under Article 1.3 and Article 3.2 of the agreement.

However, I noted that up to January 2019, 4 years had elapsed since inception of the project on 11th July, 2014 but none of the planned project activities had been implemented. The reasons for the delay in implementation were that most of the items to be used in the project were to be tax exempted upon their importation and the same has yet to be done.

I recommend that TANAPA and TRA resolve the matter to allow smooth implementation of the project.

Annex I: Analysis of Audit Opinions

	Institutions	Opinions
1	Architects and Quantity Surveyors Registration Board	Unqualified
2	Ardhi University (ARU)	Unqualified
3	Arusha International Conference Centre (AICC)	Unqualified
4	Arusha Technical College	Unqualified
5	Arusha Urban Water Supply and Sewerage Authority	Unqualified
6	Babati Urban Water Supply and Sanitation Authority	Unqualified
7	Bukoba Urban Water Supply and Sanitation Authority	Unqualified
8	Capital Markets Security Authority (CMSA)	Unqualified
9	CDTF - (Cotton Board)	Unqualified
10	Centre For Foreign Relations (CFR)	Unqualified
11	Chalinze Urban Water Supply and Sanitation Authority	Unqualified
12	Contractor Registration Board (CRB)	Unqualified
13	Co-operative and Audit Supervision Corporation (COASCO)	Unqualified
14	Dar es Salaam Institute of Technology (DIT)	Unqualified
15	Dar Es Salaam Maritime Institute (DMI)	Unqualified
16	Dar es Salaam University College of Education (DUCE)	Unqualified
17	Dar es Salaam Water and Sewarage Corporation (DAWASCO)	Unqualified
18	Dar es Salaam Water Supply Authority (DAWASA)	Unqualified
19	Dodoma Urban Water Supply and Sanitation Authority	Unqualified
20	Energy and Water Utilities Regulatory Authority (EWURA)	Unqualified
21	Engineers Registration Board	Unqualified
22	Fair Competition Commission (FCC)	Unqualified
23	Fair Competition Tribunal (FCT)	Unqualified
24	Gaming Board of Tanzania (GBT)	Unqualified
25	GEPF Pension Fund	Unqualified
26	Higher Education Students Loans Board (HESLB)	Unqualified
27	Institute of Accountancy Arusha (IAA)	Unqualified
28	Institute of Rural Development Planning (IRDP)	Unqualified
29	Institute of Social Work (ISW)	Unqualified
30	Iringa Urban Water supply and Sanitation Authority	Unqualified
31	Jakaya Kikwete Institute	Unqualified

	Institutions	Opinions
32	Kahama Shinyanga Urban Water Authority	Unqualified
33	Kahama Urban Water supply and Sanitation Authority	Unqualified
34	Kariakoo Market Corporation	Unqualified
35	Kibaha Education Center	Unqualified
36	LAPF Pensions Fund	Unqualified
37	Lindi Urban Water Authority	Unqualified
38	Masasi-Nachingwea Urban Water Authority	Unqualified
39	Mbeya Institute of Technology	Unqualified
40	Mbeya Urban Water Supply and Sanitation Authority	Unqualified
41	Medical Stores Department (MSD)	Unqualified
42	Mkwawa University College of Education (MUCE)	Unqualified
43	Morogoro Urban Water Supply and Sanitation	Unqualified
44	Moshi Cooperative University (MUCO)	Unqualified
45	Moshi Urban Water Supply and Sewerage Authority	Unqualified
46	Mtwara Urban Water supply and Sanitation Authority	Unqualified
47	Muhimbili National Hospital (MNH)	Unqualified
48	Muhimbili University of Health and Allied Science (MUHAS)	Unqualified
49	Musoma Urban Water supply and Sanitation Authority	Unqualified
50	Mwalimu Nyerere Memorial Academy	Unqualified
51	Mwanza Urban Water Supply and Sanitation Authority	Unqualified
52	Mweka College of African Wildlife	Unqualified
53	Mzumbe University	Unqualified
54	Namtumbo Water Authority	Unqualified
55	National Arts Council (BASATA)	Unqualified
56	National Board of Accountants and Auditors (NBAA)	Unqualified
57	National Bureau of Statistics (NBS)	Unqualified
58	National Council of Technical Education (NACTE)	Unqualified
59	National Development Corporation (NDC)	Unqualified
60	National Economic Empowerment Council (NEEC)	Unqualified
61	National Environmental Management Council of Tanzania	Unqualified
62	National Examination Council of Tanzania	Unqualified
63	National Health Insurance Fund (NHIF)	Unqualified
64	National Institute of Transport(NIT)	Unqualified
65	National Insurance Corporation (NIC)	Unqualified

	Institutions	Opinions
66	National Sports Council	Unqualified
67	Ngorongoro Conservation Area Authority	Unqualified
68	Njombe Urban Water supply and Sanitation authority	Unqualified
69	Ocean Road Cancer Institute (ORCI)	Unqualified
70	Open University of Tanzania (OUT)	Unqualified
71	Petroleum Upstream Regulatory Authority (PURA)	Unqualified
72	PPF Pension Fund	Unqualified
73	Procurement and Supplies Professional and Technicians Board (PSPTB)	Unqualified
74	Public Procurement Appeals Authority (PPAA)	Unqualified
75	Public Procurement Regulatory Authority (PPRA)	Unqualified
76	Public Services Pension Fund (PSPF)	Unqualified
77	RASILIMALI	Unqualified
78	Reli Asset Holdings Company Ltd (RAHCO)	Unqualified
79	Rukwa/Sumbawanga Urban Water Supply and Sewerage Authority	Unqualified
80	Shinyanga Urban Water Supply and Sanitation Authority	Unqualified
81	Singida Urban Water Supply and Sanitation Authority	Unqualified
82	Sokoine University of Agriculture (SUA)	Unqualified
83	Songea Urban Water supply and Sanitation Authority	Unqualified
84	Tabora Urban Water Supply and Sanitation Authority	Unqualified
85	Tanga Urban Water Supply and Sanitation Authority	Unqualified
86	Tanzania Agriculture Development Bank (TADB)	Unqualified
87	Tanzania Broadcasting Corporation (TBC)	Unqualified
88	Tanzania Bureau of Standards	Unqualified
89	Tanzania Civil Aviation Authority (TCAA)	Unqualified
90	Tanzania Commission for University (TCU)	Unqualified
91	Tanzania Commission of Science and Technology	Unqualified
92	Tanzania Communication Regulatory Authority (TCRA)	Unqualified
93	Tanzania Cotton Board	Unqualified
94	Tanzania Education Authority (TEA)	Unqualified
95	Tanzania Electric Supply Co. LTD (TANESCO)	Unqualified
96	Tanzania Fisheries Research Institute (TAFIRI)	Unqualified
97	Tanzania Food and Drugs Authority (TFDA)	Unqualified
98	Tanzania Food Nutrition Centre	Unqualified
99	Tanzania Forest Research Institute (TAFORI)	Unqualified

	Institutions	Opinions
100	Tanzania Institute Education (TIE)	Unqualified
101	Tanzania Insurance Regulatory Authority (TIRA)	Unqualified
102	Tanzania Investment Bank Development (TIB)	Unqualified
103	Tanzania Investment Corporate Bank	Unqualified
104	Tanzania National Parks (TANAPA)	Unqualified
105	Tanzania Petroleum Development Corporation (TPDC)	Unqualified
106	Tanzania Ports Authority (TPA)	Unqualified
107	Tanzania Postal Bank (TPB)	Unqualified
108	Tanzania Revenue Appeals Board	Unqualified
109	Tanzania Sisal Board	Unqualified
110	Tanzania Trade Development Authority (TANTRADE)	Unqualified
111	Tanzania Wildlife Research Institute (TAWIRI)	Unqualified
112	Tanzania Women Bank (TWB)	Qualified
113	Tax Revenue Appeals Tribunal	Unqualified
114	Tropical Pesticides Research Institute (TPRI)	Unqualified
115	TTCL Corporation	Unqualified
116	Ubungo Plaza Company Ltd (UPL)	Unqualified
117	Universal Communication Access Fund (UCSAF)	Unqualified
118	University of Dar-es-Salaam (UDSM)	Unqualified
119	University of Dodoma (UDOM)	Unqualified
120	Watumishi Housing Company (WHC)	Unqualified
121	Vocational Education and Training Authority (VETA)	Unqualified
122	Tanzania Investment Centre (TIC)	Unqualified

Annex II: Implementation Status of Prior Years' Audit Recommendations

S/N	Year	Audit recommendations	Government response	CAG comment	Status
1	2012/13	Azania Bank is supposed to be under the control of the Treasury Registrar and submit its financial statements to CAG for audit pursuant to Article 143 of the Constitution of URT and Section 9 (a) iii & IV of the Public Audit Act No. 11 of 2008.	The Ministry has sought advice from Attorney General (AG) to get clarification on the matter. The AG advised that sect. 3 of the Public Audit Act, Cap 418 should be amended to empower CAG to Audit Entity registered and established under the Companies Act. Thus, "the definition of Public Authority" is amended so that it adds a further exception, which holds that even if an entity is registered under the Companies Act, if the majority shareholders are from the Government, then they will still require to be audited by the CAG.	It is my expectation that the AG office will initiate a process to amend the Public Audit Act to accommodate all Public Entities including companies were the Government is majority shareholder. And now PSSSF own Azania Bank by more than 50%.	Not implemented
2	2015/16	Management of NHIF is advised to have a written agreement with the borrower and obtain a government guarantee. In future, NHIF is also urged to ensure binding agreement is entered prior disbursement of any loan.	The Fund received a letter from the Ministry of Finance and Planning (MoFP) of 15 December 2015 with ref: CJA.452/479/01 showing the intention of converting the loan to non-cash Bond, used to offset all outstanding debts owed by the Government to	I noted that a Fund continues to provide loans to the Government without written agreement and those previous loans were not converted into non-cash Bond as directed by MoFP through the letter with ref:	Not implemented

S/N	Year	Audit recommendations	Government response	CAG comment	Status
			Social Security Schemes.	CJA.452/479/01.	
3	2015/16	TPC Management is urged to comply with the relevant legal and regulatory requirements by remitting the outstanding Royalties and Annual Fees amounting to TZS 1.38 Billion to TCRA.	Management is requesting the Government to offset the amount due to TCRA of TZS 1.38 Billion against the amount used to TPC to pay EAC pensioners of TZS 3.87 billion.	There was no evidence submitted for audit verification to confirm that TPC Management requested the Government to offset the amount due.	Not implemented
4	2015/16	**Losses Incurred from Breach of Agreement by LAPF TZS 473.76 Million** AICC Management is advised to seek financial support from various sources to implement the project.	The Centre has written to anchor tenants to express interest for the shopping mall project. Also, the Centre continues to seek other investors on Public Private Partnership Arrangement who will be interested.	I appreciate Management efforts, but I am waiting for the implementation of audit comment.	Under implementation
5	2015/16	**Lack of Progress on Implementation of ADS-B Phase - I TZS 3.4 Billion (TCAA)** I advise management to carry out a new detailed Company search on the current financial and operational capacity of COMSOFT Gmbh. This may need to involve Tanzania Embassy in Germany for reliable	The important component to finalize the project is expected to be installed parallel with the new Julius Nyerere International Airport radar to fuse the radar information and the ADS-B information into the same screen (monitor) to be used by the Air Traffic Controller.	It is under implementation, I will keep track of its implementation.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
		information. Management is also advised to assess the challenges of implementation of the project and take appropriate decisions to improve air traffic control activities.			
6	2015/16	(i)Management of Independent and Emergency Power Plants (IPP's & EPP's), and Capacity Charges To revive TANESCO and make the Company perform effectively, I recommend the following: (i) Energy charge tariff approved by EWURA should reflect the actual Cost incurred by TANESCO after taking into account those costs relating to capacity and energy charges paid to IPPs and EPPs. (ii) The price also should include a margin to allow the Company meet its other operational costs and additional investment costs to enhance its sustainability. (iii) The procurement of EPP and IPP projects should be made on a competitive basis	i. To increase Tariff (when using EPPs and IPPs) to be cost reflective will cause adverse impact to the country's economy. Instead the Government has been providing subsidy to the utility in order to enable it meet its financial obligations and render required services to its customers; ii. The Government has already directed under GN No.292 of 21/10/2016 for all IPPs to be engaged through competitive bidding. However, the Government has insisted to emphasize on the development of our own power generation projects; and iii. TANESCO has always been involved throughout the process of procurement, negotiation and	Management response has been noted for follow up in the next audit.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
		to ensure that TANESCO gets IPPs which are cost effective. The Government should facilitate the company (TANESCO) to invest in cheaper sources of power production to avoid energy purchases from expensive sources.	awarding processes.		
7	2015/16	**Construction of Songwe Hydropower Project** (i) I advise the Government to ratify the Convention for establishment of the Songwe River Basin Commission to enable the project to start. (ii) Further, the Government should involve TANESCO in the processes of Construction of the Lower dam and Hydropower Plant to provide technical advice when needed.	Participation of TANESCO in downstream investment activities, especially in mobilization of resources for project implementation and technical support We take on board as well the idea for TANESCO to partake in the construction of lower dam and hydropower plant process and to provide technical advice when deemed appropriate.	Response has been noted for follow up of its implementation.	Under implementation
8	2015/16	**Viability of TANESCO's Power Tariff** I also recommend that EWURA should critically review the electricity tariffs so as to include all the costs related to the power generation and a reasonable return, while allowing for prudent capital	TANESCO will continue to make a close follow up to ensure that EWURA reviews the periodic tariff adjustments at each quarter where applicable.	Management response has been noted for follow up.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
		investments to improve TANESCO's service delivery and efficient financial operational performance.			
9	2015/16	**Unpaid Lease Rent by Ministry of Energy and Minerals TZS 1.117 billion** Management of TANESCO is advised to put more efforts in following up with the Ministry of Energy and Minerals to ensure that MEM pays their outstanding rent. On the other hand, MEM being the Company's parent Ministry should ensure that it does not contribute to the current financial distress facing the Company.		The Government did not provide response to this recommendation	Not implemented
10	2015/16	Delay Implementation and Completion of Sub-Projects for Mlimani City Project UDSM Management is advised to consider revisiting the contract with Mlimani City Holding to fast track the completion of the delayed projects.	The planned completion date is not 1 September 2006 as it was extended through extension of the Performance Contract which ends on 31st December 2019. During the joint meeting held on 20th April 2017 between the UDSM, Tanzania Investment Centre (TIC) and Mlimani Holdings Ltd (MHL). MHL stated	Implementation is still in progress, I will keep track on the implementation of my recommendation.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
			that they intend to put in place the botanical garden before the end of the development period but there were no plans to build the 4-star hotel. However, UDSM and TIC urged MHL to reconsider the hotel as per the existing agreement and MHL promised to do so. UDSM has already initiated the process of reviewing the Ground Lease Agreement (Contract).		
11	2015/16	**Violation of Rent Payment to UDSM** I advise management of the University to:(i) Recalculate its portion of 10 per cent as required by the contract and the difference be claimed from the lessee; and (ii) Liaise with the lessee and consider reviewing the contract to include all necessary clauses such as allowing UDSM internal audit department to conduct verification of revenue and operational costs.	Appropriate measures are underway including invoicing of the underpaid fees, followed by a demand note for the difference between the gross amount and the net amount paid to UDSM. At the same time, UDSM is pursuing other related matters with MHL to establish a better way that will have mutual benefit and more agreed level of transparent to feature in the contract which is the operation guiding document for both parties in relation to the Mlimani City project.	Implementation is still in progress, I will keep track on the full implementation of my recommendation.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
12	2015/16	Inadequate Monitoring and Supervision of Revenues from Sub-tenants UDSM Management is advised to adhere to the terms and conditions of the Memorandum of Lease agreement including clause 11.2(l) of the Memorandum of Agreement which requires UDSM to approve the lease to a subtenant.	Currently, UDSM has to approve the tenants before a formal lease agreement is signed thereby increasing transparency over the contractual agreement. UDSM also has to approve credits to tenants. So far, UDSM has enforced this procedural requirement.	Implementation is still in progress; further review of implementation will be followed up.	Under implementation
13	2015/16	Lack of Right to Access MHL Operations UDSM is advised to liaise with MHL with a view to obtaining the right of access for the best interest of both parties and that during such process, UDSM be allowed to have access to MHL operations so as to be aware of the operations of the tenant.	UDSM liaison officer is verifying all such records and so far, there has been no obstruction by MHL.	Implementation is still in progress; I will keep tracking the implementation of the recommendation.	Under implementation
14	2015/16	**Inadequate Implementation of Development Projects at TPA** TPA is advised to expedite the implementation of all the planned projects to ensure that the intended strategic objectives are achieved.		The Government did not provide response to this recommendation.	Not implemented

S/N	Year	Audit recommendations	Government response	CAG comment	Status
15	2015/16	**Assessment of wharfage collection MoU between TPA and TRA** I advise TPA management to liaise with Tanzania Revenue Authority on the terms of the MoU to ensure that parties fulfil the requirements of the agreement to ensure that TPA operational efficiency is not impaired by the new modality of wharfage collection.		The Government did not provide response to this recommendation.	Not implemented
16	2016/17	**Deteriorating Financial Performance** **I advise TANESCO to look for ways to improve its financial sustainability for it to be able to support the National economic transformation through industrialization.**	TANESCO has taken various measures aimed at improving company's financial performance for sustainable support of National Economic Transformation through industrialization. Measures taken so far include the following: First, to reduce generation cost through ongoing major investment projects in cheap sources of power generation (Kinyerezi II and Stigler Gorge); second, continue with transmission project for extension of National Power Grid (Makambako - Songea, North-	Management response has been noted, however I am waiting for the completion of the projects.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
			West grid) to connect isolated branches which use expensive fuel power Generation plant: third, improving distribution infrastructure in order to reduce power outages and increase number of new customers' connection from 250,000 to 290,000 customers per year so as to increase revenue; fourth, improving collection rate from 94% to 98% from postpaid customers through LUKU rollout and 'KA-TA' campaign for defaulters. Cost cutting measures have been instituted to allow for only vital activities to be financed.		
17	2016/17	Interest Payable to Pan African Energy USD 10.43 million TANESCO is advised to look for ways to resolve the disputes to avoid accumulating such huge amounts of unpaid invoices.	TANESCO has continued settling PAET liability such that from July 2016 to March 2018 a total amount of TZS 161.84 billion out of TZS 350.63 billion has been paid. Currently, the remaining outstanding balance is TZS billion 188.79 of which TANESCO has committed to pay TZS 2 billion weekly.	Management response has been noted, however I advise Management to increase effort on covering the liability facing ahead.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
18	2016/17	Unpaid Rent by Tumaini Hospital USD 9.4 Million I advised TANESCO Management to ensure that the court decree is implemented without any further delay.	The judgment was delivered in favour of TANESCO. Currently, TANESCO has lodged a substitute Application for execution of Court Decree after withdrawal of the previous application that indicated Tumaini Hospital as a Judgment Debtor.	Management response noted. Review of implementation will be done in next audit.	Under implementation
19	2016/17	**Contingent Liability by SCBHK Vs TANESCO USD 148.4 million** TANESCO is advised to prepare a well-planned alternative source of funding to cover this potential liability in case local jurisdictions decide in favour of SCBHK.	TANESCO in collaboration with the Government is in the process to enforce the Deed of Indemnity executed by Mr. Habinda Singh Sethi for and on behalf of IPTL and the Bank of Tanzania in favour of the Government of Tanzania to settle anticipated claim by SCB HK should TANESCO fail to contest the ICSID Award worth USD 148.4 million being principal and interest thereof.	Management response noted. I am waiting for the implementation of their response.	Under implementation
20	2016/17	**Delays in Transferring Customers to their Correct Tariff Level** TANESCO is advised to ensure that efficient control measures are in place to monitor transfer of users into the correct tariff rates as per their consumption. Moreover,	TANESCO has been transferring its customers from one tariff category to another in every month especially from D1 to T1. However, in order to ensure that this is done effectively, during 2018/19 financial year the company has planned to automate this process into its	Management response noted. Follow up on the implementation of their response will be done in the next audit.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
		automated system could be used in effecting prompt changes of tariffs to reduce risks of human interventions.	system such that customers will be transferred from one tariff category to another without human intervention.		
21	2016/17	**Absence of TBS Officers at Border Stations** I recommend for all Border Stations to be manned by TBS Officers to ensure that only qualified commodities are imported into the Country.	Currently due scarcity of employees, TBS has stationed officers in new borders such as Tunduma, Kasumulo, Kabanga, Rusumo. Allocation of staff to the identified border stations will be done after recruitment of more staff.	It's important to have TBS staff at border station so I advise TBS Management to put more effort on recruitment more staff members as recommended	Under implementation
22	2016/17	**MWAUWASA Payments to Contractor without Certifications TZS 420.10 million** MWAUWASA is advised to ensure that the TZS 420.10 million paid to the Contractor is paid back to the Authority without further delay as it may end un paid if not properly followed up.	As far as the contractor is still on site and there pending certificates which have not been settled, the payment which was not included in the valuation will be included in the valuation of pending certificates and final account certificate. To date, the amount in question has been submitted to Consultant for compilation.	Management response has been noted, however pending certified certificates were not submitted for audit verification to authenticate the pending payments.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
23	2016/17	Delays in Completion of Project at MWAUWASA TZS 6.66 Billion I recommended MWAUWASA to ensure that the project is completed without further delay.	MWAUWASA has taken measures including making sure that the component for water supply which is at 90% degree of completion is completed. For sanitation component MWAUWASA together with the Ministry of Water and Irrigation are in the preparation of Contract termination and invitation for new Contractor through Restrictive Tendering to make sure that the Works are completed before Donor (AfDB) Disbursement window which was closed by September 2018.	Management response has been noted. I am waiting for the implementation of audit recommendation.	Under implementation
24	2016/17	**Significant Increase and Inadequate Efforts in Debt Collection at Muhimbili Hospital** The Hospital needs to design and employ rigorous efforts to recover the outstanding debt amount	During the FY 2017/2018 receivables amounting to TZS 54.59 billion were due for collection and TZS 46.63 were collected by 30th June, 2018. Hence registering collection performance by 85.4%. Total amount of debtors was TZS 18.16 billion as of 30th June, 2018 out of this TZS 7.96 billion was already billed and TZS 9.63 was not yet billed to NHIF and TZS 0.56 billion was	A significant improvement has been achieved. Receivables have decreased from 30.8 billion to 18.16 billion as at 30th June, 2018. I insist Muhimbili Management to increase more efforts to recover the remaining balance.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
			unbilled to other credit companies.		
25	2016/17	Rejected Health Insurance Bills TZS 1.86 billion at MNH I advise the MNH to investigate the rejected bills with a view to finding out causes of their rejection and take appropriate measures. Also, MNH should review the billing process to identify the available gaps that might lead to fraudulent billing.	The Hospital has significantly improved verification of billed insurance claims. The percentage of rejected claims has declined from 6% in 2016/17 to 3% in 2017/18. In 2016/17 the Hospital billed TZS 31.7 billion and was paid TZS 29.8 billion where as in 2017/18 total billed amount from July 2017 –to March 2018 was TZS 29.45 billion and paid amount was TZS 28.45 billion)	The rejection has decreased from TZS 1.855 billion to TZS 1 billion in 2017/2018. I recommend Muhimbili Management to further review and strengthen billing process with the aim of minising rejected bills.	Under implementation
26	2016/17	**Delay in Completion WIP TZS 1.18 billion at Moshi UWASSA** The Authority is advised to make follow up with the Ministry of Water and Irrigation for implementation of phase two of the project.	This project was initiated by Ministry of Water and Irrigation under umbrella of WSDP and was being financed by World Bank and will be 2 phases including Detailed Design and Tender Documents preparation and Construction.	Management response is noted. However, I am waiting for implementation of recommendation.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
27	2016/17	**TCAA Consumer Consultative Council Contradiction between TCAA Act and Constitution of the URT** I recommend for TCAA - CCC to align Sect 52(4) of TCAA Act (2006) to the provisions of Article 143 of the Constitution.	TCAA CC reported the matter to relevant government entities including the parent Ministry, Ministry of Constitutional and Legal Affairs, the AG office, CAG, and TCAA vide letter with Ref. No.TCAA CCC/06/181 dated 31st January, 2018. In addition, we have liaised with TCAA to amend the Civil Aviation Act, Cap 80 so as to align with Article 143 (2) (c) of the Constitution.	Management response has been noted. However I am waiting for the implementation of audit recommendation.	Under implementation
28	2016/17	**House Purchased but Not Handed Over TZS 180 Million at BAKITA Management should make follow-up on the status and conclusion of the matter.**	The Council through its Advocates (G&S Associate Advocate) has added the cost in case No. 175/2015 to compel NIC to compensate for all loss incurred in the court plus compensation (mesac profit) for not utilizing its four apartments.	Management response noted. I will follow up the implementation of management response in the next audit.	Under implementation
29	2016/17	**Difference in Reported Revenues TZS 607 million at TPC** TPC needs to connect all Offices to the revenue system, conduct reconciliations of revenues from unconnected Offices and investigate to ascertain the	Management is improving its control system over its revenue by deploying systems that will be interfaced with Post Global Netsmart. However, TPC is in the process to connect its revenue systems to the Government	Management response noted. However not all the offices have been connected with the said system and hence reconciliation was not yet conducted. I therefore	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
		nature of the noted differences.	electronic payment gateway for connection	consider under implementation.	
30	2016/17	**Long Unreconciled Cash Book Items TZS 12.52 billion** TPC should ensure that the Bank Reconciliations are appropriately made.	The Government through TPC Management continues to reconcile the long outstanding non-reconciled items. As of 30th June 2017, remainder of un-reconciled items were TZS 3.95 billion, the plan is to clear them all by 30th June, 2018. The reconciliation exercise will be completed by 30th June, 2018.	Management Response noted. I am waiting for the implementation of audit comment	Under implementation
31	2016/17	Unreconciled Liability Due to TTCL TZS 922.05 Million TBC is advised to make close follow-ups with TTCL to resolve the differences and record the appropriate balances due in its books of account.	Management has noted Auditor's recommendations for implementation. On 14th December, 2017 TTCL notified management through email that they are in the process of seeking approval to waive disputed amount.	Management response noted. I am waiting for the implementation of audit recommendation.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
32	2016/17	**Impairment of Uncompleted Projects TZS 1.61 billion** RAHCO should investigate the nature of the projects and take appropriate actions to ensure that the projects are completed or take action against all Officials involved in causing the loss to the Company.	Projects for development of New Standard Gauge line are Capital intensive. They cannot be financed through revenue from normal business of a common railway organization like RAHCO and now TRC. The only means is through budget allocation and disbursement from the central Government through own local source or external financing (grant, loan, ECA, etc.). In this regards, mobilization of funds for projects for these new railway projects is done by GoT through MoFP. RAHCO and now TRC, being Implementing Agent of the project is obliged to furnish Technical Inputs for financing agreement and execute implementation. Development of those projects must undergo at least 3 phases, namely feasibility study, Detailed Design and implementation/construction. At feasibility phase, is when they GoT through	Management response has been noted. I insist RAHCO Management to communicate with the Ministry of Finance for early release of fund for those internal funding projects.	Under implementation

S/ N	Ye ar	Audit recommendations	Government response	CAG comment	Status
			implementation Agent, TRC (formerly RAHCO), establishes whether project is feasible or not. We will proceed to next stage of construction –only if the project is found to be feasible and funds have been secured. Also, feasibility study report is document necessary while approaching donors or investors to such capital extensive projects. Lastly if GoT wants to execute using own local money, details design is one of documents that may be needed for commissioning construction. Very unfortunately these are Trillions of projects, that why studies and designs are in Billions. However, in future RAHCO/TRC will improve and work more closely with MOWTC to address recommendation by CAG.		

S/N	Year	Audit recommendations	Government response	CAG comment	Status
33	2016/17	Fraudulent transactions leading to a loss TZS 130.6 Million at Jakaya Kikwete Cardiac Institute JKCI is advised to continue following up this case with the Police to ensure that the final judgement by the court is obtained. Further, the Institute needs to institute strong internal controls that would deter theft including inter alia, segregation of duties, job rotations and internal checks.	Some of measures being taken by Management to improve internal controls includes: (a) **Segregation of Duties** Currently implementation of accounting duties, including cash receipt, cash deposit and reconciliation are been executed by different personnel. **(b) Job Rotation** The Institute has started to implement job rotation as part of internal controls. Accounting Staff members are rotated from one unit to another after a span of at least 12 months. **(c) Internal Checks** Moreover, in order to ensure that checks and balances are in place, the Institute has undertaken the following measures; i. Cash collection service by NMB Bank has been extended from 5 days (Mondays to Fridays) to 6 days (Mondays to Saturdays). A formal agreement has been entered with NMB Bank to extend the closure time during weekdays	Management response has been noted and appreciate the internal control inserted by the management. I will keep on tracking the progress of the case in the subsequent audit.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
			(Mondays to Fridays) from 04.30pm to 10:00pm ii. Daily verification of cash revenue collected against cash deposited into JKCI bank account is being done on a daily basis by a person who is not involved in executing cash collection duties. iii. Internet Banking. The Institute has acquired access rights to utilize internet banking services which has simplified the process of obtaining, viewing and reconciling reports from bank against internal reports		
34	2016/17	**Fraudulent Payment of USD 26,356.65 and Euro 2,500 at Dar es Salaam Maritime Institute (DMI)** DMI is advised to make close follow up with cybercrime police to get the status of the matter and recover the money. Also, DMI should make sure that documents are	Police Tanzania and Interpol are cooperating to recover the lost amount, the investigation is in progress.	I appreciate the management effort, follow up on the progress will be made in the next audit.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
		examined before instructing the bank to effect any payment.			
35	2016/17	**Unpaid Royalties from the Radio Stations and Television Houses TZS 927.86 Million at COSOTA** COSOTA is advised to make consented efforts to remind the TV houses and Radio stations on the responsibility of paying the royalties	Management is making consented efforts to remind the TV houses and Radio stations on their responsibility to pay royalties as per invoices raised. It is planned that COSOTA and Data Centre will resume the invoicing, monitoring, collection, distribution and enforcement of tariff royalties after Data Centre has completed developing the Government Owned system for monitoring of Broadcasting Organizations. Currently, COSOTA has joined the Government electronic Gateway Payment (GePG) System to facilitate collection of fees. The two joint systems will definitely assist in the collection of revenue including the unpaid royalties.	Management response has been noted. I insist on the collection of unpaid royalties from Radio Stations and Television Houses of TZS 927.86 million.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
36	2016/17	**Irregularities in Accounting for Investment in Ngorongoro Protection Fund (NPF) at NCAA** NCAA should obtain legal documents for NPF to ascertain the ownership structure and establish its relationship with NCAA		The Government did not provide response to this recommendation	Not implemented
37	2016/17	**Payment for Land Acquisition Contrary to Agreed Procedures at TPA** TPA is advised to follow the requirements of Public Procurement Act, as relevant procedures including getting Board approval and valuing the land before continuing with paying of the outstanding balance.	Land will be valued before the money is paid.	Management response is noted. I am waiting for the implementation of management response.	Under implementation
38	2016/17	**Uncertainty on the Ownership of COPEC Petrol Station at Makumira (TPDC)** TPDC is advised to make follow up of its ownership in the two companies to know the status of its investments and take appropriate actions.	The Government has noted the external Auditors recommendations and will accordingly.	Considered not implemented	Not implemented

S/N	Year	Audit recommendations	Government response	CAG comment	Status
39	2016/17	**Inadequate CCTV Coverage at KADCO** Management is advised to speed up the procurement process and getting the most qualified bidder to perform the installation tasks	The agreements between KADCO and Agreneb Consult Ltd have been entered for drawings and preparations of tender document for the CCTV. These are ready for quotation by the shortlisted firms for the CCTV project to start immediately by this week.	I acknowledge the management effort on the progress made, review of the progress of the project will be done in the next audit.	Under implementation
40	2016/17	**Rehabilitation Liability on Buhemba Gold Mine at STAMICO** STAMICO should liaise with the Ministry of Minerals to find the solution of how to rehabilitate the surrounding environment after ceasing the operations.		The Government did not provide response to this recommendation.	Not implemented
41	2016/17	**Absence of Title Deeds for Plots TZS 5.44 Billion at NBS** NBS is advised to take appropriate steps to ensure that title deeds are obtained for all land owned by the Bureau in order to legally own the assets.	A letter with Ref.No.NBS/A.30/6/11 of 8th February, 2018, written to Kigoma Regional Administrative Secretary (RAS), requesting him to instruct the Municipality to issue a title deed in the name of NBS. Another letter with Ref.No.NBS/R.10/1/3 of 6th February, 2018 was written to the Director of Arusha Municipality, requesting him to issue a title deed of Plot No.565	Management response noted. However, I am waiting for availability of the title deed and the one available for Dar es salaam plot was not submitted for audit verification.	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
			located at Kibla – Makao Mapya in the name of NBS. Either the Title Deed for the Dar es Salaam Plot was already obtained with Title No. 87784 Plot No. 86 BLOCK – SURVEY REG. PLAN NO. 61735 measuring 1929 SQ.M located at Magogoni area. Close follow will be made to Kigoma Municipality and Arusha City regarding the Title deeds for NBS buildings.		
42	2016/17	**Loss of Rental Income on a Plot at Kunduchi Beach at UDSM** **Since the term of 10 years is approaching to an end, the University is advised to review the contract so as to accommodate the change of the reserved consideration and converting the unexecuted contractual obligations into monetary values relative to the rentals payable for the lease**	The recommendation is noted. Management before the end of March 2018 was to convene a University Team to review and negotiate the contract.	Management response noted, however I am awaiting a reviewed contract which will accommodate the changes noted.	Under implementation
43	2016/17	**Loans Disbursed Beyond Contract Amount TZS 6.18 Billion at NSSF** NSSF is advised to investigate the reasons for over disbursement made to the four		The Government did not provide response to this recommendation	Not implemented

S/N	Year	Audit recommendations	Government response	CAG comment	Status
		Institutions and ensure their immediate recoveries. Also, NSSF should, in future, ensure no excess disbursement is made contrary to agreements.			
44	2016/17	**Inadequate Management of Patented Intellectual Properties (SUA)** The University is advised to institute controls to ensure that intellectual properties are not published in the public domain without its consent and develop a comprehensive strategy to commercialize them. SUA is also advised to liaise with the respective Authority to obtain copyright of the innovations that are already in the market without patent rights and arrange to enter into contract with the distributor so that the University can get royalty and annual maintenance fees.	The University has established a special unit which deals with Intellectual Property Rights responsible among other to register all innovation. Two technologies with patents were published in science-based journals (Indexed journals). According to business regulations, this procedure is acceptable given the fact that even patents are science publications; for public consumption and that they are supposed to be in open access. Furthermore, the Journal Editor or Publisher is not allowed to Publish the patents which are already in the open access directory for public consumption. Lastly in all patent related publications, the publisher must explain the new	Management response has been noted. Follow up on implementation of their response will be done in the next audit	Under implementation

S/N	Year	Audit recommendations	Government response	CAG comment	Status
			technology. The policy which is in progress will include the need to prepare comprehensive strategy to expedite their commercialization and the requirement to give incentive to inventors as the means of encouraging them.		
45	2016/17	**Inadequate Funding of MSD Operations** I advise the Department to liaise with the Government to ensure that it pays its outstanding receivables in order to strengthen the Department's capital base to enhance its efficient and effective service delivery.	Management has written on several occasions to the Ministry of Finance through MoH regarding the adverse financial situation and requesting for repayment of the debt.	While acknowledging the management effort, I still insist MSD Management to liaise with the Government to be paid their outstanding receivables.	Under implementation
46	2016/17	**Non-Operational Petrol Stations and Expired Lease Agreements at TPDC** TPDC is advised to enter into new lease agreements with the tenants and to rehabilitate and operationalize the dormant ones to realize the intended economic benefits.	The Government has noted External Auditors recommendations.	Considered not implemented as no evidence of progress was provided by the Government.	Not implemented

S/N	Year	Audit recommendations	Government response	CAG comment	Status
47	2016/17	**Limitation of Scope for the Controller and Auditor General in the Extractive Industry** Given the importance of transparency in the Extractive Industry activities, there is a need to amend the principal Acts to provide the CAG an explicit and unrestricted access to all the financial and non-financial records of these Companies to enhance proper accountability by these Companies with regard to the natural resources which they have been given an opportunity to extract.		The Government did not provide response to this recommendation	Not implemented
48	2016/17	**Absence of Regulations to Amplify Natural Wealth and Resources** The Government through the Ministry of Minerals is advised to establish regulations which will govern applications of relevant provisions of the two Acts.		The Government did not provide response to this recommendation.	Not implemented

S/N	Year	Audit recommendations	Government response	CAG comment	Status
49	2016/17	Non-Verification of Mining Initial Capital Investment Cost The Government through the Mining Commission is advised to verify the accuracy of the initial and subsequent capital investments by all mining companies to ensure that correct declarations of investment cost are made to enhance fair and accurate reporting by the mining companies to enable the government to receive a fair share through royalty and taxes.		The Government did not provide response to this recommendation	Not implemented
50	2016/17	**Delays in Explorations of Block 4/1B & 4/1C** TPDC and Ministry of Energy are advised; a)To develop and sign a Memorandum of Understanding which will govern the exploration and extraction activities within these blocks; b)ensure issuance of exploration license to TPDC for successful development of block 4/1B and 4/1C; and c)To consult the government and other associated partners to finance		The Government did not provide response to this recommendation.	Not implemented

S/N	Year	Audit recommendations	Government response	CAG comment	Status
		the blocks exploration activities.			
51	2016/17	**Redundant Seven Deep Sea and One Lake Tanganyika North Blocks** TPDC is advised to consult the Government to review the terms and conditions in the 2013 Model Production Sharing Agreement.		The Government did not provide response to this recommendation.	Not implemented
52	2016/17	**Underutilization of Natural Gas Processing Plants** TPDC is advised to look for more potential customers to buy the gas to achieve the planned processing levels and benefit from the advantage of economies of scale, in order to be able to generate more profit.		The Government did not provide response to this recommendation.	Not implemented
53	2016/17	**Royalty Paid Out of the Government's Profit Share** Through the mandate granted under Section 4 of the Natural Wealth and Resources Contracts (Review and Renegotiation		The Government did not provide response to this recommendation.	Not implemented

S/N	Year	Audit recommendations	Government response	CAG comment	Status
		of Unconscionable Terms) Act, 2017 the Government is advised to review and amend Songosongo PSA to ensure that royalty is being charged and paid by both the license holder and Contractor as stipulated under the Petroleum Act, 2015			
54	2016/17	**Financial Distress Facing TPDC Due to Non-Settlement of TANESCO Long Outstanding Bills TZS 248 Billion** The Government through Ministry of Finance and Planning and Ministry of Energy should consider assisting TANESCO in their efforts to settle such long outstanding dues which in turn will help TPDC meet gas purchase and other operational costs		The Government did not provide response to this recommendation.	Not implemented

Annex III: Aerodromes without valid license

Aerodromes	Date expired as per the last Certificates /license	Remarks
Songea	Expired on 31-Dec-2016	No renewed License
Lesingita	Expired on 30-June-2016	No renewed License
Loolblin air strip	Expired on 30-Aug-2015	No renewed License
Kilombero Airstrip	Expired on 30-Dec-2017	No renewed License
Lemguru	Expired on 30-Aug-2017	No renewed License

Annex IV: Rates not in line with tariff books

Handling Containerized Cargo			Port	Description	Rate Used	Rate per tariff/ Concession	Variance
15-Sep-17	STV/24230/09/2017	IN Indonesia	DSM	20'F.C.L (Local)	71	100	USD 23,989
				20' F.C.L DANGEROUS (LOCAL)	85.2	120	
				20'F.C.L (Transit)	80	100	
				20'L.C.L (Transit)	160	170	
				20'OVER DIMENSION ( )	92.3	130	
				40' F.C.L (LOCAL)	107	150	
				40' EMPTIES (LOCAL)	80	70	
				40' F.C.L (Transit)	120	150	
15-May-18	STV/729/05/2018	KOTA MAKMUR	DSM	20'F.C.L (Local)	71	100	USD 19,834
				20'L.C.L (Local)	142	170	
				20' F.C.L DANGEROUS (LOCAL)	85.2	120	
				20'F.C.L (Transit)	80	100	
				20'L.C.L (Transit)	160	170	
				40' F.C.L (LOCAL)	107	150	
				40' EMPTIES (LOCAL)	80	70	
				40' F.C.L DANGEROUS (Local)	128	180	
				40' F.C.L (Transit)	120	150	
				40' F.C.L DANGEROUS (Transit)	144	180	
	STV/9198/0	KOTA GEMAR	DSM	20'F.C.L (Local)	71	100	
				20'F.C.L (Transit)	80	100	

Handling Containerized Cargo			Port	Description	Rate Used	Rate per tariff/ Concession	Variance
28-Feb-18	2/2018			40' F.C.L (LOCAL)	107	150	USD 28,166
				40' EMPTIES (LOCAL)	80	70	
				40' F.C.L DANGEROUS (LOCAL)	128	180	
				40' F.C.L (Transit)	120	150	
				40'OVER DIMENSION ( )	139.1	195	
26-Jun-18	STV/4226/06/2018	SONGA HYDN	DSM	20' F.C.L DANGEROUS (Transit)	204	120	USD 534
				40'OVER DIMENSION ( )	225	195	

Annex V: Loans Receivable Due for Receipt by TEA and Amount Received

Name of Borrowing Institution	Balance due (TZS)	Receipts for the year (TZS)
Wazo Hill Secondary School	66,381,759	
St Moses Primary School	20,000,000	
St Augustine University-Mwanza	204,677,782	
The Winning Spirit Sec School	46,286,580	
Sebastian Kolowa University	58,349,621	
St Augustine University Tabora	796,065,053	
The Institute of Adult Education	172,235,429	47,702,372
Mzumbe University	500,000,000	
Ardhi University	263,122,083	
Ailanga Juniour Seminary	9,072,903	
Theofilo Kisanji University	500,000,000	0
Sokoine University of Agriculture	337,132,931	0
Libermann Pre-Primary	53,676,540	0
Mbogamo Sec. School	29,811,000	0
Kisukuru Regent	22,905,665	22,905,665
Mzinga Secondary School	100,053,055	0
Daystar Primary School	34,000,000	34,000,000
Loamo Secondary School	38,000,000	38,000,000
Genius King School	54,687,313	54,687,313
Charles Totera Sec School	95,261,819	0
TEJ Secondary School	43,038,325	0
Pemier Secondary School	65,577,440	0

Name of Borrowing Institution	Balance due (TZS)	Receipts for the year (TZS)
Agape Secondary School	39,177,559	0
College of Business Education	162,785,029	0
Tumaini University Iringa	81,073,127	0
Open University of Tanzania	374,494,777	0
Total	**4,167,865,790**	**197,295,350**