



**THE UNITED REPUBLIC OF
TANZANIA
NATIONAL AUDIT OFFICE**



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28th March, 2018

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 2016/2017**

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 2016/2017 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 behavior, 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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ACKNOWLEDGEMENTS



I must begin this foreword by words of gratitude to a number of Offices, Individuals and Staff that have significantly contributed towards accomplishments of my Office that culminate in this other successful fulfilment of the CAG's constitutional mandate - to submit his annual report to the President before the end of March, every year.

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

Resources; financial, systemic and human resources are extremely important in all Institutional endeavors and in this regard, I must express my gratitude to the Parliament and its Committees for delivering on their commitment to make resources available to the National Audit Office during the financial year 2016/17. In any case, this would not have been possible without the cooperation and coordination efforts of the Ministry of Finance, to whom we are also extremely grateful.

Finally, I must acknowledge the huge heavy lifting done by our foot soldiers on the ground - the auditors at the lowest levels of our organization together with other supporting Staff. That I can stand and speak of the CAG's Report is only possible because these auditors have gone to the field, sometimes in quite difficult circumstances, and did their

work to the highest standards and submitted their draft reports on time.

When we submitted our reports, in March 2017 the President directed the Prime Minister to ensure that my presentation that day was also heard by all Ministers, Permanent Secretaries, Regional Commissioners and Regional Administrative Secretaries. Through the efforts of the Prime Minister this meeting was convened, and I believe subsequent efforts we witnessed this audit year in the Councils and Districts may be directly attributed to the stronger sense of dedication demonstrated by Regional Commissioners

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

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

A handwritten signature in black ink, appearing to read 'Mussa Juma Assad', with a long horizontal line extending to the right.

Prof. Mussa Juma Assad
THE CONTROLLER AND AUDITOR GENERAL

28th March, 2018

PREFACE

It is my great pleasure and honor to present my Annual General Report on the audit of Public Authorities and Other Bodies for the financial year 2016/2017 in compliance with Article 143 of the Constitution of the United Republic of Tanzania and Section 34 of the Public Audit Act No. 11 of 2008.

This report covers all Significant Audit Matters noted during the audit of public entities for the financial year 2016/17. The report includes audit recommendations issued to Management of these entities to ensure that all the weaknesses noted during the audit are appropriately addressed.

I have reviewed the Strategic, Governance and Operational Efficiency issues for eleven (11) public entities, with the aim of responding to fundamental policy questions or critical challenges and business risks affecting the mandates, strategies, business processes and productivity of these entities. The results of these reviews are included in Chapter Five of this report.

This report also covers the results of Special and Forensic Audits carried out in five (5) public entities which were requested by different Stakeholders. A summary of the findings from these audits are included in Chapter Six of this report.

As it was for my previous year's report, in Chapter Seven of this report, I have reviewed and assessed the performance and challenges being faced in the development of the Extractive Industry in Tanzania, for both oil/gas and mining.

EXECUTIVE SUMMARY

i. Introduction

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

ii. Types and Trend of Audit Opinions

During the financial year ending 2016/2017, I completed 188 Public Authorities and other Bodies audits including 52 relating to previous year that were subjected to my audit. However, I issued audit opinions to only 104. Out of the opinions issued to 105 PA & oBs in financial year 2016/2017, 4 were qualified and 101 were unqualified. Neither adverse nor disclaimer of opinions were issued to any of the public entities in this financial year.

iii. Summary of Outstanding Audit Recommendations

Review of implementation of previous years' recommendations noted that, out of 33 outstanding recommendations, only 15(31 percent) were implemented. 12(25 percent) have not been addressed while 21(44 percent) are currently under implementation. The analysis of outstanding recommendations is detailed in chapter three of this report.

Some of the prior years' outstanding recommendations included: Azania Bank Ltd is still not under the control of Treasury Register (TR), the TR is yet to establish the legality in the ownership of PRIDE, absence of loan agreement and Government guarantee of TZS 44.29 billion at National Health Insurance Fund (NHIF), Non-compliance with Minimum Capital Requirements noted at Tanzania Women Bank (TWB), declining trend of Tanzania Posts Corporation (TPC) business

performance, going concern problems of Twiga Bancorp Limited, delays in implementing the Strategic Plan in respect of building teachers' houses, unpaid lease rent by the Ministry of Energy TZS 1.117 billion to Tanzania Electric Company Limited (TANESCO), and underpayment of lease by Mlimani Holding to University of Dar es Salaam (UDSM).

iv. Significant Audit Matters

At Tanzania Bureau of Standards (TBS), I noted 3,911 original certificates of conformity from SGS that were expired. However, TBS did not investigate the matter to ensure that importers who own the certificates, imported the goods into the Country; and whether the certificates were subjected to Destination Inspection with penalties. Also, I noted that there are no TBS Officers at more than eighteen entry points to establish the standards of imported goods.

I noted at Muhimbili National Hospital (MNH) that bills amounting to TZS 1.86 billion were rejected by Insurance Companies, while, bills amounting to TZS 241.97 million were sent to NHIF for medicines which were not given to patients.

At Tanzania Posts Corporation (TPC), I noted that 83 Post Offices including franchised ones are not connected to the revenue system of Netsmart, thus, revenue is manually accounted. Due to the absence of reconciliations between cash received, total bills raised and revenue reported to Head Office, EMS revenues as per Netsmart system differed from figure of the revenue reported in the Financial Statements by TZS 607 million.

I noted that some importers managed to pass goods worth USD 1.94 million through the Ports of entry with forged permits without being detected by the Tanzania Food and Drugs Authority (TFDA), indicating existence of gaps in the existing control procedures or collusion within the Authority.

Tanzania Broadcasting Corporation (TBC) is one of the shareholders of the Star Media Tanzania Limited, holding 35 percent of the share capital. The other 65 percent are held by Star Communication Network Technology Limited (a Chinese based company). I noted that TBC has never received any return from this investment since 2013, which defeats the intended objectives of the investment in the Company.

Reli Assets Holding Company (RAHCO) had conducted feasibility studies for some planned projects at a total cost of TZS 20.1 billion. However, implementation of these projects has been unsatisfactory due to lack of funds. Further, RAHCO had spent TZS 1.61 billion for uncompleted projects that are no longer viable, and the projects have been abandoned.

Medical Stores Department (MSD) had expired drugs worth TZS 4.43 billion which was over and above the tolerable ratio as it represents 3.4 percent of the cost of sale instead of 1 percent. According to Management, the expired drugs were caused by change of technology, obsolescence, change in treatment guidelines, low purchasing power of MSD customers and parallel procurements by development partners for same products.

I also noted that Tanzania Ports Authority (TPA) purchased 500 hectares from the then Capital Development Authority (CDA) at Ihumwa area in Dodoma for construction of a dry port, at an estimated cost of TZS 12.6 billion without following proper procedures, including approval by the Board of Directors and valuation of the purchased land. I noted that in March 2017, TPA made an advance payment of TZS 6.3 billion being 50 percent of the total sum, which was contrary to the agreement between CDA and TPA, in a meeting held on 4 November 2016, in which it was agreed that the land will be valued before the money is paid.

Further, TIB Development Bank's portfolio of Non-Performing Loans (NPL) has significantly increased. As at 31 December 2016, the Bank's NPL ratio was 35 percent (31 December 2015:14 percent). This increase is higher as compared to industry average of about 24 percent according to the Bank of Tanzania (BoT) Monetary Policy Statement issued in June 2016 where the recommended NPL ratio by BoT is 5 percent. Growth in Non-Performing Loans indicates deterioration of quality of loan portfolio.

TIB Development Bank recalled a significant number of loans amounting to TZS 94 billion relating to non-performing projects which were required to be repaid within 30 days after the receipt of the re-call letter. The significant amount of loans recalled indicates absence of monitoring non-performing projects which would have been discovered at the early stages. Up to the time of my audit in March 2017, only TZS 2.9 billion had been recovered, representing only 3 percent of the recalled amount.

I have noted at Tanzania Agricultural Development Bank (TADB) that the Bank has not been adequately performing the functions for which it has been established. Instead of issuing loans to agricultural sector, which is its core business line, the Bank has been investing a great part of its funds in fixed deposit accounts. As at 31 December 2016, a sum of TZS 54.70 billion was placed in Fixed Deposit investments, which is almost 91 percent of the total advance toward share capital.

v. Review of Strategic and Operational Efficiency of Public Entities

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

At National Development Corporation (NDC), through Tanzania Biotech Products Ltd, I noted that a total of 236,420 litres of biolarvicides worth TZS 3.12 billion were distributed to all 26 regions of Tanzania Mainland between August and November 2017, where each Council was allocated with specific number of litres of biolarvicides. From a sample of 57 Councils that were visited, I have noted that only 25,609 litres have been sprayed out of 92,080 litres that were distributed, representing only 28 percent of the total biolarvicides distributed.

Tanzania Communications Regulatory Authority (TCRA) is carrying out a project to implement Telecom Revenue Assurance System (TRAS). TRAS is an additional module in the Telecommunication traffic monitoring system (TTMS) which intends to give the Government an assurance from telecom revenue. The project was planned to be completed by 27 September 2017. However, until the time of my audit in October 2017, the project had not yet been completed and there was no revised completion date. This situation may result into cost overruns to TCRA and Government.

At Tanzania Electric Supply Company (TANESCO) I noted that, Ubungo Complex Area (including movable properties and turbines) was transferred to Songas in 2004 when Songas Limited started its operations in Tanzania. In consideration, TANESCO was granted 10,000 common shares in the equity of Songas and Songas assumed TANESCO's loans used to acquire the four turbines located at the Complex. However, there is no evidence indicating that the complex and the accompanied properties transferred to Songas Limited had been valued before the transfer was made.

I noted that, the Government signed a Finance Contract with the European Investment Bank and Songas Limited. The contract indicated that total cost of the Songas project was

Euro 392 million. According to the Contract, the Government was to borrow Euro 235.1 million and invest in the project and also to provide Euro 0.6 million from its own sources. In addition, the Government acquired a loan of Euro 50 million to be granted to Songas on On-Lending basis. The investment made by the Government to the project amounted to Euro 285.7 million which is 73 percent of the total project cost. Despite such huge investment, there is nowhere in the agreements that shows the stake of the Government in the project.

I noted that the Government of the United Republic of Tanzania had guaranteed a loan to Tanzania Finance Development Limited to finance its acquisition of shares in Songas Limited. I failed to establish the relationship that existed between the Government of the United Republic of Tanzania and Tanzania Finance Development Limited, its registration status and its ownership that prompted the Government to provide such a guarantee.

vi. Special and Forensic Audits

During the year under review, the following matters were noted in my special and forensic audits:

At Star Media, it was noted from Performance Agreement that, assets to be used in the project, receive tax exemption. Review of the Asset Register of 2014 for a selected sample of network equipment noted that items worth TZS 34.4 billion were imported and installed. However, physical verification did not establish physical existence of these assets which were recorded in the Register as having been installed.

Further, for over 7 consecutive years, Star Media has been operating under loss which is mainly being contributed to charging depreciation expense on decoders sold to customers contrary to the policies of other Companies in the same

industry such as Azam Media and DSTV. We noted that, once these assets are sold, Star Media does not incur any cost to service or replace them. A total depreciation charge of USD 30 million was charged against profit for a period of six years from 2010 to 2015.

Also, Clause 1.4 and 1.5 of the Memorandum of Understanding between TBC and Star Times describes the JVC's Share Capital as 1,000,000 USD to be raised from 10,000 issued shares at par value of 100 USD each. The JVC's equity proportion was 35 percent and 65 percent for TBC and Star Times respectively. The authorized Share Capital of USD 1,000,000 ought to be raised from TBC and Star Times for USD 350,000 and 650,000 respectively. I noted that Star Times had not contributed funds to cater for its owner's equity in the Star Media.

I also noted that Star Media obtained two loans amounting to USD 10.5 million under their name without the knowledge of TBC and these amounts were not disclosed in the Financial Statements for the year 2014 despite being paid by Star Media. My review of the Loan Agreement noted that, the loans were from Star Times International Holdings of China, a Sister Company of Star Times. The loans were provided to meet working capital requirements at an interest rate of 8.5 percent, and that, properties of Star Media were used as security for the loan.

A special audit at Cashewnuts Industry Development Trust Fund (CIDTF), noted that a sum of 837 Tons of Sulphur worth TZS 803.52, million was not delivered. We noted CIDTF entered into a contract with M/s Hammers Incorporation Ltd for a supply of 3000 tons of Sulphur. However, during the execution, the supplier delivered 2307 tones, leaving bags weighing 693 tones. I further noted that, the weights of some of the bags delivered were tempered with, leading to a less

delivery by 144 tons. The noted fraud above resulted into a loss of 837 tons worth TZS 803.52 million. Also, I noted presence of expired pesticides worth TZS 594.03 Million at Mtwara Town, Naliendele and Tandahimba warehouses.

Air Tanzania Company Limited (ATCL) entered into a contract with Wallis Trading Inc. for hiring of a plane type AIR BUS A-320-214 AIRCRAFT. I noted that clause 4.5 of the agreement provided for an opportunity to inspect the plane and substantiate its air worthiness before entering into contract. Inspection conducted noted that, the plane had major technical problems and thus, it had to undergo major maintenances for seven months at a monthly charge of USD 370,000, totaling USD 2.59 million for the whole period of maintenances.

Review of Payment Vouchers for three years (i.e. 2014, 2015 and 2016) noted that TANCOAL incurred expenditure amounting to TZS 940.34 million which was not directly related to mining and other operational activities in accordance with the JV Agreement. More scrutiny of the same indicated that since 2011 to 2016 a total of USD 3.36 million was paid to meet expenses for mining operations for TANZACOAL in Malawi (Intra Energy Subsidiary Company), consultancy fees, shipping expenses, hiring of plant, marketing, direct cash transfers to Intra Energy Malawi as well as other company's payments whose activities do not relate to TANCOAL's operations.

vii. Review of the Performance of Extractive Industry

My review of the Mining Sector Has Raised the Following Key Issues:

Natural Wealth and Resources (Permanent Sovereignty) Act, 2017 and Natural Wealth and Resources Contracts (Review and Renegotiation of Unconscionable Terms) Act, 2017 do not

have regulations which amplify the two Acts. I noted that only regulations for Mining Act 2017 were prepared.

The Controller and Auditor General (CAG) has limited access to information relating to Oil, Gas and Mining Companies operational as the principal Petroleum and Mining Acts do not grant him explicit mandate and power to access information relating to the production and sale of these natural resources.

Capital expenditures allowable under MDAs and Income Tax Act of 1973 were not being verified by the Mining Commission to determine the accuracy of production cost upon granting of special mining licenses to Mining Companies as required by the Mining Act 2010.

Article 22(a) of the Model Production Sharing Agreement (MPSA) 2013 provides that, all fixed assets owned by a contractor in connection with the petroleum operations carried out by Contractor shall become the property of TPDC at the option of TPDC after this Agreement expires or is terminated or at the time when full costs of the acquisition of the asset in question have been recovered by Contractor out of Cost Oil and/or Cost Gas, whichever occurs first. However, my review of Mining Development Agreements noted that, transfer of mining assets to the Government upon recovery of acquisition cost of assets is not provided.

Further, there is no evidence that capital allowance granted to the Mining Companies match with the benefits in form of taxes and royalty accruing from them.

I noted that gemstone sorting and valuation is being done by Tansort and the Officials from Ministry of Minerals, without the existence of an approved guideline to govern and set standards on the sorting and valuation of the minerals, so as

to have consistent results and avoid human interventions which may be prone to errors.

Further, TRA does not have a software which can enable it to make costs comparability analysis in assessing whether transactions made with related parties are at arm's length and that they are not under transfer pricing arrangements.

My review of Kyerwa Tin Company noted that, Tin sorting and purity determination during purchases is done manually, which is subject to human error and incorrect valuation of tin ore purchased. For instance, in October 2016, while selling tin ore to African Top Minerals, KTCL purchased 26.739 tons of cleaned tin ore but after resorting and valuation, at the time of sale, only 18.0652 tons were identified as clean tin ore, leaving impurities of almost 8.3138 tons even after removing the purities. The selling price remained TZS 18,000 per kilogram which led the Company to incur a loss of around TZS 150 million.

Mining Commission is tasked with audit of Mining Companies' capital investment and operating expenditures for the purpose of gathering taxable information and provide the same to Tanzania Revenue Authority for further action, however there is no guideline to guide the implementation of the Commission audit findings by TRA.

Both Oil and Gas Model Production Sharing Agreements (MPSAs) of 2008 and 2013 recognize the need for additional Profit Tax (Windfall Tax) and requires Oil and Gas Companies to make provisions for this tax. However, the Income Tax Act has not been amended to include a provision regarding Windfall Gain Tax, which makes the application of the related MPSA clause ineffective.

My review of the Oil and Gas Sector Has Raised the Following Key Issues:

The Minister for Energy reserved blocks 4/1B and 4/1C for TPDC through Government Notice No.184 of 20 May 2016. However, an exploration license has not been issued to TPDC and no funds have been released by the Government to cater for the implementation of the project. Further, there are no signed documents among the parties involved which could stand as guidelines or terms of reference concerning the operations of these blocks.

The British Group Plc is objecting a Capital Gain Tax of TZS 1.14 trillion following its being acquired by Royal Dutch shell Plc on 27 January 2016. Further, the company is also disputing payment of one third of tax assessment amounting TZS 381 billion.

My review of TPDC noted that, contrary to the requirements of section 44(5) of the Petroleum Act, 2015 which requires the National Oil Company to maintain a participating interest of not less than 25%, the Corporation was holding participating interest below the required 25% threshold in some of the existing petroleum rights granted. In addition, I also noted that contrary to section 113 of the Petroleum Act, 2015 which requires a license holder and contractor to pay royalty to the Government, article XII of Songosongo PSA stipulates that royalty shall be computed from Government's profit share.

My review on acquisition of 40% stake in PAET by Swala Oil & Gas Tanzania noted that based on my previous year audit findings PAET Songosongo PSA had a number of anomalies. The government is advised to withstand its decision to suspend sale of shares to Swala Oil and Gas Ltd until the noted anomalies are resolved.

CHAPTER ONE

BACKGROUND INFORMATION

1.0 Legal Framework for Public Audit in Tanzania

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

The Controller and Auditor General (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 prepare their Financial Statements under accrual basis of accounting which necessitates them to be IFRS or IPSAS's compliant. The

preparation and submission of PA & oBs Financial Statements for audit purposes is a legal requirement as per individual Public Authorities and other Bodies Acts, the Companies Act of 2002 and the Public Audit Act No. 11 of 2008.

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

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

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

1.1 Scope and Applicable Audit Standards

1.1.1 Audit Objectives and Scope

The main objective of conducting the audit is to enable the CAG 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 audited accounts for the periods ended, 31 December 2016 and 30 June 2017.

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

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

1.1.2 Applicable Auditing Standards

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

1.2 Responsibilities of the Board of Directors and Chief Executive Officers

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

- 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

For my Office to effectively handle the audit of public entities, the Public Authorities Audit Division has been grouped into four sub divisions namely Financial Institutions, Higher Learning Institutions, Regulatory Authorities and Public Utilities and Service Organisations.

Further, audits of some public entities have been contracted out to private Audit Firms. This is in line with Section 33 of the Public Audit Act, which empowers the CAG to authorize any person or body eligible to be appointed as an auditor under the Auditors and Accountants (Registration) Act No.33

of 1972 as amended in 1995 to conduct the audit of public entities on his behalf.

The authorized 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.

The audit opinions remain the sole responsibility of the CAG. The outsourced audits are subjected to a quality review process carried by my Office.

CHAPTER TWO

TYPES AND TREND OF AUDIT OPINIONS

2.0 Introduction

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

2.1 Types of Audit Opinion

2.1.1 Unmodified Opinion

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

2.1.2 Modified Opinions

(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.

2.1.3 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.

2.1.4 Other Matters Paragraph in the Audit Report

If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matters Paragraph in the auditor's report.

2.1.5 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.

2.2 Audit Opinion Issued during the Year

In the year under review, 105 opinions were issued to public entities in the financial year 2016/2017, out of which 101 were unmodified opinions, 4 were qualified opinion while no entity was issued with an adverse opinion or a disclaimer of opinion. *See Appendix I.*

2.3 Trend of Audit Opinions

Analysis of trend of audit opinions issued to Public Authorities and other Bodies for the 5 consecutive years from 2012/2013 to 2016/2017 is as follows:

Table 1: Trend of Audit Opinions

Category of Opinion	Annual General Report				
	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Financial Year					
Unqualified	92	117	107	108	101
Qualified	1	3	5	4	4
Disclaimer	0	1	0	0	0
Adverse	0	0	0	0	0
Total	93	121	112	112	105

CHAPTER THREE

SUMMARY OF OUTSTANDING RECOMMENDATIONS

3.0 Introduction

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

On 10 July 2017, 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.

Review of the responses indicated that most of the outstanding recommendations are in progress of implementation; hence, a great attention is required towards addressing them.

I would like to reiterate my previous recommendations on significant audit matters and matters relating to review of strategic & operational efficiency of various public entities which either, have partly been addressed or have not been addressed by the respective public entities as follows;

3.1 Status of Implementation of Significant Audit Matters

3.1.1 Azania Bank Limited (2012/2013)

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

Response by Management/PMG

The Ministry of Finance wrote a letter to CAG with Ref. No. TYC/A/400/765 which explained that the Ministry has sought advice from Attorney General (AG) to get clarification on the matter, The AG advised that section 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.

Audit Comment

It is my expectation that the Attorney General will initiate a process to amend the Public Audit Act to take care of all the Public Entities.

3.1.2 Promotion of Rural Initiative and Development Enterprises (PRIDE Tanzania) Limited (2012/2013)

The Treasury Registrar should make close follow up on the shares previously held by the Government in PRIDE Tanzania to establish its legality and transfer modalities from Government to a privately-owned Company.

Response by Management/PMG

CAG's comment has been noted. The Office of the Treasury Registrar in collaboration with the Ministry of Finance and Planning has prepared a cabinet paper which waits to be tabled, the paper among others will:

- Set clear the ownership status of PRIDE Tanzania;
- Enable PRIDE Tanzania to be registered as a company holding shares; and
- Later on, to be registered as a Microfinance Bank holding registration of Bank of Tanzania.

Audit Comment

The Government response has been noted for follow up, however emphasis should be put on the status of the ownership of the entity by the Government.

3.1.3 Absence of Loan Agreement and Government Guarantee TZS 44.29 billion (2015/2016)

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

Response by Management/PMG

The Fund received a letter from the Ministry of Finance and Planning dated 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 Social Security Schemes.

Audit Comment

I will keep track of the implementation of my recommendation.

3.1.4 Missing Tittle Deeds for Plots worth TZS. 550.71 million

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

Response by Management/PMG;

- The tittle deed for plots bought in Tabora and Lindi have been obtained and is under the Fund custody.

- The Fund is still following up with title deeds for Geita and Kagera to the Assistant Commissioner of Land for final signing.
- For Simiyu, there is a delay in processing title deeds from the Municipal Council of Bariadi, in December 2016 the fund wrote a reminder letter to the Council copied to the Commissioner of Land of the Ministry and replied through letter dated 07/02/2017 with reference LD/288181VOL.1/60 to confirm working on the matter.
- The Fund still awaits response from the PS- President's office, Regional Administration and Local Government on proper course of action to take.

Audit Comment

I appreciate NHIF's efforts. Further efforts need to be done to ensure that title deeds are obtained for all the remaining plots.

- 3.1.5 Non- compliance with Minimum Capital Requirement (TWB)**
 Management of TWB is advised to ensure compliance with capital minimum capital requirements by monitoring capital positions, on a daily basis, and take appropriate measures to maintain the required minimum position.

Response by Management/PMG

TWB Plc. was registered as a Community Bank with a minimum required core Capital of TZS 2.5 billion. BOT issued the 2014 Capital Adequacy Regulation in which TWB was now reclassified under Micro Finance Bank with a minimum core capital of 5 billion. Although the Bank was given a grace period of three years ending August 2017, during the audit I noted the Bank had a Core capital position of 2.6 billion only.

Audit Comment

Response noted, however the issue is not implemented, so I reiterate my previous recommendation that the Bank should ensure compliance with the minimum capital requirement.

3.1.6 Declining Trend of Tanzania Posts Corporation (TPC) Business

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

Response by Management/PMG

Management is working very hard to address some of the challenges by introduction of new organization structure. It is true that the Corporation is highly in need of funds spent on EAC pensioners, the Government is dealing with the matter in line with other pension issues.

Audit Comment

The Government response has been noted for follow up of its implementation.

3.1.7 Non-remittance of Royalties and Annual Fees to TCRA TZS 1.38 Billion (TPC)

Management is urged to comply with the relevant legal and regulatory requirements by remitting the outstanding amount to TCRA.

Response by Management/PMG

Management acknowledges the observation. However, Management is currently remitting TZS 10 million a month to TCRA in order to partly comply with the regulatory requirements.

Audit Comment

I appreciate Management efforts, but I am waiting for evidences for those remittances for my further follow up and records.

3.1.8 Going Concern Problem of Bancorp Limited

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

Response by Management/PMG;

No Response

Audit Comment

My previous recommendation is being reiterated.

3.1.9 Delay in Implementing Strategic Plan to Build Teachers Houses (TEA)

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

Response by Management/PMG

The Authority signed a contract with Watumishi Housing Company on 16 June 2016 to construct 40 Mult Teacher's Houses in Hard to reach areas in Tanzania Mainland with a total cost of TZS 6,524,697,900 VAT inclusive, 10 out of 40 houses are completed and 30 houses are at different stages of implementation.

On 10 May 2016 a second contract was entered to construct 18 teachers Houses at Kakuni Primary School in Milele District at a total cost of TZS 540,000,000 VAT inclusive. These houses are at their finishing stage.

Audit Comment

The Government response has been noted for follow up of its implementation.

3.1.10 Losses Incurred Following Breach of Agreement by LAPF TZS 473.76 Million (AICC)

Management of AICC is advised to seek financial support from various sources to implement the project.

Response by Management/PMG

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.

Audit Comment

The Government response has been noted for follow up of its implementation.

3.1.11 Revenue Not Earned from Investment Properties TZS 1.53 Billion (AICC)

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

Response by Management/PMG

On Implementation of the Centre's marketing strategy by lowering monthly chargeable rates on houses and Offices, occupancy rate for Residential Apartments is now ranging between 90% and 100%, for vacant office space the Centre managed to locate 1500 sqm to new tenants including private companies/international and Government Institutions from July 16 to Feb 2018.

Audit Comment

The Government response has been noted for follow up of its implementation.

3.1.12 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 information.

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

Response by Management/PMG

The important component to finalize the project is expected to be installed parallel with the new Julius Nyerere International Airport radar so as to fuse the radar information and the ADS-B information into the same screen (monitor) to be used by the Air Traffic Controller.

Audit Comment

Under implementation, I will keep track of its implementation.

3.1.13 Slow Pace in Implementing ICAO Safety Recommendations (TCAA)

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

Response by Management/PMG

The bulletins which were available from the Air Accidents Investigation Branch (AAIB) were presented to the Auditor. The AAIB is an entity under the Ministry and the Authority has no control over the AAIB except for the remittance of funds as directed by the Ministry.

The Authority supports the AAIB in terms of capacity building and resources, but it has no powers to control the AAIB. Moreover, as per ICAO requirements, the Authority cannot perform the functions of the AAIB.

Audit Comment

Under implementation, I will keep track of its implementation.

3.2 Status of Implementation of Strategic and Operational Efficiency of Public Entities

3.2.1 Tanzania Electricity Supply Company Limited

(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: 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. The price also should include a margin to allow the Company meet its other operational costs and additional investment costs to enhance its sustainability.

The procurement of EPP and IPP projects should be made on a competitive basis 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.

Response by Management/PMG

- 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 awarding processes.

Audit Comment

Management response has been noted for follow up of its implementation.

(ii) Construction of Songwe Hydropower Project

I advise the Government to ratify the Convention for establishment of the Songwe River Basin Commission to enable the project to start.

Further, the Government should involve TANESCO in the processes of Construction of the Lower dam and Hydropower Plant to provide technical advice when needed.

Response by Management/PMG

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.

Audit Comment

Response has been noted for follow up of its implementation.

(iii) 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 investments to improve TANESCO's service delivery and efficient financial operational performance.

Response by Management/PMG

We have agreed with the recommendation. TANESCO will continue to make a close follow up to ensure that EWURA reviews the periodic tariff adjustments at each quarter where applicable.

Audit Comment

Management response has been noted for follow up.

(iv) 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.

Response by Management/PMG

No Response

Audit Comment

I reiterate my previous recommendation.

3.2.2 Export Processing Zone Authority (EPZA)

(i) Inefficient Monitoring and Evaluation of Investors with EPZA License

EPZA is advised to:

- Conduct investors monitoring and evaluation so as to ascertain progress and overall performance of SEZs and ensure compliance by investors with EPZA investment guidelines; and
- Establish a department of monitoring and Evaluation to fully execute its regulatory, supervisory and monitoring roles.

Response by Management/PMG

New proposed organization structure was re-submitted to the Treasury Registrar for approval consideration in February 2017. In addition, we are waiting for a recruitment permit for 34 new employees. When these two are approved, then there will be staff who will be assigned the roles of monitoring and evaluations.

Audit Comment

Management response has been noted; however, the issue is not implemented, so I reiterate my previous recommendation.

(ii) Inadequate Performance of the Licensed Investors

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

Response by Management/PMG

Staff who will be responsible for monitoring of investors performance awaits new proposed organization structure which was re-submitted to the Treasury Registrar for approval consideration in February 2017. In addition, we are also waiting for recruitment permit approval for 34 new employees from the President Office-Public Service Management. When these two are approved, then there will be staff who will be assigned the roles of monitoring and evaluations of investor's performance.

Audit Comment

My recommendation is in the process of implementation, I will keep track of its implementation.

3.2.3 Local Authority Pension Fund (LAPF)

(i) Policy for Evaluating and Monitoring of Investments

LAPF Management is advised to:

- Intensify other dimensions of evaluation and monitoring of its investments so as to have effective performance and achievement of its plans/goals; and
- Revisit its investment policy on evaluation and monitoring to broaden and include aspects which affect the Fund's performance on implementation of investment budget, assessment of percentage of financial vs physical completion of real estates and infrastructure projects, including addressing issues relating to recoverability of loans and rent.

Response by Management/PMG

No response

Audit Comment

I reiterate my previous recommendation.

3.2.4 Parastatal Pension Fund (PPF)**(i) Issuance of SACCOS Loans above Credit Limit**

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

Response by Management/PMG

No response

Audit Comment

I reiterate my previous recommendation

3.2.5 Public Service Pensions Fund (PSPF)**(i) Funding Actuarial Valuation**

Management is advised to make follow up with the Ministry of Finance to ensure the Government pays its loans and issue Non -cash bond to strengthen the liquidity position of the Fund.

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

Response by Management/PMG

The Government has already promised to address this matter. Meanwhile the Fund is calculating the amount due on yearly basis and submits the same to the Ministry of Finance and Planning for inclusion in the Government budget. In the financial year 2016/17, the Government had already paid TZS 150.0 billion to finance the actuarial shortfall, however; there are plans for merger of Pension Funds of which the matter will be addressed in the newly created Fund.

Response by Management/PMG

My recommendation is in the process of implementation, I will keep track of its implementation.

3.2.6 Tanzania Communication Regulatory Authority (TCRA)

(i) Moving Stations for Spectrum Monitoring System

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

Response by Management/PMG

No response

Audit Comment

I reiterate my previous recommendation

(ii) Entities not registered with dot (.) tz Domain

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

Response by Management/PMG

No response

Audit Comment

I reiterate my previous recommendation

(iii) Technical Contribution by TISPA not quantified

I am of the view that, quantification of contributions is necessary for transparency and acknowledgement of efforts

made by each party to tzNIC' operations. Therefore, Management of TCRA is advised to sit together with TISPA to discuss and agree on ways of quantifying the technical contributions by TISPA.

Response by Management/PMG

No response

Audit Comment

I reiterate my previous recommendation.

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

Response by Management/PMG;

No response

Audit Comment

I reiterate my previous recommendation.

(v) Country's Main Optical Fiber Not Regulated by TCRA

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

Response by Management/PMG

No response

Audit Comments

I reiterate my previous recommendation

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

(i) Delay in Implementation and Completion of Sub-Projects

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

Response by Management/PMG

The planned completion date is not 1 September 2006 as it was extended through extension of the Performance Contract which ends on 31 December 2019. During the joint meeting held on 20 April 2017 between the University of Dar es Salaam (UDSM), Tanzania Investment Centre (TIC) and Mlimani Holdings Ltd. (MHL), MHL stated that they intend to put in place the botanical garden before the end of the development period but there are 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).

Audit Comment

Implementation is still in progress, I will keep track on the implementation of my recommendation.

(ii) 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.

Response by Management/PMG

Management noted this observation and 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.

Audit Comment

Implementation is still in progress, I will keep track on the full implementation of my recommendation.

(iii) 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.

Response by Management/PMG

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.

Audit Comment

Implementation is still in progress; further review of implementation will be followed up.

(iv) Lack of the 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.

Response by Management/PMG

UDSM liaison officer is verifying all such records and so far, there has been no obstruction by MHL.

Audit Comment

Implementation is still in progress; I will keep track of the implementation of the recommendation.

3.2.8 Tanzania Port Authority (TPA)**(i). Inadequate Implementation of Development Projects**

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

Response by Management/PMG

No response

Audit Comment

I reiterate my previous recommendation.

(ii). Assessment of wharfage collection MoU between Tanzania Ports Authority and Tanzania Revenue Authority

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.

Response by Management/PMG

No response

Audit Comment

I reiterate my previous recommendation.

CHAPTER FOUR

SIGNIFICANT AUDIT MATTERS

4.0 Introduction

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

4.1 Tanzania Electric Supply Company (TANESCO)

4.1.1 Deteriorating Financial Performance

TANESCO has a trend of making losses, as for the year 2015/2016 the loss was TZS 346.40 billion and for the 18 months ending June 2015, the loss was TZS 124.46 billion. According to Management, the trend of the losses is attributed to poor hydrological conditions and high cost of power generation.

The losses corrode the Company's capital, making it unable to borrow from the market and meet its financial obligations.

Further, trade creditors' balance has grown by 23% from TZS 738 billion to 958 billion as at 30 June 2015 and 30 June 2016 respectively while debtors as of 30 June 2015 and 30 June 2016 were TZS 440.66 billion and TZS 330.55 billion respectively. The Company's current ratio is quite unfavourable, indicating that the Company cannot meet its maturing obligations whenever they fall due.

I advise TANESCO to look for ways to improve its financial sustainability for it to be able to support the National economic transformation through industrialisation.

4.1.2 Interest Payable to Pan African Energy USD 10.43 million

TANESCO has a Gas Supply Agreement with PAET which stipulates that, if a dispute arises as to any amount, that amount shall be deposited into an escrow account pending resolution. Failure to do so, interest will accrue on the unpaid balances. TANESCO has been disputing some of PAET invoices from year 2011 to 2016 which as at 30th June 2016 the total disputed balance amounted to USD 6.48 million.

Further, as at 30 June 2016, TANESCO had outstanding invoices amounting to USD 71.38 million payable to PAET. Delay in settling these invoices attracts interest on the unpaid balance.

TANESCO is advised to look for ways to resolve the disputes to avoid accumulating such huge amounts of unpaid invoices.

4.1.3 Unpaid Rent by Tumaini Hospital USD 9.4 Million

TANESCO rented one of its investment property to Tumaini Comprehensive Infirmary Limited (Tenant) since 1998. The Tenant has stopped to pay the rent since the year 1998 to 2016. In respect of the case filed by the tenant in 2008, the Court in July 2015, ruled out in favor of TANESCO. As per the ruling, the tenant was required to pay USD 9.4 Million for unpaid rent, interests and damages to TANESCO and vacate the premises in January 2016.

However, the tenant has yet to comply with the Court's decree and no further actions have been taken by TANESCO against this tenant.

TANESCO is advised to ensure that the court decree is implemented without any further delay.

4.1.4 Contingent Liability by SCBHK Vs TANESCO USD 148.4 million

TANESCO is a respondent in an arbitration case which was filed by Standard Chartered Bank Hong (SCBHK) in September 2010. SCBHK claims USD 258.7 million from TANESCO and the amount is made up of outstanding invoices, interest on outstanding invoices and damages resulting from TANESCO's failure to pay IPTL.

The ruling (final award) was issued on 12th September 2016 requiring TANESCO to pay SCBHK USD 148.4 million, including interest. Subsequent to the award date, TANESCO disputed the award and instituted an annulment of the award proceedings at ICSID. Further, TANESCO filed a rejoinder to counter memorial and Experts Reports on 21 August 2017. SCBHK then filed counter memorials against TANESCO's.

TANESCO has ever since incurred significant legal expenses of approximately TZS 7.58 billion to defend this case where, in the financial years 2014/2015 and 2015/2016, the company paid TZS 3.65 billion and TZS 3.93 billion respectively. However, the matter will be reverted to local jurisdiction where enforcement will be determined as per convenience of TANESCO's capacity to satisfy the decree.

Despite TANESCO's deployment of significant resources in the annulment process, there is no guarantee for success.

TANESCO is therefore advised to prepare a well-planned alternative source of funding to cover this potential liability in case local jurisdictions decide in favour of SCBHK.

4.1.5 Delays in Transferring Customers to their Correct Tariff Level

TANESCO charges its customers different tariffs depending on their usage of electricity.

My inspection of customers with an average consumption of tariff 4 (Eclipse) and tariff ECO (HiAffinity) for 3 months noted that, there are 14,099 and 40,148 users respectively with an average monthly consumption of above 75 Kwh who should have been moved to tariff 1 but were still in tariff 4/D1.

This indicates that there are customers who have not been moved to the correct tariffs and hence enjoying the benefits of low tariffs at the expense of TANESCO's revenue. This also is a non-compliance with EWURA Regulations.

TANESCO is advised to ensure that efficient control measures are in place to monitor transfer of users onto the correct tariff rates as per their consumption. Moreover, automated system could be used in effecting prompt changes of tariffs to reduce risks of human interventions.

4.1.6 Award of Tender to a Non-Responsive Bidder USD 1 million

My review of contracts of supplying poles learnt that an addendum to a contract of USD 1 million was awarded to M/s Farm Equipment Tanzania Limited (FETL) during the year 2015/2016. I noted the following irregularities however:

- i) FETL had a license of importing and selling agricultural implements and equipment. The award was contrary to Section 3 of Business License Act (1972) which provides that no person is allowed to carry on business whether as a principal or agent unless he holds a valid business license issued to him in relation to such business.
- ii) FETL's profile showed that its main business dealings include; supplying power tillers, tractors, and Jetty. This award was also contrary to the requirements of tender documents which required a tenderer to have experience in service(s) of similar nature and size for the last five years.

The situation indicates weaknesses in the evaluation of bidders that led to the recommendation of a non-responsive bidder, M/s FETL.

Going forward, TANESCO is advised not to award tenders to bidders who are not holders of relevant business licenses and with less experience in relation to the business being contracted for.

4.1.7 Insufficient Spare Parts for Warstila's Ubungo and Tegeta Gas Plants

My review of contracts for the supply of spare parts for 12W20V34SG Wartsila generating sets for Ubungo Gas Plant 1 of EURO 6.85 million and for the supply of plant running spare parts for Tegeta Gas Plant of EURO 0.67 million noted the following:

- i) The vetting report from Attorney General dated July 2016 addressed 14 issues which needed to be incorporated in this awarded contract to M/s Warstila dated 21 March, 2016. Among the issues was for TANESCO to seek approval from PPRA as there were many deviations from the standard template issued by PPRA. The submission of the request for approval to PPRA was delayed for four months which was done on 4 November 2016 resulting into delay in signing and implementing the contract.
- ii) On 6 December 2016, PPRA responded that the General Condition of Contract should not be changed and advised TANESCO to prepare a Standard Bidding Document that contains Special Conditions and submit the same for approval. This means that, there was a further approval needed before TANESCO goes on with the signing of the contract. Due to these complications, TANESCO decided to write a letter to

the Treasury Register on 6 June 2017, requesting a waiver for TANESCO to comply with external Authorities' requirements, that is, Attorney General and PPRA.

- iii) Further, the approved and allocated budget amount for this contract in year 2015/2016 was only TZS 1.88 billion (TZS 3 billion for 2016/2017 budget) while the awarded contract was EURO 6.85 million (Equivalent to TZS 17 billion). Inadequate budgeted funds may impede implementation of the procurement, thus leading the Company to payment of extra cost due to failure to pay the contract sum in time.

Delays in implementations of procurement process can cause breakdown of the plant once routine maintenance is not done timely due to non-availability of the required spares, also the delay can attract escalation of prices due to elapse of time.

I thus advise TANESCO to comply with directives given by the Attorney General and PPRA to expedite the procurement process and also to provide sufficient budget for the procurement so that the Company can meet the agreed terms and conditions of the contract to avoid unnecessary liquidated damages.

4.2 Ardhi University (AU)

4.2.1 Unpaid Staff Entitlements TZS 2.9 Billion

The University had not paid some entitlements (housing, responsibility, gratuity and leaders' salaries) to its staff for over three (3) years amounting to TZS 2.9 billion contrary to the requirements of the University's Staff Rules and Regulations.

This situation denies staff's rights which may demoralize and affect their performance at work place.

I recommend for the University to settle its outstanding obligations to its members of staff.

4.3 Tanzania Bureau of Standards (TBS) - 2016

4.3.1 Violation of Procurement Procedures

Review of TBS procurements noted that User Departments handle crucial procurement functions such as sourcing of the supply, negotiating with suppliers and recommending procurement methods, leaving the PMU to only facilitate the processes. Goods and services worth USD 177,526.50 and TZS 135,000,000 were procured under this inappropriate procurement arrangement.

Further, a one-year cash in transit and vaulting services agreement with G4S at TZS 120,000 per trip and TZS 150,000 per consignment was renewed without involving PMU and the Tender Board.

This arrangement violated Section 38 and 39 of the Public Procurement Act 2011 and which undermines the essence of value for money to be obtained from these procurements.

TBS should ensure that it complies with Public Procurement Act and its Regulations.

4.4 Tanzania Bureau of Standards (TBS)

4.4.1 Non-investigation of Uncollected and Expired Certificate of Conformity from SGS

Para 2.2.2 of the general conditions of the contract between TBS and its inspection agents provides that each shipment of goods or product subject to Pre-shipment Verification of Conformity (PVoC) must be accompanied by a Certificate of Conformity (CoC) that a product is within the standards for consumption in Tanzania. It assures TBS that the risk of the consequence of an accident occurring due to non-conformity

with the standards of the product would not create a severe or fatal impact on the economy.

Para 5 of TBS import procedure manual Ref. TBS/QMD/PVoC/SOP/02 Revision 3 provides, inter alia, that without an original genuine Certificate of conformity, a consignment that was originally inspected under Pre-shipment Verification of Conformity is required to be subjected to Destination Inspection (DI). A consignment that is above USD 5,000 when inspected under Destination Inspection is supposed to be charged a penalty unless released under exemption.

I noted 3,911 original Certificates of conformity from SGS that were older than 90 days, which had not been collected by the importers. After the 90 days from the date of issue, the certificate of conformity validity expires. However, TBS did not investigate whether the importers who had paid for the 3,911 certificates of conformity imported the goods into the country or not; and whether they were subjected to Destination Inspection with penalties.

There is a risk that invoices submitted to Pre-shipment Verification of Conformity agents for inspection are substituted fraudulently under declared invoices. The original certificate of conformity is then not collected, and the goods are cleared under Destination Inspection.

TBS should investigate as to why certificates of conformity noted above were not collected and ascertain whether the consignments were subjected to a Destination Inspection when they were imported into the country.

4.4.2 Exemptions not Supported by Legal Provisions

The functions of TBS are listed in section 4 of the Standards Act 2009. Neither this section nor any other sections of this

Act grants TBS the authority to allow exemptions of inspection.

Para 5.1.4 of the Bureaus Destination Inspection Procedure Manual 4th Revision issued on 30th August 2017 exempts donations, Government Projects, TIC investment Projects, Capital Goods and imports for Export Processing Zone importers from Pre-shipment Verification of Conformity and destination inspection. TBS allowed 744 exemptions during the year.

This Procedure Manual defeats the objectives of TBS. The public is at risk of using and consuming substandard goods through uninspected imports.

I advise TBS to re-consider its decision of waiving inspections for donations, government projects, TIC Investment Projects and Capital Goods to ensure only items that meet the required standards are imported into the Country.

4.4.3 Absence of TBS Officers at Border Stations

One of the major objectives of TBS is to ensure local and imported commodities comply with the standards set by the Bureau and any other law relevant and entry points through which commodities are imported into the country are manned by TBS Officers.

Our sample review noted that there are no TBS Officers at the below entry points to establish the standards of goods imported: Borega, Kogaja, Kilongwe and Gorogonja in Mara region; Bukoba and Kemondo ports in Kagera region; Kisese, Kitobo and Chumvini in Kilimanjaro region and Kigombe, Kipumbwi, Mkwaja, Kwale - Jasini, Chongoleani, Sahare, Mwambani, Dumi and Mnyanjani in Tanga Region.

Absence of TBS Officers at Border Stations poses a risk of importation of substandard commodities into the Country.

I recommend for all Border Stations to be manned by TBS Officers to ensure that only qualified commodities are imported into the Country.

4.5 Tanzania National Parks (TANAPA)

4.5.1 Collection of Less Revenue from Balloon Safari

TANAPA introduced tourism product of Balloon Safari for Tarangire and Serengeti National Parks which are being operated by private companies. The contract was to charge 10% of balloon safari charges.

I however, noted that, in computation of the 10% balloon charges, TANAPA relies only on the copies of invoices issued by the operator and that there are no any other means of verification of total services offered. Under this circumstance, TANAPA may lose substantial amount of revenue from sales not paid on spot either in cash, credit cards or travellers cheques. Further, the charging of 10% is based on the net balance, instead of gross amount, after deduction of any discount to customers.

TANAPA is urged to ensure that all charges for ballooning are collected at the gates at the time of entry rather than the current practice. Moreover, Management needs to institute a flight manifest log book to be maintained by Tourism Wardens and to be signed by the Balloon Pilot and TANAPA Officer before they take off.

4.5.2 Limited Mode of Payment on Park Entrance Fees

TANAPA introduced an electronic payment system in control of revenue from tourist fees and other sources. Under this system, tourists are required to swipe Bank Cards into POS system operated by Exim and CRDB Banks.

However, I learnt that, there are no other options of payments in such a way that, unless a tourist has a Bank

Card, he/she will not be able to make payment and enter the parks. Thus, the system may be restrictive.

While commending the efforts made by TANAPA in revenue collection, I advise Management to consider other methods of payments such as the use of mobile money transfer to avoid such limitations and disadvantages of having only one system of payment for tourists.

4.5.3 Ineffective Reservation System

TANAPA General Management Plan (GMP) requires Management of each Park to update and implement effective booking system at all entrance gates to minimize overbooking, inconvenience to customers and costs to tour operators.

My review of TANAPA booking system noted that, TANAPA is yet to update and implement booking systems to all parks' entrance gates hence unable to achieve its target as set in their GMPs. It was noted that bookings are still done manually the situation which does not reflect the current situation of using Point of Sale system of payments. Further, absence of online booking system limits the effective and transparent booking systems, thus, defeating efficient revenue collection and management.

I advise TANAPA to develop and implement an online reservation system in all Parks to ensure that it meets the relevant Limits of Acceptable Use (LAU) standards and mitigate weaknesses of the existing system.

4.5.4 Inefficient Monitoring of Revenue for Overstayed Permits

TANAPA Financial Regulations require extra charges of overstay fees once the E-Permit given to a tourist has gone beyond the initial time granted.

My review noted that most of the permits are not exited timely at the Point of Sale when a visitor is checking out. They are later exited just to show they are already overstayed. This is caused by weak network when at the time of checking out or by system failure. Further, I learnt that Management does not have any mechanism to differentiate overstayed permits caused by system failure and those caused by natural causes of operations.

This situation indicates deficiencies in controls on overstays which may lead to risk of loss of revenue. TANAPA is advised to develop and implement an appropriate monitoring mechanism, that is, QR Scanner that will ensure all overstays in the parks are tracked, monitored and paid for.

4.5.5 Absence of Fleet System to Manage Assets

TANAPA does not have in place a Fleet Management System which would timely link costs incurred, maintenance cost and fuel consumption cost for decision-making purposes. The Authority also does not have an Asset Management Policy for proper control and monitoring of all classes of assets.

With the growing needs of vehicles and equipment for Parks' control, Fleet Management System needs to be established and respective assets be tracked on a daily basis for control and decision-making purposes.

TANAPA is advised to establish an Assets Management Policy and harmonize its internal processes for management of its assets by carrying out a cost benefit analysis before establishing a Fleet Management System. The system will reliably establish the cost incurred on acquisition, maintenance and fuel consumption hence facilitate Management decision-making process for improving efficiency, productivity, and reducing organizations transportation and Staff costs.

4.6 Mwanza Urban Water Supply and Sanitation Authority (MWAUWASA)

4.6.1 Payments to Contractor Without Certifications - TZS 420.10 million

MWAUWASA entered into a contract with M/s D.F Mistry for the construction of MWAUWASA HQ Building. My audit noted that, MWAUWASA paid the Contractor a total of TZS 420.10 million without a consultant valuation certificate for works executed contrary to the provision of Clause 7.2 (h) of the agreement which demands before effecting any payment, the Consultant be required to evaluate and certify the works executed.

This occurred because MWAUWASA engaged the contractor to start working while procurement processes to contract the consultant was in progress.

I noted that only project works valued TZS 628.93 million were certified by the consultant leaving works valued at TZS 420.10 million not executed yet but already paid for.

Paying for works not yet executed or certified risks the Authority of suffering a loss once the contractor fails to execute the contracted work.

MWAUWASA is advised to ensure that the TZS 420.10 million paid to the Contractor is paid back to the Authority without further delay since it may end up not being paid if not properly followed up.

4.6.2 Lack of Enterprise Risk Management Framework

Managing risks in an organization is a critical function for achievement of organizational objectives. This process includes identification, analysis, evaluation, and responding to the identified risks that may impact the achievement of objectives.

However, MWAUWASA had not developed a risk management framework that would enable it mitigate risks facing its business so as to achieve its strategic objectives.

MWAUWASA should develop a Risk Management Framework.

4.6.3 Delays in Completion of Project TZS 6.66 Billion

On 25 May 2015 MWAUWASA entered into a contract with M/s Jassie and Company Limited at a contract price of TZS 6.66 billion for the Construction of Water Supply Systems and Sanitation Facilities in Geita Town. The project was scheduled to commence in June 2015 and be completed within 360 days.

However, up to the time of this audit in November 2017, Sanitary landfill and wastewater treatment works had not been completed while the Contractor had already abandoned the site.

MWAUWASA should ensure that the project is completed without further delay.

4.7 Babati Water Supply and Sanitation Authority (BAWASA)

4.7.1 Excessive Non - Water Revenue (NWR) Loss TZS 1.5 Billion

Babati Water Supply and Sanitation Authority, during the year, had a Non-Water Revenue of 48 percent contrary to 31 percent it had agreed with the Ministry of Water and Irrigation. This has been attributed to leakages and by-passing of water meters by customers. This caused a loss of TZS 1.5 Billion in terms of revenue.

BAWASA is advised to reduce the loss by instituting an effective mechanism for close monitoring, inspection and timely fixing of the distribution network.

4.8 Centre for Agriculture Mechanization and Rural Technology (CARMATEC)

4.8.1 Irregularities on Addendum to Contracts

CARMATEC leased an office space to M/s Life Fitness Club Ltd and M/s Perfect Choice Supermarket Ltd at a rate USD 4 per square meter. My survey however, noted that the rate is below the applicable market rate in Arusha City. The market rate ranges between USD 7 and USD 10 per square meter. Further, exchange rate for the rent was fixed at TZS 2,193 per USD for five years.

CARMATEC stands to lose in terms of rent and exchange rates. Management is advised to review the contracted rates to match with the prevailing current market rates.

CARMATEC should review the applicable lease rent.

4.9 LAPF Pensions Fund

4.9.1 Long Outstanding Rent Receivable

Included in the account receivable was rent receivable balance of TZS 3.5 billion of which TZS 887 million had been outstanding for more than 9 months. This is contrary to Section 4.7.1 of LAPF standard lease agreement which requires rent to be paid annually, semi-annually or quarterly in advance.

Thus, a significant amount of funds is tied up in the hands of tenants causing financial constraints to the Fund.

LAPF is advised to device rigorous methods to collect the receivable rents from tenants.

4.9.2 Works Paid for In Advance but Not Executed TZS 258.22 Million

LAPF paid an advance of TZS 258.22 million to M/s African Focus & H Consult in 2013 for construction works. However,

the works paid for had not been executed as at the date of this audit October,2017.

LAPF had taken the matter to the court demanding recovery of the amount from the payee however, the matter has not been resolved.

Delays in the finalization of the case affects the Fund's operations. Management is advised to closely follow-up with the relevant authorities to facilitate the matter to be resolved.

LAPF should ensure that the contracted-out work is completed without any further delay.

4.10 Muhimbili National Hospital (MNH)

4.10.1 Significant Increase and Inadequate Efforts in Debt Collection

I noted a significant increase in account receivables by 45 percent from the prior year's balance of TZS 17 billion to TZS 30.8 billion. Increase in trade debtors indicates that significant sum of revenue is tied up in debtors imposing cash flow constraints to the Hospital.

This increase may be attributed to inadequate efforts by the Hospital in collecting the debts as there are no evidences of deliberate measures taken by Management that ensures robust collections of these outstanding receivables.

The Hospital needs to design and employ rigorous efforts to recover the amounts.

4.10.2 Rejected Health Insurance Bills TZS 1.86 billion

Muhimbili National Hospital (MNH) provides medical services to patients with Insurance Covers from various Insurance Companies. Under this arrangement, the Hospital provides

medical services in advance and then claims the cost from respective Insurance Companies.

During the year under review, I noted bills amounting to TZS 1.86 billion which were rejected by Insurance Companies.

Further, I noted rejected bills amounting to TZS 241.97 million billed to NHIF for medicines which were not given to patients. The fraudulent bills were orchestrated by some of the Hospital staff.

These situations indicate the possibility of fraudulent practices in the billing process due to weaknesses in relevant controls, which, if not properly monitored, will result into losses to the hospital.

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.

4.11 Watumishi Housing Real Estate Investment Trust (WHC-REIT) - 2016

4.11.1 Non-Disbursement of TZS 8.9 Billion

During the financial year 2016/2017, Watumishi Housing Real Estate Investment Trust (WHC-REIT) Unit holders pledged to contribute TZS 22.3 billion to finance a construction project. However, actual contributions received during the year was TZS 13.4 billion (60 percent) leaving a balance of TZS 8.94 billion.

This untimely release of the pledged funds delayed the completion of the planned projects which led to customer complaints that had already completed their payments.

Watumishi Housing is urged to ensure that projects are timely completed to enhance its services delivery and get rid of complaints.

4.11.2 Real Estate Properties Not Insured TZS 1.96 billion

Rule 51 (8) of the Capital Markets and Securities (collective investment Schemes real estate Investment Trusts) of 2011 requiring all real estates acquired by the Fund to be insured for their full replacement value, including loss of rental.

My audit noted that, real estates developed by the Fund through internal engineers worth TZS1.96 billion including Mkundi TZS.1.43 billion, Gezaulole TZS.0.433 billion, and Mabwepande TZS.0.092 billion have not been insured contrary to the requirements.

The real estates are exposed to risk of non-recovery of their replacement values in the case of catastrophic events.

Watumishi Housing should ensure that the real estates are appropriately insured.

4.12 Tanzania Geothermal Development Company Limited (TGDC)

4.12.1 Absence of Transfer Pricing Documentation

TANESCO owns 100% of the Ordinary Share Capital of its subsidiary Tanzania Geothermal Development Company Limited (TGDC) which was incorporated on 19th December 2013.

The Transfer Pricing Regulations ('TP Regulations') came into force in February 2014 and consequently requires Entities with related party transactions to prepare and maintain contemporaneous documentation ('TP documentation') for each year of income.

TGDC does not have a Transfer Pricing documentation in place to justify the arm's length dealing for intercompany transactions undertaken with its related parties contrary to the relevant TP Regulations.

Failure to prepare appropriate TP documentation exposes the Company to a fine of at least TZS 50 million or imprisonment of its Directors/Officers or to both the fine and imprisonment.

TGDC and TANESCO are advised to ensure that TP documentation is in place prior to the due dates of filing the final tax return to avoid such fines and penalties.

4.13 Moshi Urban Water Supply and Sanitation Authority

4.13.1 Delay in Completion of Work in Progress TZS 1.18 billion

Moshi UWASA is implementing a project for improving water supply in Moshi Municipal worth TZS 1.18 billion financed by the World Bank that was initiated by the Ministry of Water and Irrigation through WSDP. The project has two phases; phase one included detailed design and tender documents preparation while phase two is for construction. Phase one was completed in 2015. However, phase two has remained dormant since then to 30th June 2017.

The Authority is advised to make follow up with the Ministry of Water and Irrigation for implementation of phase two of the project.

4.14 National Housing Corporations (NHC)

4.14.1 Unsupported Payments TZS 111,253,180

NHC commenced construction of 300 houses at Iyumbu ward in Dodoma on 5 December 2016 through Force Account at a cost of TZS 12.78 billion, which was intended to be completed on 4th December 2017.

I did not get evidences substantiating payments of TZS 111,253,180 purported to have been made to three laborers for supplying building materials and services to the project.

NHC should ensure that all the relevant supporting documents are produced for our review.

4.15 Tanzania Civil Aviation Authority Consumer Consultative Council

4.15.1 Contradiction between TCAA Act and Constitution of the URT

Sect 52(4) of TCAA Act (2006) provides that, the Council's Financial Statements will be audited by any auditor registered under Auditors and Accountants Registration Act (1972).

This may raise contradictions on the audit mandate of the Council with the provision Article 143(c) of the Constitution of the United Republic of Tanzania (1977) which empowers the Controller and Auditor General of the United Republic of Tanzania to audit all Government Institutions.

I recommend for TCAA - CCC to align Sect 52(4) of TCAA Act (2006) to the provisions of Article 143 of the Constitution.

4.16 Baraza la Kiswahili Tanzania (BAKITA)

4.16.1 House Purchased but Not Handed Over TZS 180 Million

BAKITA bought eight (8) houses from National Insurance Corporation located at Kijitonyama for TZS 1.5 Billion. However, four units were not handed over to BAKITA.

I learnt that occupants of the four houses (ex-workers of NIC) refused to vacate the houses claiming that they were not considered in the exercise of the sale. They decided to go to the court and the case is not concluded yet.

Management should make follow-up on the status and conclusion of the matter.

4.17 Tanzania Posts Corporations (TPC) - 2016

4.17.1 Difference in Reported Revenues TZS 607 million

83 Post Offices including franchised ones are not connected to the revenue system of Netsmart, thus, their revenues are manually accounted for.

Due to the absence of reconciliations between cash received, total bills raised and revenue reported to Head Office, EMS revenues as per Netsmart system differed from the figure of revenue reported in the Financial Statements by TZS 607 million for the year under review.

TPC needs to connect all Offices to the revenue system, conduct reconciliations of revenues from unconnected Offices and investigate to ascertain the nature of the noted differences.

4.17.2 Long Unreconciled Cash Book Items TZS 12.52 billion

TPC reported Cash and Cash Equivalents amounting to TZS 12.52 billion as at 30 June 2016. However, my review noted the following:

- i. There were stale Cheques amounting TZS 12.84 million;
- ii. Payments made by TPC through cheques or TISS for the seven accounts TZS 152.26 million had not been booked in Cash Book;
- iii. Deposits made in Bank Statements TZS 4.60 billion was not captured in the Cash Book; and
- iv. Debit entries in Cash Book not in Bank Statements TZS 4.66 billion. These entries date back as far as January 2013.

The anomalies noted above are due to untimely preparation and review of Bank Reconciliation Statements resulting into long unreconciled items. Thus, accuracy of the reported cash balances cannot be authenticated with certainty.

TPC should ensure that the Bank Reconciliations are appropriately made.

4.17.3 Unsupported Receivables and Expenditures

Review of Financial Reports and underlying supporting documents noted that:

- i) Of the reported Trade and other Receivables, TZS 2.4 billion relating to customer balances were not supported with reconciliations with individual customers and TZS 623.86 million in respect of agency business, were not supported by either third party supporting documents or account balances reconciliations;
- ii) TZS 739.41 million lacked sufficient evidence to establish that they were used wholly and exclusively for TPC's business activities; and
- iii) Third party supporting documents in respect of administrative expenditure TZS 290.37 million could not be obtained.

With respect to the above noted irregularities, I could not satisfy myself of the existence of the balances and whether expenditures were wholly and exclusively incurred for TPC operations.

TPC should ensure that all the receivables and expenditure are appropriately supported.

4.18 Tanzania Posts Corporation (TPC) - 2017

4.18.1 Weaknesses in Revenue Management

My audit of the Corporation revenue noted that there is weak control over revenue generated from internet services since TPC does not perform reconciliation between Postal Global Netsmart System and Time Watcher System and there is no evidence that supervisors review daily cash report submitted to the cashier with those from the daily time watcher report. Further, TPC does not maintain backups for internet time watcher system.

I also noted that, there is no car park system to monitor movements, number of vehicles parked, and time spent. Currently, TPC uses manual register to record vehicles ins and outs, and the register is not reviewed by respective PO supervisor to ensure all customers are properly billed.

I further noted that the Corporation does not maintain a list of all parking spaces and number of lots for each car park space, and there is no policy to guide price setting for the car park.

Furthermore, I noted that there is no list of TPC rented boxes per category hence recognition of rental box revenue on accrual basis is not done. Moreover, TPC policy requires a customer to pay annual Post box rental within January to March each year and if customer has not been paid should be removed and rent the box to another interested customer, I however noted that some of customers in Postal Global Netsmart have not paid rentals in respect of the boxes they possess for long periods.

I also noted that TPC does not issue EFD receipt for most of its revenue collections.

I advise TPC to:

- (a) Reconcile Time Watcher reports against the Postal Global Netsmart report and ensure backups are maintained daily and time watcher daily reports are approved.
- (b) Install car parking system to monitor motor vehicle movement and number of hours a vehicle remains parked; car park capacity should be identified and EFD receipts issued to all collections received.

4.19 Tanzania Food and Drugs Authority (TFDA)

4.19.1 Inadequate Controls Over Import Goods

Para 6.1.3 and 6.1.4 of TFDA's Standard Operating Procedures (SOP) require verification of information of imported products at the port of entry and ensure that they are correct.

During the audit I noted that some importers managed to pass goods worth USD 1,944,499 through the Ports of entry with forged permits without being detected. The situation is an indication of existence of gaps in existing control procedures or collusion.

The weaknesses noted increases the risk of unauthorized products to be imported and consumed in the Country which might be detrimental to the health of Tanzanians.

I advise TFDA to investigate the noted anomaly above to find out if there are gaps in its procedures and take appropriate corrective measures.

4.20 Export Processing Zone Authority (EPZA)

4.20.1 Underperformance of licensed investors

As part of licensing procedures, Investors are required to submit Project Proposals which include expected capital investment to be injected and employment to be created.

This forms part of performance contract with the investor after an evaluation has been done.

Review of 11 investors out of 57 with regard to implementation of submitted and approved proposals by investors noted that:

- i) Only a total of TZS 43.41 billion (33 percent) were invested out of TZS 131.52 billion proposed by investors; and
- ii) A total of 3,850 employments (87 percent) have been created instead of 4,425 that were intended as per the proposal.

The situation may obstruct the objectives of EPZA since the expected benefits in terms of employments and value creation in the economy were not realised as planned in accordance with the submitted investors proposal.

EPZA is advised to take measures to improve the situation by ensuring that investors comply with their performance contracts. Also, EPZA should regularly be monitoring the investors to ensure compliance.

4.21 National Economic Empowerment Council (NEEC)

4.21.1 Inadequate Monitoring of Mwananchi Empowerment Fund

The Government set aside TZS 2.5 billion through NEEC as Mwananchi Empowerment Fund (MEF) to financially empower Tanzanians engaged in various economic activities. The Fund was deposited into Fixed Deposit Accounts with three Banks namely CRDB Bank, Tanzania Postal Bank and Tanzania Investment Bank and was used as lien guarantee.

The Banks provided soft loans to Economic Groups using own funds through own lending procedures. However, I noted that TZS 1.05 billion was used to compensate CRDB for non-

performing loans of which some anomalies were noted as follows:

- i) There was no evidence of registration for some of the SACCOS. From a sample of seven SACCOS that was picked, there was no evidence of registration for two SACCOS who borrowed TZS 634.10 million from CRDB;
- ii) CRDB lent TZS 260 million to a private company namely Matiri Company Limited contrary to Para 6.1 and 6.2 of the Guarantee Framework Agreement. TZS 104.90 million was defaulted and CRDB wants to recover it from the guarantee money;
- iii) In addition, some of the SACCOS were granted loans by CRDB beyond the limit that was initially and that was subsequently set. Initially, the credit limit was TZS 400 million and in 2012 the limit was amended to TZS 100 million.
- iv) Further, CRDB has charged interest at a flat rate instead of using declining balance contrary to para 5.1 of the Guarantee Framework Agreement Addendum.

The situation above depicts failure by NEEC to monitor the Fund to achieve the intended purposes. As a result, a significant amount of public money was lost due to negligence of issuing loans contrary to the Agreement.

I advise NEEC, to take appropriate measures to ensure that the funds are recovered from the borrowers and appropriately used in line with the intended purposes.

4.22 Stamigold Company Limited

4.22.1 Deficiency in Controls and Observable Losses

I noted some controls and operational deficiencies with STAMIGOLD of which some resulted into the following anomalies:

The company made a double payment of TZS 32.68 million to M/s Afrimak for the supply of food. The first payment was done on 21 June 2014 and the second was made on 21 July 2014 using same supporting documents;

Also, there were no evidences of delivery of goods worth TZS 142.25 million paid for. The payments were made to M/s Afrimak for the supply of food. Evidences indicate only goods worth TZS 45.20 million were delivered.

The Company made also Procurements without approval of the Tender Board of Rand 3.5 million, Euro 192,000, KES 41,000, TZS 471 million and USD 1.3 million contrary to Sect 33(1) (d) & (e) of the PPA (2011); and Procurement without contract USD 1.69 million though the price exceeded the limits under Sixth and Seventh Schedule of the PPR (2013). According to Sixth Schedule, the highest Minor Value Procurement an Accounting officer can execute is TZS 750 million.

The weak control environment observed above may create rooms for fraud and errors to be committed.

I thus advise STAMIGOLD to take appropriate measures to improve its control environment.

4.23 Tanzania Broadcasting Corporation (TBC)

4.23.1 Under Collection of Revenue Budgets TZS 11.53 Billion

TBC finances its operations through sources of funds from Government Subventions and own generated revenue from business transactions.

During the financial year 2016/2017, TBC had generated own revenue of TZS 8.91 billion being 44 percent of the approved budget of TZS 20.44 billion. I further noted that, TBC used budgeted expenditures as the base of budgeting internally generated revenue budget without regarding the capacity of the sources. This modality of determining revenue budget led in budgeting of uncollectible revenue resulting into an annual deficit of TZS 1.589 billion.

TBC is advised to set realistic revenue budgets and then accordingly set expenditure budget to reduce revenue deficit. Also, the corporation should be innovative in producing and promoting programmes for radio and television that would attract more sponsoring and advertisement with a view to increasing internal revenue.

4.23.2 Investment with No Return

TBC is one of the shareholders of the Star Media Tanzania Limited by holding 35 percent of the share capital. The other shares of 65 percent are held by Star Communication Network Technology Limited (a Chinese based company).

My follow up of the TBC's investment in Star Media Tanzania Limited noted that the last audited Financial Statements of the Company was for the year ended 31 December 2013 in which the Financial Statements reported accumulated losses of USD 3.39 million (approximately TZS 5.34 billion).

However, the Financial Statements for the year ended 31 December 2014 which are not yet signed by the Board Chairman and external auditors (Ernst & Young) indicate annual loss of USD 8.63 million and accumulated loss of USD 12.02 million (approximately TZS 20.75 billion. Further, up to 30 June 2016, the Associate reported in its management accounts accumulated losses of approximately TZS 61.14 billion.

Following these trends of huge loses; TBC has never received any return from this investment at least since 2013. The situation defeats the intended objective of the investment in the Company.

TBC is advised to take measures that will ensure that all the financial transactions are genuine and correct.

4.23.3 Unreconciled Liability Due to TTCL TZS 922.05 Million

TBC as at 30 June 2017 reported an outstanding liability from services provided by TTCL due of TZS 1.25 billion. My request for confirmation from TTCL indicated that TBC owes TTCL a sum of USD 974,638.55 (equivalent to TZS 2.17 billion) over and above the recorded liability by TZS 922.05 million.

My review of the letter from TTCL dated 27 October 2017 noted that, TBC is disputing a total of USD 473,772 as at that date and both parties are still working on the matter to investigate the amount being disputed.

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.

4.24 Reli Assets Holding Company (RAHCO)

4.24.1 Non-collection of Railway Development Levy from TRA TZS 194.31 billion

In 2014 the EAC Customs Management Act (2004) was amended to introduce a new 1.5% Infrastructure Levy on all imports. The 1.5% was to be levied on the customs value of imports into the Community.

Tanzania introduced a 1.5% Railway Development Levy through Finance Act of 2015 which apply on all imports into the Country except those items that are eligible for exemption under the Fifth Schedule of the EAC Customs Management Act 2004.

The amount collected is supposed to be deposited in RAHCO account maintained at the Central Bank. During the year 2016/17, Tanzania Revenue Authority (TRA) collected but did not remit these funds amounting to TZS 194.31 billion to RAHCO as required by the Act.

TRA should always, after collection of the development levy, remit it to RAHCO.

4.24.2 Impairment of Uncompleted Projects TZS 1.61 billion

I noted projects worth TZS 1.61 billion that had not been completed for a very long period. The projects are no longer viable due to different reasons such as changes in Government Policies, shifting of the RAHCO's Head Office to Dodoma and Company's future Strategic Plan in shifting to Standard Gauge Railway (SGR).

RAHCO has recategorized the projects from Work in Progress to be Impaired in the books of account.

Thus, the funds used on these projects did not deliver to the Company's objectives and has resulted into a loss to the Company.

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.

4.24.3 Non-Implementation of Projects Despite Completion of Feasibility Studies TZS 20.1 billion

RAHCO had conducted the following Feasibility Studies; Arusha-Musoma, Mtwara-Songea-Mbambabay, Uvinza-Musongati-Mpanda-Karema and Tabora-Kigoma-Kaliua-Mpanda and incurred a total cost of TZS 20.1 billion in carrying out these feasibility studies.

However, despite completion of the studies for a long period, the implementations of the same have not been done to date due to financial constraints that RAHCO is facing.

The expenses of the studies have been recorded in the Financial Statements as Work in Progress, but no clear objectives were stipulated in the Company's budget for these projects for the financial year ended 30 June 2017. As a result, the Company fails to attain the intended objectives and cost incurred may not represent the value for money.

RAHCO should explore all means possible to mobilize funds and complete the projects to meet the objectives. Further, going forward, RAHCO should not commit itself to feasibility studies if funds to implement the projects have not been secured.

4.24.4 Inadequate Contracts Management

I noted the following anomalies at RAHCO which resulted from poor management of Contracts:

(i) Anomalies in Lease Agreements between RAHCO and Tenants

I noted that, Lease Agreements between RAHCO and its Tenants are based on the Terms and Conditions established during TRC to RAHCO and TRL transformation. This implies that most of them are outdated and do not reflect the current market condition.

Further, most of the lessees do not have up-to-date Lease Agreements from RAHCO despite paying their rents on time.

I also noted that there was no Legal Agreement between Lessor and Lessee which stipulates the terms and conditions between the Club and RAHCO.

RAHCO should review and update the lease agreements with its tenants.

(ii) Anomalies in Payments of Rent to RAHCO by Tenants

I noted some tenants of RAHCO at Chuda Tanga who have not paid the rent for a long period.

I further noted that in Arusha, Kilimanjaro and Tanga there were conflicting instructions of who should be collecting the rents. Some of the Tenants were remitting their rents to TRL or Tanzania Building Agency (TBA), and not to RAHCO. I was informed that the team from TRL visited and instructed the Tenants to pay the rent to TRL account or Station Masters Office instead of RAHCO who are handling the assets since then.

I could not obtain sufficient evidence as to why the payments were made to TBA and TRL instead of RAHCO, who is the legitimate owner of the houses.

RAHCO should make a follow up to ensure that rental payments are made to the Company. All paid rents should be claimed from the relevant entity received the money from its tenants.

(iii) Weakness Noted in the Lease Agreement between RAHCO and Monaban Trading and Farming Company

RAHCO signed a Contract with Monaban Trading and Farming Co. in August 2015 regarding leasing part of plot No 121/E (The plot adjacent to Unga Limited) located at Factory Road, in Arusha town. However, I noted that Monaban built a permanent structure (fence) and frames/shops which are sublet to other parts without the consent of RAHCO, contrary to the terms of the Contract. The construction of the fence did not observe RAHCO's compound borders as it was

built six meters inside the RAHCO border which means RAHCO area had been reduced by the six meters.

Further, there was other ongoing business activities like shops and carwash which were not part to the Lease Agreement.

RAHCO should take proper legal measures against Monaban Trading and Farming Company.

(iv) Weaknesses noted on Leasing of Ex-TRC Club Bombo Tanga

RAHCO leased the TRC Club at Bombo, Tanga to Mr. Carlustus Z. Livigha at a monthly rent of TZS 354,000 for the period of 3 months renewable.

However, I noted a border dispute between the Lessee and a neighbor, who restricted Management of the Club the right to access, maintain and utilize part of the compound for any activity claiming that the area is part of his house sold to him by former TRC. The said sold house has its own fence outside the Club's compound.

RAHCO should take relevant legal action against the invader.

4.25 Tanzania Pyrethrum Board

4.25.1 Going Concern Problem of the Board

During the year under review, Tanzania Pyrethrum Board achieved its revenue target by 17% only, whereas its expenditure was above its revenue by 52%. The revenue target was TZS 834.29 million while the actual collection was TZS 170.82 million.

The Board also suffered consecutive losses over the two years from TZS 7.94 Million in year 2014/2015 to 226.97 million in

2015/2016. This trend led to having negative working capital of TZS 1.17 billion.

Revenue target was hardly achieved and expenditure not controlled in line with revenue collected resulting in over expenditure, hence, substantially affecting the liquidity position of the Board.

In view of the above, the Board is insolvent as it cannot meet its due financial obligations. Thus, the Board's ability to operate as a going concern is doubtful.

The Board failed to achieve its core objective of sensitizing farmers to expand pyrethrum farms by use of better technology methods and techniques of drying, farming, nursery preparation and farm maintenance.

I urge the Board to liaise with the Government to review Pyrethrum Act No.1 of 1997 as amended by Crop Laws (Miscellaneous Amendments) Act No. 20 in 2009 with a view to introducing some charges to pyrethrum beneficiaries to finance the short fall and explore other alternative financing sources.

4.25.2 Unpaid Staff Entitlements TZS 310.24 million

The Board has accumulated long outstanding employees' entitlements over 1 year for salaries, gratuity, leave, terminal benefits and other claims amounting to TZS 310.24 Million. This situation denies Staffs' rights which may demoralize and affect their work performance.

I recommend for Government assistance to the Board so that it will be able to settle its outstanding obligations to its staff members.

4.26 Centre for Foreign Relations

4.26.1 Approved Development Budget not released by 100% 14.53 Billion

The Mission of the Centre for Foreign Relation (CFR) is the pursuit of scholarly and strategic teaching, research, policy advocacy and outreach services in international relations and diplomatic studies targeted at national and regional needs. The aforesaid activities can be accomplished if there is availability of adequate funds for acquisition of the required facilities.

My review learnt that, CFR had a development budget of TZS 14.53 billion while Other Charges budget TZS. 882 million making total budget of TZS 15.414 billion.

However, review on annual performance of CFR for the year ended 30 June 2017 noted that CFR did not achieve its annual plans due to insufficient releases of funds by the Treasury as I noted 49% releases of Other Charges budget while there was no amount released for development budget.

I advise the Ministry of Foreign Affairs and Planning to liaise with Treasury to financially support the Centre to enable it smoothly run its activities.

4.27 Jakaya Kikwete Cardiac Institute (JKCI)

4.27.1 Fraudulent transactions leading to a loss TZS 130.6 Million

During the financial year 2016/2017 Jakaya Kikwete Cardiac Institute (JKCI) sustained a loss of TZS 130.6 million through fraudulent transactions which were perpetrated by the main cashier of the Institute. This was due to lack of strong internal control system within the Institute.

The theft deprived the Institute the ability to deliver its obligations as per its action plan.

The matter had already been reported to the Police for further action by the time of my audit.

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.

4.28 Dar es Salaam Maritime Institute (DMI)

4.28.1 Fraudulent Payment of USD 26,356.65 and Euro 2,500

I noted that, On 8 December 2016, DMI transferred USD 26,356.65 and Euro 2,500 from National Bank of Commerce (NBC) Account number 012105004460 to a fraudulent Barclays Bank PLC Account Number 83261395 by the name of VIKING Life-Serving equipment (SA), instead of FNB Bank of South Africa Account Number 62009015050 of which the funds were initially intended for purchase of life raft equipment and training service from VIKING South Africa.

In addition, my audit review noted that, Email conversation between DMI staff and VIKING SA was hacked by unknown people. A commercial invoice No. 95701885 from the hackers was sent to DMI staff via un-official email with fraudulent bank account details. The Finance Department received the invoice for payment process, however no evidence that department examined the invoice and details before the final approval of the payment was done. Subsequently, DMI reported the matter to Cybercrime Police but no evidence of official communication to determine the status of the matter was submitted for our review.

The use of personal email for official communication led DMI to financial losses and this implies weaknesses in the internal control over the payment processes.

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 examined before instructing the bank to effect any payment.

4.28.2 Absence of Clear Database for Short Course Student

During Audit of revenue generated from short courses, I noted that there was no clear database to capture information regarding timing of short courses, number of courses carried out during the year and number of students enrolled for short courses for the academic year. The data were prepared manually upon request. Further, there were no reconciliations of enrolled students against short course fees collected during the academic year.

It is difficult to ascertain the accuracy of tuition fee revenue collected from the short courses.

DMI is advised to establish a computerized student enrolment database to capture the timing of short courses, number of short courses and the corresponding number of students for the academic year. On a quarterly basis, the finance department should reconcile the number of enrolled students against short courses fee collections.

4.29 Tanzania Education Authority (TEA)

4.29.1 Inadequate Collection of Principal Loans TZS 303 million

Section 2.5.1 (a) and section 2.5.4 (vii) of TEA Investment Manual, 2008 requires loan applicants to submit a project proposal using TEA format, demonstrating the ability of the prospective Loanee to repay the loan by submitting, inter alia, the projected cash flows for the entire term of the loan, also loans to applicants with non-performing funding status are discouraged and any exceptions thereto require specific approval of the Board.

My audit review noted that the Authority managed to collect TZS 0.83 billion out of the total sampled loan of TZS 1.69 billion, hence uncollected cash amounted to TZS 0.30 billion from education institutions and schools after the end of their loan repayment period which falls within 2016/2017 accounting period, and TZS 0.56 billion was uncollected amount of the principal loan that did not fall due within the accounting period of 2016/2017.

The Authority loses funds due to uncollected loans that were disbursed to the educational Institutions and schools that are not repaying their loans.

TEA is advised to improve its evaluation methods and techniques used to determine the credibility of loanees before issuing the loans or change the basic Investment Principles, also to develop rigorous collection strategies and mechanisms.

4.29.2 Long Outstanding Projects/Delays in Projects Implementation

During the review of project implementation, I noted that TZS 28 billion were approved by the Board for project implementation, but up to 30 June 2017 approved funds were yet to be paid and some of the projects had not started and other projects had started but were not completed. Besides, the amount was indicated as payables in the financial statements of the Authority.

Out of TZS 28 billion, TZS 16 billion related to the projects which had not started of which TZS 14.72 billion were in respect of the financial year ended 30 June 2017. The remaining TZS 12 billion relate to the projects which had started but have not been completed. Delays in implementation of the projects leads to the delayed achievement of the intended benefits.

TEA is advised to roll over unimplemented projects while considering the cost overruns and adopt an appropriate framework for recording project expenses.

4.29.3 Injustice Contract with Watumishi Housing Company Ltd

Audit scrutiny noted that, TEA entered into contract with Watumishi Housing on 16 June 2016 for construction of Mult Unit Teachers houses in hard to reach areas at an initial contract of TZS 4 billion where it was stated that the cost of each unit of Teachers house should not exceed TZS 126 million. On 29 June 2016, Addendum No 1 was signed to specify the unit cost of the house to be TZS 126 million for 40 houses which increased total contract value to TZS 5.04 billion. However, I could not get a documented evidence of Board's approval for the increase of TZS 1.04 billion.

Consequently, on 21 April 2017, Addendum 2 was signed, which changed the unit cost of the house from TZS 126 million to TZS 145.57 million for 40 houses but also no justification and evidence was documented to support the decision.

In addition, Addendum 2 changed the payment clause from 40% followed by 30%, 20%, 5% and finally 5% after defect liability period to 80% advance payment and 20% on completion of the project but the contract did not address the defect liability and no documented justification for the changes. Watumishi Housing Company completed the construction of 15 houses by utilising TZS 2.01billion of the total contract sum and failed to finish the construction of 5 houses, hence returned TZS 687.12million to TEA being funds in respect of unconstructed houses.

The contract between TEA and Watumishi Housing seems to be not for the interest of TEA.

TEA is advised to investigate all the events that came in after the first contract.

4.30 Sokoine University of Agriculture (SUA)

4.30.1 Inadequate Controls Over Electricity and Water Utilities Consumption

The University main campus has a total of 21 electricity Meters and 5 water meters with consumption of TZS 504 million and TZS 46 million respectively, while Solomini Mahlangu Campus has a total of 5 electricity meters and one water meter with a consumption of TZS 380 million and TZS 499 million respectively.

I noted that Electricity and Water to University's tenants are metered and paid centrally; tenants are billed by the university at a flat rate of TZS 25,000 for water and TZS 45,000 for electricity regardless of the actual consumption.

The University incurs huge costs which are not proportional to the recovery of electricity and water costs obtained from vendors of stationeries, shops, cafeterias, staff houses and hostels.

The University is advised to perform a cost benefit analysis on electricity and water utilities and installing separate billing meters at all Business Centers and University houses which will enable the University to prepare Management Report for Management decision making.

4.31 Songea Urban Water Supply and Sanitation Authority (SOUWASA)

4.31.1 Unjustifiable Rejection of the Lowest Bidder

Regulation 17 (1-4) of the Public Procurement Regulations, 2013 requires a procuring entity to seek clarification from tenderer, verify information, document, responses and seek

approval prior to rejecting the lowest bidder if they consider it abnormally low.

SOUWASA invited bidders for the Trench Excavation, Pipe Laying and Water Meters Installation where four bidders responded as follows:

Table 2: Unjustifiable Rejection of the Lowest Bidder

S/n	Bidder	Amount (TZS)
1	M/s Msae General Supplies Ltd	209,704,585
2	M/s Shilo Construction Company	179,000,000
3	M/s Almasi General Supplies	211,062,824
4	M/s Matonga Civil Engineering Contractors and General Supplies	230,736,020

All bidders were found responsive during the preliminary evaluation stage and were passed on to the detailed evaluation stage in which they were also found responsive. However, M/s Shilo Construction Company who was the lowest bidder was rejected because one part was quoted at the rate lower than market rate but there was no evidence indicating that proper procedures were followed to establish this as indicated by the Regulation.

The tender was awarded to M/s Msae General Supplies Ltd at TZS 209.70 million while M/s Shilo Construction Company filed complaint to SOUWASA for violation of procurement procedures, but management stood with their decision.

The violation observed could be an indication of fraudulent practices by management and may not represent value for money over this procurement.

I call for Investigative Organs to investigate the relevant Evaluation Committee, PMU, and the Tender Board for this specific case to establish if there were any fraudulent practices.

4.32 TIB Corporate Bank

4.32.1 Inadequate Capital Ratios

Regulation 9 of the Banking and Financial institutions (Capital Adequacy) Regulations requires a bank or financial institution to, at all times, maintain a minimum core capital of not less than twelve and one half per cent of its total risk-weighted assets and off-balance sheet exposure and total capital of not less than fourteen and one half per cent of its total risk weighted assets and off-balance sheet exposure. However, for the month of December 2016, the TIB Corporate Bank's core and total capital adequacy ratio was 12 percent which is below the above minimum requirement.

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

The Bank is advised to review the capital levels with a focus on capital injection to boost the relevant operating ratios.

4.33 TIB Development Bank

4.33.1 Inadequate Collaterals on Loans and Advances

I noted that some of collaterals that were placed as security for loans had value less than 125 percent of the total exposure which is contrary to Regulation 29 of the Banking and Financial Institutions (Development Finance) Regulations, 2011.

The table 3 below illustrates the total exposure on each loan and value of collateral that has been placed against the loan:

Table 3: Inadequate Collaterals on Loans and Advances

S/n	Customer Name	Loan Balance	Loan Security	% of security to total Loan
		TZS 'm	TZS 'm	
1	Mzinga Corporation	90,518	0	0
2	Hodi (Hotel Management) Company	5,459	6,710	123
3	Konecctt Wires and Cables Ltd	4,560	5,122	112
4	Iron 2011 Company Limited	1,610	1,589	99
5	Kilimanjaro Roses Ltd	129	0	0
6	Allvess Investment Company Ltd	20	18	90

The situation increases risk of loss to the Bank in the event of default. Also, it may result into fine and penalties from Bank of Tanzania.

TIB Development Bank is advised to undertake a detailed review of the pledged securities including assessment of security valuation if adequate and update the security database to ensure that the Bank is always adequately covered against the risk of loss.

4.33.2 Deficiencies on Loan Issuance processes

I noted the following anomalies which are indicative of the deficiencies with regards to the loan origination and monitoring processes:

- i) TIB Development Bank granted TZS 2.9 billion to finance the Development of Kaboja Industrial City situated in Kihangaiko Village, Bagamoyo-Msata in December 2014. The loan was to be secured by debenture over company's assets, guarantee from the parent company namely Syscorp Corporation Limited and assignment of land of 2,500 acres for the proposed

Kabocha Industrial City Buildings. The facility was charged off during the 4th quarter of the year 2016 standing at TZS 3.8 billion.

However, I was not provided with security documents such as title deeds and there is no evidence that the respective securities were registered with the Bank.

- ii) A loan of USD 27.18 million was granted to Tanzania Petroleum Development Corporation (TPDC) to pay for an invoice of 80mmscf/d of gas. The securities pledged against this loan included TPDC entitlement of Cost Gas and Profit Gas receivables of Mnazi Bay Gas Sales Agreement where TPDC has 20 percent participating interests. There is no evidence that the Bank finalized perfection of the security.
- iii) NHC was granted a term loan facility amounting TZS 30 billion to finance construction of Golden Premier at Upanga which was later shifted to Kawe as Golden Anniversary. From this arrangement NHC was extended with temporary arrangement in the form of bridge finance amounting TZS 7 billion for Morocco Seven Eleven Project. The arrangement indicated that the facility will be guaranteed by NHC balance sheet and repayment to be made within two months.

There is no evidence indicating that TIB undertook preliminary assessment and evaluation of Morocco Seven Eleven Project prior to approval and disbursement of TZS 7 billion. Also, I have not seen the signed facility agreement as well as evidence that the amount of TZS 7 billion was fully refunded by NHC or redirected to Golden Anniversary Construction.

Disbursing loans without perfection of security increases the risk of not recovering loaned funds which would eventually

affect the performance of the bank due to non-performing loans.

The Bank should strengthen its controls on loans appraisal as well as ensuring loans are not disbursed prior to registration and perfection of securities.

4.33.3 Growth of Non-Performing Loans

I noted that the Bank's portfolio of non-performing loans has significantly increased from end of the year 2015 to the end of the year.

As at 31 December 2016, the Bank's NPL ratio was 35 percent (31 December 2015:14 percent). This increase is higher as compared to the industry growth of about 24 percent as reported by Bank of Tanzania (BoT) Monetary Policy Statement in June 2016 which indicated that recommended NPL ratio by BoT is 5 percent.

Growth in Non-Performing Loans, indicates deterioration of the quality of Bank's portfolio.

I recommend for TIB Development Bank to exert more efforts to strengthen controls over loan issuing procedures to avoid the risk of non-performing loans.

4.33.4 Deficiencies in Loan Monitoring and Recovery Procedures

During the year ended 31 December 2016, TIB Development Bank recalled a significant number of loans amounted to TZS 94 billion related to non-performing projects which were required to be repaid from within 30 days after receipt of recall letter. The significance of loans recalled indicates absence of monitoring non-performing projects which would have been discovered at their early stages. Up to the time of my audit in March 2017, only TZS 2.9 billion had been recovered representing only 3 percent of the recalled amount.

Also, recoveries from charged off loans were lower than bank's expectations. TIB charged off loans amounting to TZS 42.8 billion of which 50 percent is tied up on litigation. The bank has been able to recover TZS 6.2 billion per unit which is lower than the targeted recovery of TZS 10 billion.

Low pace of recovery indicates the possibility of loss of Bank's money as borrowers have not been able to pay despite being given strict ultimatum.

TIB is advised to improve its monitoring and recovery procedures to averse the noted weaknesses which might affect the Bank's performance.

4.34 Tanzania Agricultural Development Bank (TADB)

4.34.1 Significant Amount tied up in Fixed Deposit TZS 54.70 Billion

The Tanzania Agricultural Development Bank was established in September 2011 under Companies Act, 2002. The principal function of the Bank is to catalyze delivery of finance and related non-finance services and facilities to the agricultural sector in Tanzania including:

- To provide short, medium and Long-term facilities to the agricultural sector;
- To catalyze credit delivery to the agricultural sector and thereby accelerate agricultural growth;
- To lead as an apex agriculture financing bank, in capacity building strategies and programmes to strengthen the agriculture financing value chain;
- To finance seasonal agriculture operations, fisheries, beekeeping and livestock activities; and
- To strengthen the financing value chain through training, research and consultancy.

In September 2014, the Government granted an advance towards share capital of TZS 60 billion to Tanzania Agricultural Development Bank.

I have noted that the Bank has not been adequately performing the functions for which it has been established. Instead of issuing loans to agricultural sector which is its core business line, the Bank has been investing a great part of its funds in fixed deposit accounts. As at 31 December 2016, a sum of TZS 54.70 billion was placed in Fixed Deposit investments, which is almost 91 percent of the total advance toward share capital.

My further review noted that, out of the Bank's total loan portfolio of TZS 3.95 billion, loans and advance to staff stood at TZS 1.71 billion while TZS 2.23 billion was loans to the agriculture sector.

Tying up funds in fixed deposit accounts and loans to staff impairs the Bank's ability to achieve its strategic goals.

TADB is advised to consider investing a great part of its funds in enhancing its core business of lending to the agriculture sector rather than in fixed deposit and loan to staff.

4.35 Medical Stores Department (MSD)

4.35.1 Expired drugs Worth TZS 4.43 Billion

Para 3 of the Stock Management Guideline of January 2017 of Medical Stores Department requires the Department to strive to control the rate of expiration of medical supplies to a rate not exceeding 1% of cost of sales per annum.

I noted that, at the year-end, the Department had expired drugs worth TZS 4.43 billion which was over and above the tolerable ratio as it represents 3.4% of the cost of sale instead of 1%. According to management, the expired drugs were caused by change of technology, obsolescence, change

in treatment guidelines, and Low purchasing power of MSD customers, parallel procurements by donors or partners for same products.

MSD is advised to develop a plan for the purchase and distribution of all drugs to avoid huge expiry of drugs. Also, MSD should monitor and check for expiration dates on a regular basis.

4.35.2 Significant out of stocks from MSD during order processing

MSD's mission is to make available at all times essential medicines and medical supplies of acceptable quality at cost effective system of prices to the population through government and approved non-government and health facilities. For easier attainment of the entity's mission, there are zonal offices, sales points and MCOs which facilitate the storage and distribution of procured items.

My audit conducted at MSD HQ and zones noted that the extent of fulfilling customer orders was not convincing. From a sample of processed orders from customers we noted that missing items from customer orders were ranging from 45% to 87% of the total items ordered.

MSD is advised to ensure demand forecasts are established to ensure that at all time the Department is able to meet its customers' needs.

4.35.3 Goods Purchased with Shelf Life of Below 80% or 2 years

Para 5.3 of the MSD stock management Guideline of January 2017 requires "warehouse officer Receiving to calculate the remaining shelf life of a product to ensure it conforms to the set standard of either above 80% or above 2 years of the total shelf life of a product". Also, MSD system is designed to ensure that all medicines with less than a 3-month shelf life are restricted from being processed with an exception in the

operation of the control when medicines with less than 3 months are processed.

However, my audit noted some of medicines being purchased while having shelf lives below 80% or 2 years contrary to the guideline. Further, the review of the inventory receiving process noted that, some medicines and medical supplies received had remaining short shelf lives leading to their early expiry.

This situation causes the purchased drugs to expire before being used and increases the likelihood for dispensaries to issue to patients expired drugs.

MSD needs to ensure that, stocks procured and received have a remaining shelf life of at least 2 years or 80% of its useful lives. Management is also advised to establish controls to ensure that no drugs with a shelf life of less than 3 months are issued out of the store.

4.36 Copyright Society of Tanzania (COSOTA)

4.36.1 Unpaid Royalties from the Radio Stations and Television Houses TZS 927.86 Million

COSOTA embarked on a programme of collecting royalties from Radio stations and Television houses as one of enforcement of the Regulation No.3 of the Copyright (Licensing of Public Performance and Broadcasting) Regulations, 2003. In 2015/2016 invoices valued at TZS 927.68 million were raised, out of which, only TZS 3.19 million (0.34%) were collected. I also noted that, due to non-payment of the invoices, COSOTA could not raise new invoices for 2016/2017.

COSOTA is advised to make consented efforts to remind the TV houses and Radio stations on the responsibility of paying the royalties.

4.37 Tax Revenue Appeals Board

4.37.1 Pending Undecided Tax Appeal Cases

The law requires that all appeals submitted to the Board to be timely, transparently and fairly determined.

My review noted that appeals are not determined timely. In the year 2016/2017 there were a total number of 356 Applications and Appeal cases which were registered, however, only 99 cases (28%) were decided, leaving 257 cases (72%) undecided. This backlog hinders the Organization from achieving its intended objectives.

Tax Revenue Appeals Board is advised to ensure that all appeals are dealt timely.

4.38 Ngorongoro Conservation Area Authority (NCAA)

4.38.1 Irregularities in Accounting for Investment in Ngorongoro Protection Fund (NPF)

My review noted that, NCAA recognised a loss of TZS 117 million from the operations of NPF. However, there were no supporting documents ascertaining legal existence as well as ownership of NPF and its relationship with NCAA.

Further, I noted that assets worth TZS 1.46 billion under the ownership of NPF were included in NCAA's statement of financial position. These assets include fixed deposit balance of TZS 597 million, bank balance of TZS 467 million, trade receivables of TZS 316 million and inventory of TZS 80 million. This type of accounting for the assets indicates consolidation of NPF as a subsidiary company of NCAA which is contrary to the accounting for an associate company. NPF does not have standalone audited financial statements.

NCAA should obtain legal documents for NPF to ascertain the ownership structure and establish its relationship with NCAA.

This will enable Management to establish appropriate accounting for NPF's results in the books of NCAA.

4.38.2 Investment in non-core Business Functions

NCAA was established in 1959 for conserving and developing the natural resources of the Conservation Area, promote tourism within the Conservation Area, to provide and encourage the provision of facilities necessary or expedient for the promotion of tourism; and to safeguard and promote the interests of Maasai citizens of the United Republic of Tanzania engaged in cattle ranching and dairy industry within the Conservation Area.

My Audit scrutiny noted that, NCAA invested USD 17 million in Arusha investment houses located at Arusha Makongoro road next to BoT Arusha branch contrary to its principal functions. During the year, total costs on this investment amounted to TZS 20 billion. Further, my review of business plan noted that the rent expected from the investment had decreased from an average rate per square meters of USD 14 per to USD 10 at an occupancy rate of 80 per cent.

NCAA should direct its efforts to the deployment of its resources to the core activities of NCAA. Any investment to non-core business activities should be done after carrying out a thorough cost and benefit analysis expected from the project and obtaining approvals from all relevant authorities.

4.38.3 Construction of A Project on Which No Value Was Obtained

As at 30 June 2017, the Authority reported a capital work in progress (WIP) of TZS 860 million relating to Ramat project.

However, the project was banned by National Environmental Management Council of Tanzania (NEMC) in October 2010 due to failure of conducting environmental impact assessment.

Some of the reasons that precipitated the ban include the following:

- i. The project was developed on a wildlife migratory corridor contrary to the wildlife Act of 2009;
- ii. The fence surrounding the site caused injuries to animals migrating through the site especially during night period;
- iii. Ease the spread of diseases from wildebeests to cattle; and
- iv. High level of fluoride at the boreholes drilled.

I noted that, between 2013 and 2014 NCAA incurred TZS 52 million to cover the fence and protect the animals. Further, we noted that procurement procedures were not adhered to in this project as there was no signed contract between NCAA and the contractor M/S LL-M-APIFAT.

Since the project was abandoned, NCAA obtained no value from the amount of money spent to construct this project.

The Authority should ensure that blocked migratory corridors are opened to facilitate the ecosystem within the Ngorongoro Conservation Area to ensure compliance with NEMC directives.

Going forward, NCAA should abide with relevant procurement laws, including entering legally binding contracts with suppliers or contractors, to avoid unnecessary losses in the case of disputes.

4.39 Tanzania Ports Authority (TPA)

4.39.1 Payment for Land Acquisition Contrary to Agreed Procedures

Regulation 55 of PPR, 2013 requires a procuring entity to get approval of Accounting Officer and Tender Board on any

procurement of the entity. My audit noted that, TPA purchased 500 hectares from Capital Development Authority (CDA) at Ihumwa area in Dodoma for construction of a dry port, at an estimated cost of TZS 12.6 billion on 22 September 2016 without following proper procedures including approval by the Tender Board, Board of Directors and lack of valuation of the purchased land. I noted that in March 2017 TPA made an advance payment of TZS 6.3 billion being 50%.

This was contrary to the agreement between CDA and TPA in a meeting held on 4 November 2016 in which it was agreed that the land will be valued before the money is paid.

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.

4.39.2 Insufficient Monitoring of Income from TICTS

TPA has an agreement with Tanzania International Container Terminal Services (TICTS) which allows TICTS to provide handling services for containers on behalf of the Authority and consequently, TICTS pay royalties and wharfage for each container handled. In order to enhance monitoring aspect, the Authority established TICTS Monitoring Unit (TMU) which was tasked with a responsibility to track independently the containers cleared by TICTS.

My audit review noted that, no monitoring was being done on exported containers by the Unit. Moreover, there was no evidence that reconciliation was performed between containers declared by TICTS against those reported by TMU.

In the absence of thorough and regular reconciliation, TPA may not be able to ascertain accuracy of revenue declared by TICTS.

TPA through its TMU is advised to maintain records of both imported and exported containers discharged and regularly reconcile the records with Tanzania Customs Integrated System(TANCIS) and any material variance be timely investigated. Final billing should base on the reconciliation reports.

4.40 Tanzania Petroleum Development Corporation Limited (TPDC)

4.40.1 Uncertainty on the Ownership of COPEC Petrol Station at Makumira

TPDC through its wholly owned subsidiary, COPEC has a shareholding agreement with two companies namely Makumira Filling Station Limited (MSFL) and Skyone Petroleum and Transport Limited (SPTL) to operate a Petrol Station located at Makumira, Arusha. The companies started to operate in 12 July 1999 and 1 July 1999 respectively. As per the agreement, COPEC holds 7,700 and 5,700 (3%) cumulative preferential shares of TZS 10,000 each in MSFL and SPTL respectively.

I noted that there had been no income realized from this investment for financial years 2015 and 2016. Further, my site visit learnt that the station is now being run by a private tenant who claimed to have agreement with Engen. According to him, the station is owned by Engen and he is completely unaware of TPDC's ownership. Also, the station bears an Engen emblem.

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.

4.40.2 Payment of Salaries Out of LAWSON TZS 1.4 Billion

TPDC is required to pay all its employee salaries through Government's Human Resource Management Information

System namely LAWSON. The Ministry of Energy and Minerals (MEM) reminded TPDC through two letters on 18 September 2014 and 25 September 2014.

My review of TPDC payroll noted payment of salaries amounting to TZS 1.04 billion made out of LAWSON. This amount was paid as top up allowances above that paid through LAWSON to 110 employees of TPDC.

Paying salaries out of LAWSON violates payroll controls in place which might create an opportunity for fraudulent transactions.

TPDC is advised to ensure that salaries are processed through LAWSON.

4.40.3 Improper Advance to Maurel & Prom USD 27.18 Million

Section 15.1 of the Gas Sales Agreement (GSA) between TPDC and Maurel & Prom (M&P) requires TPDC to provide financial security either in the form of payment security agreement and performance guarantee (Escrow or letter of credit) or payment guarantee agreement (Bank option).

I have however noted that, TPDC deposited USD 27.18 million (TZS 56.70 billion as at 30 June 2017) to M&P bank account contrary to provisions of the above Section of the contract and termed it as prepayment. The deposited fund was borrowed from TIB Development Bank.

Absence of formal agreement on the advanced fund puts TPDC on a losing side in case of any dispute. Also, the borrowing adds more cost to TPDC as the bank charges interest on the outstanding amount.

TPDC is advised to comply with the Gas Sales Agreement.

4.41 Dar es Salaam Water and Sewerage Corporation (DAWASCO)
4.41.1 Improper Use of the First Time New Domestic Water Supply Connection Funds.

Article 36 of Water and Sewerage Lease Contract between DAWASA and DAWASCO requires DAWASCO to levy the first-time new domestic water supply connection tariff on all its water supply customers and maintain a special fund account into which this tariff shall be deposited. It further provides that the fund should be held in a separately identified account of DAWASCO and DAWASA and be used for provision of first time new domestic supply connections.

My review noted that DAWASCO did not comply with the above article as I observed the following:

- i. Total collections of TZS 1.82 billion in respect of First Time New Domestic Water Supply Connection Fund (FTNDWSCF) were deposited in DAWASCO's normal operation account;
- ii. DAWASCO used TZS 536.84 million without DAWASA's consent for its normal operational activities not stipulated in the contract; and
- iii. DAWASCO used the Fund's account to secure a loan from CRDB causing loan processing fee and some of the repayments to be charged against the Fund.

The misuses contributed to failure in attaining the target of 50,000 new connections that was set for the year 2016/17 leading to achievement of only 38,386. Also, customers are currently being charged TZS 26,000 for new connection and pay for connecting materials which they were supposed to be getting free of charge.

DAWASCO should ensure that management of first time new domestic water supply connection fund is as stipulated in the Water Sewerage Lease Contract.

4.41.2 Failure to Procure Leak Detection Equipment

Article 18.3 (b) of the Water and Sewerage Lease Contract between DAWASA and DAWASCO requires DAWASCO to finance acquisition of leak detection equipment as an aspect of Immediate Capital Investment.

I noted that DAWASCO has yet to procure leak detection equipment as stipulated in the contract. Also, there have been subsequent directives from the Technical and Operations Committee of the Board to fast track the process of acquiring leakage detection equipment, but these directives have not been implemented.

The above situation hinders management's goal of reducing non-revenue water to 28 percent by 2018/19 as non-revenue water at the year end stood at 47 percent compared to a set target of 30 percent.

DAWASCO is advised to ensure that leak detection equipment is procured and put into use.

4.41.3 Written Off Debt without DAWASA's Consent TZS 24.90 Billion

Article 33 (5) of the amended Water and Sewerage Lease Contract between DAWASA and DAWASCO requires DAWASCO to avail a list of customers and discuss with DAWASA before writing off their respective debts.

My audit noted that TZS 24.90 billion were written off by DAWASCO without the consent of DAWASA. The write off was done inappropriately which could result into disputes and hence affects DAWASCO's operations.

DAWASCO is advised to abide with the provisions of the contract to avoid unnecessary adverse consequences that would result from such a non-compliance.

4.41.4 Collections by MAXCOM Not Timely Submitted to DAWASCO

DAWASCO entered into a contract with MAXCOM as a revenue collection agent on 22 November 2016.

However, my review noted some anomalies as detailed below:

- i. MAXCOM did not deposit TZS 500 million upfront at CRDB Bank despite the requirement to do so by Section 7.3 of the Agency Contract.
- ii. The contract did not stipulate the time to deposit the collections into the Bank account, as a result, MAXCOM had TZS 431.77 million not deposited as at the date of this audit.
- iii. MAXCOM had a trend of not depositing all the collections, for instance, 3 June 2017, Maxcom had TZS 242 million but deposited only TZS 200 million, on 21 June 2017 had a balance of 511 million but deposited only TZS 250 million while on 30 June 2017 had TZS 756 million but deposited only TZS 400 million.

Significant amount of DAWASCO's money is tied up with MAXCOM which may affect DAWASCO operations as the money could be invested into revenue generating ventures.

There is a possibility that these funds may be misused by dishonest staff at MAXCOM.

DAWASCO should ensure MAXCOM deposits the TZS 500 million required by the contract including all the amounts which were not intactly banked or take appropriate measures provided in the contract. Also, the contract should be amended to include specific time and procedures to deposit the collections.

4.41.5 Use of Irregular Procurement Method

DAWASCO awarded a procurement contract for two-wheel motorcycles to M/s City Motors at TZS 210 million on a single source basis without meeting the conditions of Regulation 159 of the Public Procurement Regulations, 2013 (Revised 2016) and meeting the threshold of Seventh Schedule of the same Regulations.

The method applied limited competition and hence DAWASCO might have not achieved value for money on the procurement.

DAWASCO should ensure proper compliance with procurement laws so as to get the expected value from the money spent.

4.42 Dar es Salaam Water Supply Authority (DAWASA)

4.42.1 Lack of Enterprise Risk Management Framework

Managing risks in an Authority is a critical function for achievement of Authority objectives. This process includes identification, analysis, evaluation, and responding to the identified risks that may impact the achievement of objectives.

The review of Risk Management process at DAWASA noted that TZS 42 million was used as cost for training in Risk Management. The training was attended by the Board of Directors, Management and Supporting Staff. However, to date, DAWASA has not prepared a Risk Management Policy designed to mitigate the occurrence of threats to its operations.

DAWASA should develop a risk management policy and framework to ensure that all the risks within its business processes are adequately mitigated.

4.42.2 Delay in Completion of Projects

Review of the Projects implementation noted that, there were significant delays in the implementation of projects by Contractors. Some of these projects included; a project for drilling of 20 boreholes and 8 exploration boreholes at Mpera (M1) and Kimbiji. Despite the delays, no liquidated damages were charged against the Contractors' payment certificates.

I noted that DAWASA entered into Contract with M/s NSPT Limited JV Serengeti Limited for drilling and construction of 20 boreholes for TZS 18.48 billion, the completion date was set to be 31 December 2015. However, during our site visit in September 2017, 2 boreholes out of the 11 visited were completed while 9 had not been completed.

The delays had effects interms of cost by the main contractor and Project supervision. For instance, I noted that the project for drilling and exploration of 8 boreholes by M/s CDM International Inc- Kimbiji Acquier Assessment had a contract price of USD 1,295,285 & TZS 969,201,476. However, the price escalated by 211.3% from the original contract price which led to new prices of USD 2,738,838 & TZS 1,937,818,409.

DAWASA should ensure that it charges liquidated damages against the contractors' payment certificates. Also, causes for the noted price variations should be investigated and appropriate action taken against those who caused them.

4.43 Kilimanjaro Airport Development Corporation (KADCO)

4.43.1 Inadequate CCTV Coverage

During the physical verification I noted that at Kilimanjaro Airport there is no full coverage of CCTV Cameras within the airport. I observed that the available CCTV covers only the parking area, gate 1 entrance and VIP lounge, leaving other

surrounding areas uncovered. Ineffective security surveillance at the airport leads to intrusion that may cause destruction of properties and lives at the airport.

Management explained that, the procurement process was cancelled due to technical anomalies observed through tender board meeting held on 18 December 2017. Management has started the urgent procurement process for the supply & installation of CCTV System.

Management is advised to speed up the procurement process procurement and getting the most qualified bidder to perform the installation tasks.

4.43.2 Missing Fire Fighting Equipment TZS 1.68 billion

KADCO had six fire tenders (water tankers) with a Cost of TZS 3.47 billion. However, during the physical verification of the assets it was noted that two fire tenders valued at TZS 1.63 billion were missing. The review of various communications between KADCO and JNIA (Julius Nyerere International Airport), noted that these assets were borrowed by JNIA. I noted that there were several follow-ups by KADCO management however no positive response had been obtained from JNIA.

KADCO is advised to liaise with Ministry of Transport to ensure the borrowed fire tenders together with their proximity suits are returned or compensated for.

4.44 State Mining Corporation (STAMICO)

4.44.1 Rehabilitation Liability on Buhemba Gold Mine

STAMICO acquired Buhemba Gold mine property through license 7132/2011 in 2011 at no cost that was previously being operated by Meremeta Limited from 2003 to 2011. The property contains empty pits left by the previous operator that need to be rehabilitated. During the audit I noted that the Corporation did not get funds from the previous operator

to rehabilitate the open pits, besides, neither funds were set aside, nor provision has been made to reflect the liability.

In the absence of funds being set aside for rehabilitation of the mining, STAMICO may not be able to rehabilitate the land to comply with National Environment Management Council (NEMC) requirements.

STAMICO should liaise with the Ministry of Minerals to find the solution of how to rehabilitate the surrounding environment after ceasing the operations.

4.44.2 Investment in Itetemia Mining Company Limited

On 12 July 1994, STAMICO and Tancan Mining Company Limited entered into a Joint Venture Agreement (JV) for gold exploration and development of the Itetemia Property, where on signing the Agreement, Tancan was to pay STAMICO TZS 1 million for transferring all available data on the property and granted exclusive prospecting and mining rights to Tancan. In exchange, Tancan was to pay annual rental fee of USD 7,200 during exploration period and USD 10,000 during the mine development.

Tancan Mining Company Limited signed a Memorandum and Articles of Association of Itetemia Mining Company Limited, STAMICO was awarded 10% shareholding, equivalent to TZS 3 million in Itetemia Mining Company (IMC).

I was not however, availed with any information on the actual cost of the technical data transferred to Tancan and therefore I could not ascertain any value realization and authenticity of the transaction. Besides, Itetemia Mining Company Limited has not been recorded in the books of account of STAMICO as an associate Company.

STAMICO should determine the actual cost of the technical data so as to reflect the actual values of the data transferred

and recognize Itetemia Mining Company Limited as an Associate Company in its books of accounts.

4.45 National Bureau of Statistics (NBS)

4.45.1 Absence of Title Deeds for Plots TZS 5.44 Billion

The National Bureau of Statistics (NBS) has three land properties located at Dar es Salaam, Arusha, and Kigoma worth TZS 4.75 billion, TZS.0.65 billion, and TZS.0.04 billion respectively after revaluation. Audit scrutiny noted that there were no title deeds for all these land properties to establish ownership by the Bureau.

For the case of Arusha land, I noted that, National Housing Corporation granted NBS and BoT land and building containing 12 flats of which NBS owns three flats. However, the Certificate of Occupancy with a title no. 13367 was certified to Bank of Tanzania as the overall owner of Plot No. 565 containing 2,899 square meters. Inquiry from Management confirmed awareness of such a transfer but there has been lack of initiative to follow-up on the title deed distribution with BoT.

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.

4.46 University of Dar es Salaam

4.46.1 Loss of Rental Income on a Plot at Kunduchi Beach

University of Dar es Salaam entered into a lease agreement for twenty years with Seacom Tanzania Ltd (Lessee) for establishing landing site to land underwater cable and constructing supporting facilities at plot no. 49 situated at Kunduchi Beach Dar es Salaam belonging to the University.

It was agreed that M/s Seacom Tanzania Ltd would provide to the University a free and ready for service cable with a capacity of STM -1 to be indefeasible right of use for 20 years

or the life of the cable, whichever is the longer in respect of constructing Apollo Hospital, ICT Park and the Ultra - Modern Data Center which would offset the rental income to the University. However, these projects were not undertaken.

Furthermore, M/s Seacom Tanzania Limited did not fulfil some of the required deliverables in accordance with clause 5.0 (lessee's covenants) as follows:

- i. Did not acquire way leave for the laying and construction of fiber cables from the landing site to the data centre at the intended ICT Park and the contemplated Apollo Hospital at the Lessor's Mlimani Campus contrary to the contractual terms.
- ii. Did not finance the construction of the fibre from the landing site to the data centre at the future ICT Park and the Apollo Hospital
- iii. Did not facilitate the identification of a suitable and competent partner to build an Ultra-Modern Data Centre at Mlimani Campus.

Unexecuted contractual obligations by M/s Seacom Tanzania Ltd caused the University to lose rental income because the contract involved offsetting the rental income with the provision of fibre cables and internet facilities to the University.

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.

4.46.2 Advance Payment without Contract USD 161,381.95

Section 60 (7) and (8) of PPA of 2011, states that; Where a tender, offer or proposal has been accepted by Accounting

Officer, the procuring entity and the person whose tender, offer or proposal has been accepted shall enter into a formal contract for the supply of goods, provision of services or undertaking of works, and a formal contract shall be in such form and contain such terms, conditions and provisions as contained in the tender document.

My audit scrutiny noted that, the University of Dar es Salaam procured a Spectrometer and Laboratory Equipment from Chemetrix (Pty) limited worth USD 86,102.95 and USD 75,279 respectively. However, the settlement of the amounts was done prior to delivery of the equipment and there was no formal contract between the two parties.

The University is facing a risk of losing in case of dispute or non-delivery of the items since there will be no legal recourse due to lack of contract.

The University should ensure that all contracts are dully signed before payments are effected. The University should make follow up on the delivery of the paid for items.

4.47 Higher Education Student Loans Board (HESLB)

4.47.1 Recoverability of Matured Loans Below the Planned Target

The Higher Education Students Loans Board (HESLB) was established in 2005/2006. The Board inherited loans amounting to TZS 51.1 billion issued to students before its establishment. As at 30 June 2016, the Board had disbursed a total of TZS 2.9 trillion from its establishment. As at 30 June 2017, the total matured loan amounted to TZS 464 billion. One of the objectives in its strategic plan 2014/2015 - 2016/2017 was to strengthen the operational capacity in which the Board targeted to collect 80 percent of due loans to ensure sustainability in the provision of loans by 2017.

However, during my review I noted that out of the total matured loans of TZS 464 billion, the Board has managed to

collect only TZS 221.12 billion equivalent to 47.6 percent of the total matured loans which is below the targeted 80 percent.

While noting the efforts employed in collection of matured loans, I am concerned that the Board may not be able to attain its objectives, including its sustainability in issuing new loans to Students, if the collection rate is not improved.

I advise the Board to closely collaborate with employers in identifying loan beneficiaries, improve efforts to trace the beneficiaries including those in the informal sector.

4.47.2 Lack of Comprehensive Risk Mitigation Strategy on Loses Caused by Deceased and Disables Loans Beneficiaries

Section 33 of the Higher Education Students Loans Regulations, 2009 requires that, where it is proved by the Board that the loan beneficiary has died in the course of his studies or upon completion of studies, or in the cause of repaying the loan, any debt that is due and owed at the time of demise shall be written off.

During the year under review, the Board had outstanding debts relating to deceased loan beneficiaries of TZS 257.71 million. I noted that, the Board lacks a comprehensive strategy to minimize such risk.

Absence of risk mitigation strategies may cause the Board to incur losses due to deceased or disabled beneficiaries. I thus, advise the Board to look for ways of reducing the risk of incurring huge losses resulting from deaths of the loan beneficiaries or students with disabilities.

4.47.3 Untraceable Loan Beneficiaries

Section 4 of the Board Act No. 17 of 2007, requires the Board to establish net-working and cooperation links on a mutually beneficial basis with institutions and organizations like

governmental or nongovernmental, local, foreign or international and employers of loan beneficiaries for the purpose of facilitating the recovery of the loans granted to them.

My scrutiny of loans repayment and recovery reports has noted that the Board has loan defaulters with outstanding amount of TZS 1.46 trillion who cannot be traced by the Board, some of which have been outstanding since the year 1994/1995.

Absence of a proper mechanism to trace beneficiaries may hinder the Board's effectiveness in tracing the defaulters.

I advise the Board to establish an effective mechanism for tracing the beneficiaries especially those working in the informal sector.

4.48 Tanzania Insurance Regulatory Authority (TIRA)

4.48.1 Inadequate Controls Over Premium Levy Collection

TIRA is mandated to charge 1.5% of insurance premium collected by Insurance Players as premium levy. To facilitate collection of the levy, Insurance Players are required to file returns on insurance premiums collected quarterly. From these filed returns, TIRA ascertains the premium levy payable.

My review noted that, TIRA does not have an interfaced information system which can track business transactions undertaken by Insurance Companies to verify the accuracy of the declared premium amounts filed.

In addition, TIRA does not verify and ascertain the validity of the deductions made by Insurance Companies while filing returns. I noted that some Insurance Players deduct co-insurance premium amounts paid to other Insurance Companies while filing returns. For instance, during the year

2016/2017, a sum of TZS 62,600,779,857 (TZS 39,003,294,551 paid to TANRE and TZS 23,597,485,306 paid to other Local Companies) was deducted from filed premium amounts of 19 Insurance Companies. The noted deducted amounts could not be traced.

In the absence of mechanisms to track the premium levy collection, TIRA won't be in a position to ascertain its accuracy.

TIRA is advised to set up an information system which will enable the Authority to track insurance premiums from Insurance Companies. Further, TIRA should investigate the validity of the deducted co-insurance premium amounts.

4.49 National Social Security Fund (NSSF)

4.49.1 Loans Disbursed Beyond Contract Amount TZS 6.18 Billion

NSSF entered into Loan Agreements with four Institutions amounting to TZS 60.69 billion. However, I noted that NSSF disbursed TZS 66.87 billion instead, which is TZS 6.18 billion beyond the agreed amounts prescribed in the Loan Agreements. *See Appendix II.*

NSSF is advised to investigate the reasons for over disbursement made to the four Institutions and ensure their immediate recoveries. Also, NSSF should, in future, ensure no excess disbursement is made contrary to agreements.

4.49.2 Non-compliance with Social Security Schemes Investment Guidelines

Section 8 of the Social Security Schemes Investment Guidelines 2015, issued by the Central Bank of Tanzania, requires a maximum limit of 10 percent in investment of loans to Government. However, my review of NSSF's investments noted that direct loans to Government as at 30 June 2017 was TZS 1.11 billion, which is equal to 31 percent,

exceeding the required maximum limits by more than three times.

Issuing loan above acceptable limits, endangers the Fund's going concern on discharging its statutory obligations.

NSSF is advised to ensure the Fund is maintaining the attainable acceptable limit and abide with the relevant laws, regulations and guidelines.

4.49.3 Disagreement of Reported Investment in Government Securities TZS 1.05 billion

I noted that, NSSF does not reconcile its Investment in Government Securities regularly. As a result, confirmations received from Bank of Tanzania on the NSSF's Government Securities investments indicated that the Fund had investment valued at TZS 321.03 billion as opposed to the Fund's record of TZS 322.08 billion resulting into unconfirmed balance of TZS 1.05 billion.

Failure to reconcile investment in Government Securities may lead to errors or loss of matured investments, leading to a loss of Fund's monies.

NSSF is advised to investigate the unconfirmed Government Securities and ensure that the investment schedule is regularly reconciled.

4.49.4 Failure to Provide for Impairment of the Suspended Dege Project at Kigamboni TZS.220 billion

NSSF entered into a Joint Venture (JV) with Azimio Housing Estate Limited (AHEL) for the development/construction of Dege Project on pieces of land measuring 300 acres at Dege Kigamboni town.

The JV has been registered as Hifadhi Builders Limited. The shareholding to the JV is NSSF - 45% and AHEL 55%. Included

in the 55% shareholding of AHEL is 20% value of land. The estimated cost of the project is USD 653,436,675 of which 20% (equivalent to USD 108,906,113) has been allocated as value of land.

My review of the Dege Satellite City Project, noted that the project has a carrying value of TZS 220 Billion (Work in Progress), However, the project implementation was suspended in January 2016 as result of a disagreements between the Fund and Azimio Housing Estates Limited.

The suspension of the project is considered to be an impairment trigger under the International Accounting Standard 36 - impairment of non-financial assets - which the Fund has not carried out.

I recommend NSSF to perform an impairment assessment of the project to ensure that its assets are fairly stated. Further, NSSF needs to assess the implication of the suspended project on the invested sums of money as well as looking for alternative viable and efficient way forward to ensure that its invested funds provide positive returns.

4.50 General Observations

This part relates to observations that cut across multiple entities.

4.50.1 Need to Align Income Tax Act 2004 With Finance Act 2015

I reviewed the financial statements of five public entities to assess the impact of compliance with Finance Act, 2015 which requires contribution of 15 percent of gross revenue by Public Corporations to the Consolidated Fund.

I further reviewed the First Schedule of Income Tax Act, 2004 sec. 3(1) which requires Corporations, Trusts and Permanent Establishments of a non-resident person for a year of income to be taxed at the rate of 30 percent of Net Income.

My review noted that public entities have been contributing 15 percent of their gross revenue. These contributions are not being considered as allowable expenses during Income Tax computation, hence, paying tax on the amount contributed to the Consolidated Fund, indicating that the entities are taxed twice considering the fact that both the 15 percent on gross revenue deductions and the 30 percent Corporation Tax go to the same Consolidated Fund.

Entities such as Tanzania National Park Authority (TANAPA), National Housing Corporation (NHC), Tanzania Ports Authority (TPA), Ngorongoro Conservation Area Authority (NCAA) and Arusha International Conference Centre (AICC) altogether, paid TZS.151.7 billion as contribution and TZS.87.2 billion as Income Tax. Details of Payments are provided in Table 4 below.

Table 4: Computation of Contributions and Income Tax

Entity	Revenue subjected to 15% deducted to treasury (Tshs)	Amount Remitted to treasury as 15% of gross revenue	Corporate Tax as per Report (30%)
TANAPA	207,587,218,000	30,206,435,000	1,136,098,000
NHC	154,225,947,000	1,000,000,000	4,583,058,000
TPA	641,152,646,000	106,903,872,000	77,909,761,000
NCAA	101,774,817,000	13,000,000,000	3,490,320,000
AICC	14,437,121,544	607,948,935	54,764,863
Total	1,119,177,749,544	151,718,255,935	87,174,001,863

The Government is advised to conduct assessment of the impact of taxing these entities twice, and consider amending the Income Tax Act, 2004 to take into account the amount of contribution to the Consolidated Fund as allowable expense during the computation of Corporation Taxes to ensure alignment of both the Income Tax Act, 2004 and the Finance Act, 2015.

4.50.2 Overdue Government Debt TZS 644.24 Billion

During my audits for the year 2016/17, I noted that the Government had outstanding overdue debts of TZS 644.24 billion with six (6) different Institutions. These debts had originated from direct borrowings, guarantees and utility fees from government institutions. Refer *Appendix III*.

Delays in paying the loans affect the financial strength of the lending Institutions thus affecting their operations.

The Government is advised to make deliberate efforts to rescue the situation by paying those debts to enhance the entities financial capacity.

4.50.3 Absence of Board of Directors and Trustees

During the year under review, there were 20 Boards of Directors/Trustees which had completed their terms and new Boards had not been appointed at the time of this report. Some of the entities have been operating without Boards for more than one accounting period. The entities that have no Boards are as shown in *Appendix IV*.

Absence of the Board of Directors and Trustees slackens the operational activities of the entities due to lack of the relevant authorizing and decision-making organs which are responsible for providing strategic directions to the respective entities.

I recommend for the appointing Authorities to take deliberate efforts to appoint Boards of Directors and Trustees for these entities in order to enhance governance and control within these entities.

4.50.4 Long Outstanding Accounts Receivable - TZS 41.45 billion

I have noted entities with long outstanding accounts receivables, some of which go beyond their set credit limits.

Such aggregation of accounts receivable balances over a long period has been caused by inefficiency in debts management.

The amounts are very significant and may have impaired the operations of the respective entities as significant amounts of cash are tied up in receivables instead of being used to implement activities of the respective Institutions. See *Appendix V*.

I recommend for the respective entities to strengthen controls over debt management and ensure that all the outstanding debts are timely collected.

4.50.5 Delays and Non -Remittance of Statutory Deductions TZS 42 billion

Review of statutory deductions noted that some Authorities had not complied with the statutory remittance deadlines. The statutory deductions not remitted to the respective institutions included Withholding Tax, SDL, PAYE, and pension contributions, all amounting to TZS 42 billion.

The liabilities have been accumulating over years, a situation that may attract extra payments in terms of fines, interests and penalties, all of which have negative impact on the liquidity position of the entities.

Non-submission of deducted taxes has the effects of denying the Government its revenues while failure to submit statutory contributions creates uncertainties regarding workers' compensation from respective Pension Funds and may lead to unnecessary penalties. *Appendix VI*.

All public entities should remit the required statutory deductions to avoid unnecessary penalties.

CHAPTER FIVE

REVIEW OF STRATEGIC AND OPERATIONAL EFFICIENCY OF PUBLIC ENTITIES

5.0 Introduction

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

On the other hand, 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 customers in the most cost effective and timely manner.

It involves getting the most value from resources and eliminating wastes in production or business operations aiming at improving productivity.

My review of Strategic and Operational Efficiency included eleven (11) public entities namely:

- (i) Tanzania National Parks (TANAPA);
- (ii) Tanzania Communication Regulatory Authority (TCRA);
- (iii) Sokoine University of Agriculture (SUA);
- (iv) Medical Stores Department (MSD);
- (v) National Development Corporation (NDC);
- (vi) Biolarvicides Project;
- (vii) Tanzania Electric Supply Company (TANESCO)
- (viii) Tanzania Petroleum Development Corporation (TPDC);

- (ix) Self Microfinance;
- (x) Tanzania Posts Corporation (TPC); and
- (xi) Tanzania Vocational Education Training Centre

5.1 Tanzania National Parks (TANAPA)

5.1.1 Deficiencies in Management of Land and Boundaries

TANAPA has 16 National Parks including Arusha National Park, Tarangire and Manyara where we noted there are land and boundaries disputes, as shortly detailed hereunder:

(i) Area at ANAPA Owned by Private Person

I noted that within Arusha National Park there are 100 acres of land nominated as 'Halali Estate' which are part of farm 41 Plot No. 398 on a registered Survey Plan No. 12691 with a Title Deed Number 15942 that are owned by a German citizen named Werner Von Blumenthal despite being announced to be part of ANAPA in 1967.

The Commissioner for Land advised TANAPA on 16 June 2017 to hold because the matter was attended according to the existing rules and regulations.

(ii) Human Settlements and Activities in Migratory Corridors and Dispersal Areas

Migratory corridor areas allow free movement of wild animals and play a significant role of ensuring perpetuity of wildlife dynamics among ecosystems.

The Corridors of King'ori and Simanjiro in the Southern part of Arusha National Parks, Momella Lakes, Lendoiyaa and Sanya Plains in the Eastern part of Arusha National Park as well as dispersal areas of West Kilimanjaro ranch, Olkungw'ado, Longido plains, Lake Natron and Uwiro to Ngabobo are blocked due to increasing human settlement and agricultural activities

hence making the corridors to be very narrow and squeezed.

Further, Kisimiri corridor in ANAPA was open, although the beacons were yet to be installed and the communities retain custodianship of the land. TANAPA planned to secure wildlife Migratory corridors by June 2016, but such corridors have not been secured yet to date.

(iii) Long Land Disputes Between Parks and Surrounding Communities

A land dispute at Lake Manyara existed since 2009 after the declaration of Park boundaries alteration. There are Park areas whose boundaries have not been demarcated due to existence of conflicts between the Park and the surrounding villages. However, Lake Manyara National Park (LMNP) has cleared about 96 kilometres out of 146.8 kilometres of its total boundary length.

At Tarangire National Park, a total of 22,694.8 hectares of land were in conflict between the Park and surrounding communities out of which 6,499.6 (29%) hectares were resolved thus, leaving 16,195.2 (71%) hectares still in conflicts despite Park's efforts of verifying its boundaries since 2004.

TANAPA is advised to:

- a) Intensify efforts to continuously liaise with communities and ensure the other corridors in southern and eastern part of Arusha National Park as well as dispersal areas are opened;
- b) Continuously follow up with the Commissioner of Land so that the land with Title Deed number

15492 is brought under TANAPA mandate as per the National Park Act and the President's Proclamations; and

- c) Speed up installations of beacons around all Parks' boundaries and continue providing conservation education to communities bordering the Parks.

5.1.2 Extinction Risk of Lake Manyara

My review of Ecological Reports noted that there is high risk of extinction of Lake Manyara and its potentials due to increasing human population; poorly planned land use practices including irrigation, farming and grazing in the surroundings; and deforestation as a result of increasing demand for activities such as farming areas, cutting trees for building and charcoal. All these activities leave surrounding land open and dry, thus, vulnerable to erosion and siltation, rendering the depth of lake to shallow in such a way that, during the rainy seasons the average depth is below two meters while in sunny seasons the lake almost dries up with an average depth of below 50 centimeters in the deepest parts.

TANAPA in collaboration with appropriate Ministries, is advised to increase efforts in taking all the relevant measures that will ensure the risks of extinction facing Lake Manyara and its potentials are effectively managed.

5.1.3 Overlapping Between Corporate Strategic and General Management Plans

The Corporate Strategic Plan (CSP) of TANAPA prepared at the Corporate Level covers a period of five (5) years from 2013 to 2018 while its General Management Plan (GMP) prepared at the Park's Level, covers a period of ten (10) years, hence, the assessment of implementation of the

General Management Plan against Corporate Strategic Plan is impossible as there overlapping of years and some of the objectives in the Corporate Strategic Plan were not incorporated into the General Management Plan.

I recommend for TANAPA to ensure that General Management Plans are aligned with the Corporate Strategic Plan for consistent implementation and achievement of the common strategic objectives.

5.2 Tanzania Communication Regulatory Authority (TCRA)

5.2.1 Non-Submission of Content Program Deliveries

Reg. 22 (1)-(3) of the Broadcasting Services Regulations (2005) requires a licensed Radio and Television Operators to publish programme schedule in a daily newspaper circulating widely in Tanzania at least one month in advance and also to adhere to the programme schedules which have been provided in advance to the subscribers and to submit to the Authority, advance quarterly programmes schedule 14 days before the start of each quarter; transmission reports detailing programmes of actual broadcast within seven days after the end of each calendar month; music play lists detailing all the music broadcast within seven days after the end of each calendar month.

Review of 10 Radio and Television Operators out of 128 with valid licenses noted that during the period they did not submit their quarterly programme schedules in advance as required by the above Regulation.

I further noted that the Authority does not have procedures that require published programme schedules, advance quarterly programme schedules, transmission reports and music play lists to be verified after their submission.

TCRA may not be in a position to know which programmes are going to be broadcasted which may pose major risks in terms

of the quality and content of the programmes being broadcasted.

TCRA should be proactive in ensuring that Operators fulfil their responsibilities by submitting programme contents as required by Reg. 22 (1-3) of the Broadcasting Services Regulations (2005).

5.2.2 Warranties of Electronic Communication Equipment Not Verified

Reg. 39 of the Electronic and Postal Communication (Licensing) Regulations, (2011) requires an importer, distributor or seller of electronic communication equipment not to import for sale or, distribute any equipment whose warranty is less than twelve months.

Review of procedures established by TCRA to ensure all Operators comply with this requirement noted that there is no mechanism of ensuring that this requirement is adhered to.

I also noted that, the Authority does not collaborate with other stakeholders such as Tanzania Bureau of Standards (TBS) and Tanzania Revenue Authority (TRA) to enhance compliance with this regulation.

Consumer rights may not fully be protected in the absence of such a mechanism.

TCRA should develop a robust mechanism which will enable the Authority to adequately monitor the quality of electronic communication equipment. The Authority should also consider involving other regulators and Authorities such as the Tanzania Bureau of Standards (TBS) and Tanzania Revenue Authority (TRA) to assist in ensuring that all electronic communication equipment meet the required standards.

5.2.3 Weak Monitoring of Content Services

Tanzania Communications Regulatory Authority is responsible for regulating communications, broadcasting, electronic communications, postal services, and management of the National Frequency Spectrum in the United Republic of Tanzania. As a Regulator, the Authority is responsible for ensuring licenses are issued to all Operators in the Industry and that the Operators are operating in a manner that does not compromise the standard quality of service.

My review of the content monitoring performances noted that, there are no online content regulations. In addition, I noted that there are online operators who are not registered by the Authority.

Further, review shows that the current content monitoring system (Pinnacle) is obsolete and it needs an upgrading to enhance its recoding capacity and technological advancement that suits the current development within the Communication Industry.

Further, there are only six employees responsible for content monitoring. This number may not be enough to meet the workload of monitoring contents in respect of all radios and televisions countrywide.

At TCRA Zone Offices, content monitoring is also not fully performed on a real time basis as there are neither tasked officials to monitor and report on that nor equipment for monitoring the services. I noted that in most cases, content monitoring depends on complaints raised by consumers.

To improve the monitoring exercise of Radio and Television Programmes, the Authority is advised to:

- a) Fast track the process of preparation of Online Content Regulations for effective monitoring and control of online contents;
- b) Strengthen zonal offices to ensure real time content monitoring is timely done;
- c) Increase the number of employees that are responsible for content Monitoring; and
- d) Communicate with the government on the need to speed up the process of acquiring and installing new systems on content monitoring to enhance wide coverage.

5.2.4 Inadequate Monitoring of Operators

According to section S. 6 (1) of Tanzania Communication Regulatory Authority Act, 2003, the Authority was established for the purpose of issuing, renewing and cancel licenses, to regulate rates and charges; to monitor the performance of the regulated sectors.

However, Review of TCRA's enforcement procedures under the directorates of Legal affairs, Postal affairs, and Broadcasting affairs with respect to licensing procedures, noted that the enforcements are not adequately being performed such that not all distributors and importers of electronic equipment are licensed while some of the buses performing upcountry trips that carry parcels are not licensed to do that business.

I noted that majority of the postal services inspections for upcountry licensees are not pre-organized and are conducted on an ad-hoc basis which in most cases are either based on complaints raised by customers or upon periodic inspection of the Tanzania Posts Corporation regional offices.

I further noted that the Authority does not have a comprehensive Database of all companies that are operating without licenses in the provision of postal services, electronic equipment distribution, installation and maintenance.

This poses a significant risk on the quality of service being provided by the Operators.

TCRA should establish a proper mechanism within its Directorates to enhance enforcement of its rules, standards and procedures and increase awareness to the public. The Authority should emphasize on voluntary turn-up by operators and institute vigorous checks and balances to ensure all unregistered Operators are registered with valid TCRA Licenses. The Authority should also establish a database of all Operators that are not registered by liaising with other business license issuing Authorities.

5.2.5 Delays in Processing and Issuing of Licenses

TCRA issues individual licenses, class licenses and certificates. Individual licenses, which include licenses for network facilities, network services, application services and content services, are those which have big economic, social impact and regulatory obligations. Class licenses, which include licenses for courier services, electronic communication equipment and V-SAT, have less economic, social impact and regulatory obligations. For all classes of licenses, the maximum acceptable period from application to issue of license is 60 days.

During the year under review, the Authority issued a total of 26 postal and courier licenses. My review of a sample of 22 issued licenses noted that, there is a time lag of an average of 86 days from the application date to the date the license is issued a period which is above the regulatory requirement of 60 days.

Further, I noted that, expiry dates of the licenses are not systematically tracked for identification and notification to operators prior to their expiration.

The long time taken in issuing licenses may be translated into inefficiency on the part of the Regulator. I advise TCRA to improve its operational performance so as to reduce the time taken in processing and issuing licenses.

5.2.6 Delays in Completion of Telecom Revenue Assurance System (TRAS) Project

Tanzania Communications Regulatory Authority (TCRA) is carrying out a project to implement Telecom Revenue Assurance System (TRAS). TRAS is an additional module in the Telecommunication Traffic Monitoring System (TTMS) which intends to give Telecom Revenue Assurance to the Government.

The implementation of TRAS will increase the technical capability of the Authority and enable independent verification of Operators' revenue streams. A total of fourteen (14) remote sites will be connected to the central site (TCRA NOC) via optic fiber cable to enable transfer of the information (data) from the remote sites to the central site.

The project was planned to be completed by 27 September 2017. However, until the time of my audit in October 2017, the project had not yet been completed and there was no revised completion date.

Besides, no risk assessment was conducted on the project and consequently no documentation of project risks and their corresponding mitigation measures were developed.

I was informed by TCRA that Procurement of TTMS where TRAS is among its modules is through Build, Operate and Transfer (BOT) arrangements, thus, all the risks have been

transferred to the TTMS Contractor from the beginning of the project implementation until when the project is finalized and the Contractor hands over the project to TCRA

TCRA is advised to review TRAS project implementation plan and conduct project risk assessment to identify risks and design mitigation strategies to ensure benefits of TRAS are realized earlier and the related risks are adequately and effectively managed.

5.3 Sokoine University of Agriculture (SUA)

5.3.1 Absence of Strategy and Plan for Regular Updating of Intellectual Properties and Enforcement of Agreement

In 2014, SUA commercialized three patented intellectual properties namely MSHINDI, PESA and MWANGAZA to TANSEED International through three contractual Plant Variety License Agreements, whereas the licensor and licensee were desirous of entering into an agreement and agreed that the licensee shall have nonexclusive rights to the multiplication and marketing of the varieties and both parties agreed on the royalties and annual maintenance fees to be paid by the licensee.

Upon Commercialization, the licensor would have to support the licensee on upgrading the innovation to make it respond to the market needs.

I noted that SUA does not have a strategy and plan of updating the innovation of its patented intellectual properties already in the market. Lack of such strategy and plan can cause the properties to be obsolete and redundant.

Further, Section 2.1 (c) of the agreement details that if the maintenance fee and royalties are not paid as was specified in the contract, then a compound interest of eighteen per cent (18%) shall be due in addition to the maintenance fees

and royalties accrued for a period of default. Additionally, section 2.3 (a) requires the sale of the seeds of the variety by the licensee to be charged with a royalty charged at rate of 1% of the gross margin of the seeds sold and the payment should be effected on the 30th October each year.

However, the University has not collected maintenance annual fees and royalties for a period of three years from 2014/2015 to 2016/2017. Non-compliance with the enforceable clauses of the contractual agreement denies the University the entitled revenue through maintenance fees and royalty.

SUA is advised to have a comprehensive strategy and plan for updating and improving its commercialized research products and enter into a formal agreement with licensees to provide technical support to the products. Further, the University should collect annual maintenance fees and the outstanding royalty amounts.

5.3.2 Inadequate Management of Patented Intellectual Properties

Section 5 (r) of the University Charter of 2007 requires safeguarding and protecting intellectual property rights on innovations and inventions emerging from the efforts of the University in executing its mandate as provided in the Policy.

I noted that SUA patented 14 intellectual properties of which three were commercialized. The remaining 11 innovations which have not yet been commercialized are listed below:

- i) Portable double-sided steel a frame for log sawing;
- ii) Procedure for Development of Baobab Powder as a Substitute for Commercial Pectin in Jam Preparations (gelling agent);

- iii) Use of crude extract from *Synadenium Glaucescens* for treatment of poultry viral diseases;
- iv) Application of crude extracts from *Synadenium Glaucescens* for wound healing and Control of Bacterial and Fungal diseases;
- v) Application of *Commiphora swynnertonii* crude extract for control of Newcastle disease in poultry;
- vi) Innovative Drip Emission Devices;
- vii) Solar-Powered, Wireless Re-Programmable Precision Irrigation Controller;
- viii) Use of feline urine to manage rodents in crop fields;
- ix) A Rooting Media Formulation for Regeneration of *Olea Welwitschii* L. (Ironwood Olive) Stem Cuttings; and
- x) A Medium Formulation for Induction of In Vitro Regeneration of *Olea Welwitschii* (Knobl.) Gilg & Schellenb (Elgon Olive).

I also noted two patented intellectual properties out of the eleven (11) above, were already in the public domain without the consent of the University despite the University being granted exclusivity right by the Ministry of Industries, Trade and Marketing. This impairs the objective of the University in ensuring effective management of its intellectual assets and innovations as well as limiting its ability to enhance translation of its properties and innovations.

Further, I noted that SUA NITRO product is one of the marketable innovations of the University with high potential. During the audit, I noted that SUA NITRO was published in the public domain for trading before getting the patent right

from the respective Authority, as a result the University, loses revenue from the innovations.

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.

5.3.3 Inadequate Registration of Individual Consultancy Works

Section 6.1 of the Consultancy policy, Procedures and Guidelines of 2000 provides distribution of proceeds from assignments acquired through Faculty/Institute or individual initiatives as follows: 5% Commission of net revenue after tax to individual who solicited the consultation; 80% to consultants; 7% to the University; 5% to Faculty/Institute Consultancy Co-coordinating Unit and 3% to SUACONSULT.

An interview made with the Director of Research, Postgraduate Studies, Technology Transfer and Consultancies noted that the Research Policy does not have a clause for registration of individual Consultancy works. Individuals use University's name and facilities to conduct their consultancy works but the University does not adequately benefit from such works.

SUA is advised to review the consultancy policy to include a clause for registration of individual consultancy works including those conducted by consultants outside the University.

5.3.4 Non-establishment of SUA Research Fund

The University's Council Meeting No. 135 of 25/09/2014 approved the establishment of SUA Research Fund as source of internal funds to support research or journal writing and providing research output to the stakeholders. The arrangement of the funds was for contesting by the young researcher's within the University on specific topics that will be announced by the directorate of research and postgraduate studies.

The source of funds for the projects were proposed at two percent (2%) of the Institutional Fee charged from Donors' Research Funds, two point five percent (2.5%) of the University fee from the Undergraduate Students and three point five percent (3.5%) of the University fees from the Postgraduate Students.

The Research Fund had not been operationalized despite the Council's approval. Non-establishment of the Research Fund might deny young researchers a chance for capacity building.

SUA is advised to operationalize the Research Fund to enhance capacity building for young lecturers and to cater for community's problems through respective research work.

5.3.5 Delays in the Operationalization of SUA Investment Company

SUA investment policy and Regulations of 2005 details the establishment of SUA investment Company through shares, forming joint ventures and fostering partnerships with potential investors. On August 2010 the Company was registered by BRELA as a limited company by share with a Certificate of Incorporation number 77800 and authorized capital of TZS 3 billion.

My review of operationalization of the Company from 2010 to 2017 noted the following anomalies:

- i) There is no clear line of directions that provides tasks of implementers of the project;
- ii) It took the University 5 years to appoint the members of the Board of Directors, suggesting that the Company was registered prematurely; and
- iii) Administrative costs of the Company could not be easily established since its registration due to lack of strong system to capture those costs.

Delays in the operationalization of the Company may mean a delay in achievement of the planned objectives by the University. Also, payments of the Company's administrative expenses may unnecessarily be higher and meet from other University budget lines which do not relate to the company.

SUA is advised to assess the causes of the delays for operationalization of the company and address them. The University should also consider a need for having cooperation with other Universities in order to learn experiences in operating these types of companies.

5.3.6 Insufficient Utilization of a Commercial Farm

According to SUA Investment Policy and Guidelines of 2005, the main objectives of initiating the Investment Policy was to generate additional income to supplement the inadequate Government subvention; provide support services to the University community for the betterment of academic endeavors and to provide quality infrastructure for academic activities. While SUA Master Plan of 2016 explains that one of the strategic objectives of the University was to ensure a sustainable utilization of land for improvement of physical facilities and estate management to cope with future expansion needs and growth direction.

The University has Commercial Farms which all together have 1482 hectares, where about 854 hectares are at Mazimbu and 628 hectares besides the Main Campus. These Commercial Farms have been idle since the inception of the Farm Development Policy and there is no approved implementing work plan for the Commercial Farms.

Insufficient utilization of these Commercial Farms denies the University an opportunity to generate its internal revenue that could have been used to finance some other University operations.

SUA is advised to develop the farms at full capacity and develop a comprehensive Farm Development Plan.

5.4 Medical Stores Department (MSD)

5.4.1 Use of Balanced Score-Card Framework

The Board of Trustees of Medical Stores Department (MSD) decided to shift from using Result Based Management framework in preparation of Medium Term Strategic Plan (MTSP) covering years 2014 - 2020 to the Balanced Scorecard (BSC) Framework. The BSC is an integrated planning and performance management system that communicates with clarity of an organization's vision, mission and strategy to employees and other stakeholders. The Framework has four perspectives which provide holistic view of an organisation and its application requires sufficient understanding of its perspectives.

Interviews conducted with the Director for Planning noted that, the ability to communicate and cascade MSD's strategy to the directorate level was inadequate. Additionally, the system of evaluating performance of individual employees does not have enough details and flow to take advantage of BSC framework. I also learnt that not all staff in the

Monitoring and Evaluation (M&E) Unit attended an intensive training on balanced scorecard framework.

MSD exposes itself to the risk of not executing its strategy effectively due to lack of adequate understanding in the use of BSC framework in formulating, communicating and executing its strategy at all levels of the Organization.

MSD is advised to ensure that trainings on BSC framework are conducted to all staff especially those involved in the planning, monitoring and evaluation in order to fully exploit the benefits of the framework.

5.4.2 Lack of Economical Means of Transporting Medicine and Medical Supplies

Distribution cost is one of the large components of direct costs incurred by MSD. It contributes significantly in driving up the prices of medicines and medical equipment. Reducing this cost will enable MSD to increase its competitiveness in pricing and achieve its mission of making available, at all times, medicines and medical supplies of acceptable quality at affordable prices. The current mode of transportation is through roads where MSD vehicles and hired private vehicles transport the cargoes. This transportation method does not provide room for business innovation to reduce transportation cost.

MSD can reduce transportation costs by promoting intra-governmental trading.

MSD can, in addition to other measures, engage ATCL to establish a joint business model that will boost aircraft utilization and revenue in ATCL as well as lower the transportation cost of MSD. This could be achieved through creation of new routes that would otherwise be un-profitable to ATCL by aligning them with MSD hubs and work out the viable cargo size that would turn the unviable routes to

profitable ones through regular supply of constant quantity of cargo.

5.4.3 Lack of Specification of Health Facilities and Equipment to be Procured

Clause 3.9 of the Memorandum of Understanding (MoU) entered between the Ministry of Health, Community Development, Gender, Elderly and Children (MoHCDGEC) and Medical Stores Department (MSD) on 29th April 2016 requires MoHCDGEC to provide specifications of all required medicines, equipment, spare parts and related health commodities to be procured by MSD, and if possible to indicate the sources of the suppliers, quantities required and delivery schedules.

My visit to MSD zonal centres and hospitals noted that these hospitals had several machines which were supplied through vertical programs but in most cases were not working due to lack of reagents.

MSD is advised to communicate with MoHCDGEC to get the stock of all medical equipment available in the country that are not working due to various reasons such as lack of repair and maintenance and lack of reagents.

Management should also obtain all the relevant specifications of all the required reagents and spare parts, in order to enhance and facilitate after sales service of the medical equipment.

5.4.4 Weakness in Implementation of Drones (UAV) Project

MSD signed an MOU with Zipline (USA based company) for the use of Unmanned Aerial vehicle (i.e. drones) to ferry medical supplies to over 1,000 health facilities in ten regions across the country.

Assessment of MSD readiness to deploy drones in its supply chain noted several weaknesses including absence of business case developed to identify the specific use and benefits of drones such as cost reduction, increase effectiveness and efficiency. This may lead to the initiative being vendor-driven and may lack internal ownership and consequently lead to project failure.

MSD is advised to develop a business case to make analysis of the benefit to be realised through use of drones for delivery of drugs and medical equipment.

5.4.5 Lack of Service Linkage between MCO and Hospitals

MSD re-modeled its business in order to sustain its operations without affecting its mandate of delivering quality, affordable medicines and medical equipment closer to the community. MSD does so through creation of MSD.

Community Outlets (MCO). So far there are six community outlets that are being operated by MSD which are located in Chato, Mbeya, Arusha, Mwanza, Katavi and Muhimbili National hospital. MCOs are located near or within the hospital and they do not accept medical prescriptions from patients without a clearance from the hospital.

During the audit I noted that there is no link between MCO medical accounting system and Hospital's system. Hospitals cannot access online the medicines available at MCOs medical shops. I visited Muhimbili National Hospital and noted that medical prescriptions were made to patients online after the doctor in charge has verified availability of medicine in stock through MNH JEEVA system. Lack of online connection between hospitals and MCO reduce the efficiency of providing services to patients.

I advise MSD to establish connection between MCOs and hospitals so as to strengthen the linkage between the two.

5.4.6 Lack of Effective Quality Assurance Mechanism on Drugs and Equipment Supplied to Hospitals

MSD Client service charter requires MSD to ensure that its customers get at all times, essential medicines and medical supplies of acceptable quality at the lowest possible prices. Further, Para 4 requires all incoming goods to be subjected to inspection by Quality Assurance Unit of MSD. MSD also engages services of TFDA, TBS, GCLA, BICCO and others to conduct analysis of samples to certify quality of its products and supplies.

I reviewed a complaints' register and noted that there were several complaints on substandard quality of POP size 7.5 and cut guts at various District Hospitals, Malaria Rapid Diagnostic Test (MRDT) were producing invalid results, blood pressure measuring equipment (Riester) had worn out within two months of use and supplied aprons could not be used more than twice before they are worn out. The deficiencies observed were identified by neither the quality team nor the certifiers of quality of products including TFDA and TBS.

Low quality of medicines and medical equipment supplied may jeopardize the quality of the services offered at those hospitals and sometimes risking the lives of the patients.

MSD is advised to ensure that all incoming goods are subjected to quality inspection to ensure the quality of goods it distributes meet the required standards.

5.4.7 Inadequate Funding of MSD Operations

During the audit I noted that MSD has not been adequately funded to execute its mandate. During the financial year 2016/2017 the Ministry of Health, Community Development, Gender, Elderly and Children was budgeted to disburse TZS 251.5 billion to the Department, but the actual amount

disbursed was TZS 121.08 billion (48%) hence creating a deficit of TZS 130.42 billion.

Additionally, the Department has a large amount of outstanding receivables which at the year-end stood at TZS 165.2 billion out of which TZS 152.08 was outstanding from the Government through Ministry of Health, Community Development, Gender, Elderly and Children.

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 so as to enhance its efficient and effective service delivery.

5.5 National Development Corporation (NDC)

5.5.1 Non-Contribution of Share Capital into GPTL by a Private Partner

NDC and Wande Printing & Packaging Company Limited entered into an agreement on 21 March 2013 to form a Joint Venture company named Global Packaging (T) Limited (GPTL), with the aim of establishing packaging material plant at TAMCO industrial estate. NDC and Wande own 6 percent and 94 percent of shares valued TZS 12 million and 188 million respectively.

Review of the joint venture Agreement indicated that NDC share capital (6 percent) was through contribution of land with an area of 17,419 square meters with estimated value of TZS 200 million located at TAMCO Industrial area and Wande was supposed to inject share capital (94 percent) of TZS 3.44 billion.

I noted that Wande has not injected its share capital of TZS 3.44 billion to the Company. This renders its ownership of 94 percent shares in GPTL unjustifiable.

My further review of GPTL board minutes of 8 July 2015 noted that Tanzania Investment Bank (TIB) issued a loan to GPTL of USD 2.33 million (equivalent to TZS 5 billion) for establishment of the plant and financing of operations. The loan comprised of USD 1.63 million as long-term loan and 0.7 million as short term loan with annual interest rate of 17% using the existing NDC title deed as security.

Since Wande has not contributed anything in terms of share capital, the company owns nothing in the joint venture otherwise the loan should have been obtained and thereafter repaid by Wande Printing and Packaging Company Ltd itself.

I advise NDC to assess the amount it has injected in the form of land against Wande's contribution and establish a fair shareholding structure based on the contribution of each party.

5.5.2 Delay in Generation of 950MW from Coal and Renewable Energy

NDC entered into a Joint Venture Agreement with Sichuan Hongda (Group) Company Limited on 21 September 2011 to generate 600MW from Coal deposits at Mchuchuma and on 03 April 2008 NDC entered into an agreement with Pacific Corporation East Africa Ltd to generate 200MW from coal deposits at Ngaka. Another agreement was entered into on 07th February 2013 between NDC, TANESCO and Power Pool East Africa LTD to generate 150MW from wind power with an intention of generating 950MW of electricity to feed the National Grid.

It was intended that by year 2017, plans for power generation at Mchuchuma, construction of power Plant at Ngaka, commercial production of wind power in Singida will have been achieved. However, during my review I noted that none of the projected milestones were attained.

The review noted that for Mchuchuma and Liganga projects, all preparatory procedures had been completed and agreed that the Power Purchase Agreement (PPA) for these projects would adopt a Build Own and Operate-BOO arrangement. The delay is due to extra time requested by TCIMRL for the construction of a financial model regarding new electricity tariffs to be discussed with TANESCO.

Review on Ngaka Project noted that the Memorandum of Understanding has been signed with Sinohydro Corporation Limited of China for establishment of the project, a feasibility study conducted by Tancoal and Sinohydro, project is waiting for the Power Purchase Agreement to be discussed with TANESCO.

Further, with respect to Singida Wind Project, preparatory procedures were completed and NDC Board has already appointed an investor for implementation of the project. There were delays in issuing new government policies regarding power generation and a letter of no objection.

Delay in the implementation of the projects may further delay the projects payback period and reduce the expected government cash inflow. The government is advised to speed up the issuance of the policies for NDC to attract investors to ensure that the projects are successfully implemented.

5.5.3 Challenges on Implementation of Engaruka Basin Soda Ash Project

NDC initiated a Soda Ash project at Engaruka Basin in Monduli District in 2010. As per the prefeasibility study report of December 2010, the Corporation noted that Engaruka Basin has about 4.68 billion cubic meters of Soda Ash, with annual replenishment rate of 1.875 million m³/year. Also, as per the hydrological assessment conducted by NDC in February 2016, it was noted that for Engaruka Soda Ash project to be

successful it needs a supply of about 3.4 million litres of portable water per day.

My review noted that to date 15 investors were interested in the project but none of them was able to sign any contract with NDC due to inadequate water to cater for the demand of the proposed Soda Ash plant.

NDC is advised to prepare an attractive environment to investors including making sure that there is sufficient water source near Engaruka Soda Ash project and fast track the process of inviting the investors for the project to take off.

5.6 Biolarvicides Project

5.6.1 Outstanding Payment for 100,000 litres by Ministry of Finance and Planning TZS 320 Million

During his visit to Tanzania Biotech Products Limited on June 2017, the President of United Republic of Tanzania directed that 100,000 litres of biolarvicides which were required to be distributed to various Councils, be distributed with immediate effect. The President directed the Ministry of Finance to pay TZS 1.3 billion for that purpose.

My audit has noted that only TZS 1 billion has been paid by the Ministry of Finance and Planning despite the fact that the whole consignment of 100,000 litres of biolarvicides has been distributed to the Councils. As at the time of conclusion of this audit, an amount of TZS 320 million was still outstanding from the Ministry.

The payment default by the Ministry of Finance and Planning has perpetuated accumulation of outstanding balances from customers and hence affecting the operations of the factory as most of its cash is tied up in receivables.

Ministry of Finance and Planning should pay the remaining balance to enable the factory to run smoothly since a

significant sum of money has been invested in the production of the supplied biolarvicides.

5.6.2 Inadequate Controls on Customer's Information Management

I noted several anomalies with management of customer's information on sales and cash receipts at Korogwe Town Council and Korogwe District Council as follows:

Korogwe Town Council received a total of 340 litres of biolarvicides during the second phase and was supposed to pay for the consignment. It has been noted that Korogwe Town Council has remitted TZS 1.95 million to Tanzania Biotech Products Ltd (TBPL) account held at Azania Bank on 15 September 2017. TBPL management claims that nothing has been collected yet from any of the Councils that received biolarvicides during the second phase.

This raises concern regarding controls being exercised over cash management as it has also been noted that TZS 1 billion that was paid by the Ministry of Finance and Planning, was paid direct to NDC instead of TBPL.

It has also been observed that Korogwe District Council has been invoiced for 5,560 litres of biolarvicides instead of 2,400 litres that were actually delivered. As a result, the Council was charged TZS 73.39 million instead of TZS 31.68 million for the actual delivery.

The anomalies noted might affect debt collection from customers and hence cause inefficiency as cash is collected by both NDC and TBPL. Also, improper management over sales information may cause dispute with customers as well as making wrong decisions due to wrong information.

TBPL is advised to improve its controls over cash management and sales process in order to have proper records over its

cash receipts, payments and sales. Also, there should be harmonization as to who should collect the cash received from customers to avoid unnecessary contradictions and keep track of all the relevant sales transactions.

5.6.3 Contract with the Then Ministry of Health and Social Welfare Has Not Been Executed

On 11 March 2015, National Development Corporation (NDC) entered into a contract with the then Ministry of Health and Social Welfare to sell biolarvicides following commissioning of the plant ready for production.

My audit has noted that despite having this contract, there were no purchases done by the Ministry of Health, Community Development, Gender, Elderly and Children. Observing the effective date of the contract, the purchase was supposed to be in the Ministry's budget for the year 2015/16, 2016/17 and 2017/18 but there was no such budget. As a result, biolarvicides stocks were piling up at the factory's warehouse until when the President John Pombe Magufuli went to rescue the situation by directing all Councils to purchase the biolarvicides.

Non-execution of the contract by the Ministry of Health, Community Development, Gender, Elderly and Children has caused TBPL not to attain its planned goals. It is evident that the government efforts to eliminate Malaria may not be fruitful.

Ministry of Health is advised to honour the provision of the contract by acquiring the biolarvicides and spray in mosquito breeding sites which will help the country to attain a zero Malaria rate. In return, the Country will save millions which is being spent on buying medicines to cure Malaria.

5.6.4 Biolarvicides Delivered but not Used by Councils

A total of 236,420 litres of biolarvicides worth TZS 3.12 billion were distributed to all 26 regions of Tanzania Mainland between August 2017 and November 2017 where each Council was allocated with specific number of litres of biolarvicides.

Given the persistence of Malaria and the number of deaths it causes each year, it was expected the exercise of spraying biolarvicides to be given a priority and be fast tracked.

The audit had noted that most of the Councils have not used their consignments as at the time of the audit in January 2018. From a sample of 57 Councils that were visited, we found only 25,609 litres biolarvicides that have been sprayed out of 92,080 litres that were distributed, representing only 28 percent of the total biolarvicides distributed.

It was further noted that 19 Councils out of 57 have not sprayed all the 29,060 litres of biolarvicides worth TZS 383.59 million disbursed to them; the biolarvicides were just kept in stores without any sign of being used. A list of sampled Councils and their utilization out of the issued stock is included under. *Appendix VII*.

Threat of not using the biolarvicides distributed hinders Government efforts to make Tanzania a malaria free country. As a result, the Government will be spending millions of money each year in buying medicines instead of using the biolarvicides to eliminate the endemic disease.

President's Office - Regional Administration and Local Government is advised to make sure that deliberate efforts are made to direct all the Councils to use the biolarvicides so as to meet the National objectives of having a malaria free Country.

5.6.5 Failure to Deduct Payments for Biolarvicides by President's Office - Regional Administration and Local Government when Remitting Money to District Councils

During his visit to the factory, President John Pombe Magufuli directed President's Office - Regional Administration and Local Government (PO-RALG) to make sure payments are made for all biolarvicides distributed to the Councils. The President directed PO-RALG to deduct payments for biolarvicides before remitting budgetary allocations to the respective Councils for all subsequent purchases from TBPL.

A total of 136,420 litres worth TZS 1.80 billion were distributed to various Councils from August 2017 to November 2017 but there was no payments made by PO-RALG to TBPL in respect of the purchased biolarvicides.

Given the situation, the factory is facing financial difficulties which resulted into production stoppage in December 2017. As a result, the investment layout becomes useless despite the fact that the Government has spent billions of money to put up the plant.

PO-RALG is advised to ensure payments are made through deducting funds from the Councils' budgetary allocations. Also, it should ensure sufficient budget is allocated to Councils to enable them buy and pay for the biolarvicides directly.

5.6.6 Absence of Sustainability over Spraying Exercise

Basing on the review done; utilization of biolarvicides is a continuous process which must be done at certain intervals to ensure Malaria is permanently eliminated.

Except for Rufiji District Council, none of the Councils has continued procuring biolarvicides from Tanzania Biotech Products Ltd despite the directive that the exercise should be continuous and sustainable.

The situation hinders efforts to eliminate malaria in the country as mosquitoes will continue breeding if not sprayed continuously.

The Government through PO-RALG should emphasize on the need for all Councils to continue purchasing and consistently spraying biolarvicides in all the mosquitoes breeding sites to ensure that all mosquitoes are eliminated within their areas of jurisdiction.

5.7 Tanzania Electric Supply Company (TANESCO)

5.7.1 Transferring of Ubungo Complex to Songas without Valuation

My review of TANESCO operational efficiency noted that Ubungo complex area was transferred to Songas in 2004 when Songas Limited started its operations in Tanzania. According to the transfer agreement, the transfer included the rights of occupancy over the land and immovable Properties, ownership of movable properties (including spare parts and turbines) and Intellectual properties by assignment agreement and any right or interest from TANESCO that would enable Songas to own, operate and maintain the complex.

In consideration, TANESCO was granted 10,000 common shares in the equity of Songas and Songas assumed TANESCO's loans used to acquire the four turbines located at the Complex. According to the Finance Contract between the United Republic of Tanzania, European Investment Bank and Songas Limited, TANESCO and TPDC contributions towards the Equity of Songas Limited was Euro 5 million of which TPDC had 20,000 common shares. This makes TANESCO's stake in Equity of Songas Limited to be Euro 1.67 million.

However, there is no evidence indicating that the complex and the accompanied properties that were transferred to

Songas Limited had been valued before the transfer. Also, there was no clause in the Transfer Agreement and the Loan Assumption Agreement indicating the balance of the loan for the purchase of the turbines taken over by Songas Limited in exchange of the loan balance.

There is a possibility that TANESCO did not get value for money for the properties transferred to Songas, such that, the value attached to the shares allocated to TANESCO could be lower than the actual value of the properties at the time.

I advise TANESCO to reassess and review the signed transfer agreement by carrying out a defined cost-benefit analysis to determine whether the assets transferred reflect a fair value of the shares given in Songas Ltd.

5.7.2 Significant Financing of Songas Project by the Government

The Finance Contract that was signed between the Government of the United Republic of Tanzania, European Investment Bank and Songas Limited indicates that total cost of the Songas project was Euro 392 million (Equivalent to USD 346 million at the time). However, I noted that the Government made significant investments in the projects which no valuation was made.

As per Finance Contract, the Government of the United Republic of Tanzania was to borrow Euro 235.1 million and invest in the project and also to provide Euro 0.6 million from its own sources. In addition, the government acquired a loan of Euro 50 million to be granted to Songas on on-Lending basis. The investment made by the government to the project amounted to Euro 285.7 million which is 73 percent of the total project cost.

Despite such huge investment by the government, there is nowhere in the agreements that shows the stake of the Government in the project.

I advise the Government to review the equity arrangements for the Project and assess whether the agreements were made on a win-win situation by determining the appropriate share capital within the Company.

5.7.3 Inadequate monitoring of Loan Contracts for Power Production

- i. I noted that the Government of the United Republic of Tanzania had guaranteed a loan to Tanzania Finance Development Limited to finance its acquisition of shares in Songas Limited. I failed to establish the relationship that existed between the Government of the United Republic of Tanzania and Tanzania Finance Development Limited, its registration status and its ownership that prompted the Government to provide such a guarantee.
- ii. I noted that the Government of the United Republic of Tanzania had guaranteed a loan of Euro 50 million from European Investment Bank (EIB) that was provided to Songas Limited on an On-lending basis. The loan arrangement was for the Government to lend the money that was borrowed from EIB to Songas Limited and the Government fulfilling its repayment obligation while recovering the same from Songas Limited. The Government is paid by Songas Limited in Shillings while it pays to EIB in Euros. It is uncertain whether Songas fulfils its repayment obligation or not and if the government is not incurring loss due to currency differences on repayment.
- iii. I am also aware that Songas Limited assumed TANESCO's liabilities related to four gas turbines that were bought by TANESCO installed at Ubungo Complex in consideration with the turbines. The repayment of taken over loan is not certain as the Government has

full responsibility on repayment of the loan despite being taken over by Songas Ltd. Further, section 12 and 13 of the Government Loans, Guarantees and Grants Act 1974 as amended in 2003 requires the government to only guarantee public entities and not private companies.

Based on the situations above, I have not been able to evaluate the government exposure in respect of these loans and the matters of great significance that have affected or are about to affect the government's financial affairs.

I recommend for the Government to take appropriate initiatives to investigate the relationship between the two companies to establish the legality, payment status, benefits attached to each contract and country's exposure in respect of these loans.

5.7.4 Much dependence on IPP for Power Generation and Lack of Assets Retirement Plan

Review of the Plants Master Plan of TANESCO indicates that a total capacity of 9,707 Mega Watts is expected to be installed and connected to the National Grid from 2016/17 to 2040. Out of the total capacity expected to be generated, 3,924 MW is expected to come from Independent Power Producers (IPPs). Also, 14 power generation plants having 1,332 Mega Watts are expected to be retired in the same period. A total cost of USD 49.40 billion is expected to be spent to install new power plants of which USD 14.82 billion is expected to be financed by TANESCO's own sources and USD 34.58 billion will be financed by debt.

However, I have noted that there will be much dependence on IPPs and debts financing on power generation which will continue to weaken TANESCO's financial ability due to increased costs in the form of capacity and energy charges.

Also, I have noted absence of assets retirement plan that has been set for the plants that are expected to be retired by the year 2040.

The Government is advised to revisit and change TANESCO's Plant Master Plan to reduce dependence to IPPs and debt financing.

5.8 Tanzania Petroleum Development Corporation Limited (TPDC)

5.8.1 Non-Operational Petrol Stations and Expired Lease Agreements

TPDC owns six petrol stations at Segera, Tarime, Makuyuni, Singida, Geita and Musoma as investment properties.

My reviews of performance of these investments noted that stations at Segera, Tarime and Makuyuni are active and were leased to private operators. However, the lease agreements expired since December 2014. In addition, four stations at Geita, Musoma and Singida are dormant and non-operational.

My site visit noted that the stations at Tarime, Musoma and Geita are operated with garages without consent of TPDC and that in Singida is operated with a car wash bay. I also witnessed very old dispensing machines at Makuyuni while the tenant of Segera station had to install his own dispensing machines.

Lack of lease agreements can result in loss of revenue on the side of TPDC and in the event of disputes, TPDC stands in a losing position.

TPDC is advised to enter into new lease agreements with the tenants and to rehabilitate and operationalize the dormant ones to realise the intended economic benefits.

5.9 Self Microfinance (SELF MF)

5.9.1 Undesirable Loan Products

SELF MF operates five products namely Anza, Flex, Line of credit, Kilimo and Incubator. My audit scrutiny noted that, since inception of SELF I in 2000 these products have never been reengineered as a result three of the products Flex, Line of Credit and Incubator have never been sold in the market. Further, analysis of existed portfolio by products during the year 2017 noted that, ANZA product dominates TZS 12.23 billion which is 94 per cent while the TZS 0.78billion (6 per cent) is dominated by Kilimo product.

This implies that, SELF MF has been selling for 17 years four products which are basically not preferred by the market without reassessing and reviewing their suitability for the market. Additionally, SELF MF has not achieved its targets as planned. Management informed us that they have currently reengineered the products and developed new strategies to enter the market however, could not launch them due to lack of Board of Directors to approve the same.

SELF MF is advised to evaluate the market conditions over its loan products market them based on customer needs and preferences.

5.9.2 Under Performance of the Core Business

SELF MF is mandated to enhance financial access of the underserved rural and urban communities. The main objective is designed to be achieved through wholesale lending and promoting institutional capacity of intermediary financial institutions such as SACCOS and Microfinance Institutions.

My review of the existed current asset portfolio during the year 2017 noted that out of the total portfolio of TZS 59.89 billion, only TZS 11.34 billion (19 per cent) is directed towards serving the core business of the Fund which is lending while the remained TZS 48.56 billion (81 per cent) is

mainly directed towards investment in market securities which is not the core business of the Fund.

I also noted that, 77 per cent of the total revenue of TZS 5.73 billion was earned from investment in market securities (non-core Business) while lending business (core) earned TZS 1.75 billion which is 23%.

Further, my analysis of staff annual salaries based on this set up noted that aggregately it reaches TZS 2.98 billion, which exceeds the revenue generated by the core business (Interest on loans and other income) of TZS 1.75 billion by 18%. I noted the deficit is covered by proceeds from investment in market securities.

I am concerned with the significant underperformance of the Fund in its core business and the possibility of not achieving its strategic objectives to deepen outreach and delivery of financial services to the underserved communities.

The Fund should carry out a comprehensive and detailed business reengineering by critically analysing its business processes to achieve breakthrough results in its daily operations and enhance performance in the core business instead of depending on marketable securities to generate its income since this is not its core business. Additionally, the Fund should exert more efforts towards business development to ensure the Fund reaches wide areas, gain popularity and increase variety of products to attract more potential customers through market orientation.

5.9.3 Lack of adequate Outreach by SELF MF

SELF MF areas of operation covers all regions of the United Republic of Tanzania as it was agreed between African Development Bank (ADB) and the Government in 2009 after successful outreach in the earmarked pilot regions (SP 2014/15-17/18). To ensure country outreach SELF MF

launched four operational hubs which are Mbeya for Southern Highlands community, Mwanza for Lake Zone Community, Arusha for Northern Zone community and Dar es Salaam for Eastern Zone. All Hub offices except for Dar es salaam have three staff including a driver and by design they are established to serve not less than six regions.

However, I noted that SELF MF has never been able to reach in the following regions: Singida, Tabora, Rukwa, Katavi, Kigoma, Mara, Mtwara, Lindi, Simiyu, Unguja and Pemba.

I was informed that, the limited outreach in the above regions is mainly due to absence of viable MFIs in the geographical areas reinforced with low volume of economic activities, weak MFI management, high degree of financial illiteracy, poor infrastructure and low technology.

I am of the view that territorial size of hubs is huge compared to resources. Three staff in each hub to serve not less than six regions may not seem to be viable. I thus, advise management to exert more effort on outreach programmes and capacity building to areas that are currently under served by the Fund.

5.10 Tanzania Posts Corporation (TPC)

5.10.1 Weaknesses in the Implementation of TPC Strategic Plan

My review of TPC Strategic Plan of 2014-2018 and its implementation noted that; objectives included in the Plan such as increasing business growth and profitability, mobilization of financial resources and investment, establishment of subsidiary companies etc. have not been implemented despite the plan heading to its final year.

I also noted that TPC has too many business lines and its product portfolio is broader compared to resources (both financial and human resources) to implement them. As a result, resources are thinly spread. For instance, TPC plan to

implement four subsidiary companies named Posta Logistic, Posta Giro Financial Services, Posta Freight Forwarding, and Posta Digital.

I further noted that, there is lack of capabilities in terms of competency, systems, equipment and processes to implement the strategy. I also noted the Organizational Structure and Scheme of Service does not support and leverage the strategic plan.

As a result of the weaknesses noted above, the Corporation has continued to be a loss-making entity (2015/2016: TZS 3.490 Million, 2014/2015: TZS 540 Million) and also continued to incur costs for non-performing and non-value adding business lines.

I thus advise Management:

- (a) To review the business lines and product portfolio with a view to focusing on those with most potential and align them with appropriate capabilities to ensure that they give positive returns.
- (b) To review all direct and administrative cost line items with a view of minimizing operational costs for the Corporation.
- (c) To align the Organizational Structure with its Strategic Plan and obtain an approval of the proposed Scheme of Service from the Government for its implementation.
- (d) Take all the necessary measures to increase Staff capabilities in terms of competency and acquire new systems and equipment to implement the strategy.

5.11 Vocational Education and Training Authority (VETA)

5.11.1 Inadequate Monitoring and Evaluation of VET Institutions

I noted at VETA that Monitoring and Evaluation of training activities is conducted to ascertain whether VET Institutions

maintain the quality of training, adhere to the approved vocational training standards, contain sufficient infrastructure and appropriate tools and equipment, has adequate supply of training materials and relevant text books, has qualified vocational teachers with work place experience.

During the assessment of Monitoring and Evaluation of VET institutions, I noted the following anomalies:

- i. At Dodoma RVTSC I found that the ratio of teacher to students is higher than the standard 1 teacher to 16-20 students; in one extreme case I noted that 2 teachers teach 113 students.
- ii. All centres in Western zone did not submit annual progress reports during the financial year 2016/2017 and only one out of 11 centres with preliminary registration status was audited by quality assurance team.
- iii. Since 2012, 89 Vocational Training Centres in Lake zone have been under preliminary registration where within one year they were required to apply for accreditation candidacy. 25 of them applied for accreditation for more than two years (15 of them have submitted Centre's self-evaluation report without any action being taken to serve their application). Only 8 (9%) out of 89 registered Vocational Training Centres were inspected during the year under audit before being granted accreditation candidacy.

Lack of Monitoring and evaluation of VET Institutions may affect the quality of vocational education that is offered by VET Institutions.

I advise VETA to ensure that VET Institutions are properly monitored and evaluated for provision of better education to the society.

5.11.2 Challenges Noted in Managing Integrated Mining Technical Training (IMTT) Project

VETA, and Barick Gold Africa and Anglo Ashanti Gold through Tanzania Chamber of Minerals and energy (TCME) embarked on an integrated Mining technical training (IMTT) to promote skills for the mining industry and addressing social conflicts at the mining sites. According to the signed MoU the course started on 2 January 2009 and it was to be conducted in a period not exceeding 4 years. However, I noted the following anomalies:

- i. The project started before the signing of an MoU and the first Project Manager was at the Centre in January 2008 while the MOU was signed on 2 December 2009;
- ii. Para 8.0 (a) of the MoU requires the project manager to be based in Moshi and to be responsible in managing the project on a daily basis. It was noted that since October 2017 the manager was transferred to TCME offices in Dar es Salaam for more than 6 months without replacement.
- iii. The Representative Management Council (RMC) which is the highest decision-making body as per Para 8(b) of the MoU has not been formed and therefore never met since the commencement of the project contrary to Para 8 (b) of the MoU that requires the Council to meet at least twice a year for monitoring the effective implementation of the memorandum.

I advise VETA through Moshi RVTSC to establish a strategy that will enhance the sustainability of the project.

CHAPTER SIX

SPECIAL AND FORENSIC AUDITS

6.0 Introduction

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

During the year under review, the following special audits were conducted;

- (i) Tanzania Broadcasting Corporation (TBC);
- (ii) Cashewnuts Industry Development Trust Fund (CIDTF);
- (iii) Air Tanzania Company Limited;
- (iv) Joint Venture Operations Between National Development Corporation (NDC) And Intra Energy Tanzania Corporation (IETL); and
- (v) National Social Security Fund (NSSF)

6.1 Tanzania Broadcasting Corporation (TBC)

6.1.1 Non-existence of Tax Exempted Assets TZS 34.4 Billion

Part IV of the Performance Contract between TIC and Star Media (T) Ltd requires all fiscal incentives granted to Star Media to be utilized for the project purposes only. The imported assets once installed, are recorded in the Asset Register.

Review of the Asset Register of 2014 for a selected sample of network equipment noted that the items were imported and installed. However, our verification did not establish their physical existence which were recorded in the Register as having been installed.

Also, the network equipment have not been coded which also made it difficult to trace them.

It is uncertain whether the imported equipment were used for the intended purpose, thus, a possibility of misuses of the given tax exemption.

TBC should make follow ups of the assets which were given tax exemptions, otherwise Star Times should refund both, the money paid for the assets and the exempted tax.

6.1.2 Restricted Access to the Business Operation Support System (STARiBOSS)

During the audit, I noted that, daily collections in STARiBOSS are recorded in an ERP Accounting system. The ERP system server is not hosted in the premises of Star Media Tanzania; instead, it is a web-based system whose server is hosted in China.

On 16 February 2017 and 19 June 2017, I requested an access to the system for the purpose of reviewing and assessing the validity and correctness of the system which processes the information. However, on 23rd June 2017, we were not granted the access regarding the transactions data from both STARiBOSS and ERP systems as they claimed that they are confidential.

Restriction access to data in the system, limited my audit scope to gather facts on the validity and accuracy of revenue and expenses recorded in the ERP system.

Star Media should provide access to the system, otherwise this should be considered as a material breach of the contract.

6.1.3 Inability of Star Media to Meet its Short-Term Obligations

My analysis of current ratios noted that, Star Media has not been able to meet its short-term obligations for four consecutive years as analyzed in the table below:

Table 5: Calculation of the Current Ratios

Details	2014	2013	2012	2011
	Amount in \$	Amount in \$	Amount in \$	Amount in \$
Current Assets	18,790,734	22,551,835	9,704,037	8,755,818
Current Liabilities	73,671,668	62,761,231	35,328,057	13,998,107
Current Ratio	0.26:1	0.36: 1	0.27: 1	0.63: 1

Source: Financial statements for the period ended 2011, 2012, 2013 and 2014

The current ratios of the Company have been below the acceptable ratio of 2:1 implying that the Company cannot meet its maturing obligations as they fall due.

Star Media should invest adequate funds to enhance working capital to meet its day to day operational obligations.

6.1.4 Fraudulent Financial Statements Misrepresentation through Depreciation of Decoders

Clause 7.3.2 of Joint Venture Agreement (JVA) requires Star Media to distribute dividends when the net operating profit is minus.

It was noted that for over 7 consecutive years, Star Media has been operating under loss and this is mainly being contributed by charging depreciation expense on decoders which are rightly sold to customers contrary to the policies of other Companies of the same industry such as Azam Media and DSTV since once they are sold Star Media does not incur any cost to service or to replace them.

A total depreciation charge of USD 30,108,004 was charged against profit for a period of six years from 2010 to 2015. This

practice amounts to fraudulent Financial Statement misrepresentation which is aimed at defrauding the other shareholder, TBC, and therefore Star Times getting unfair benefit at the expense of TBC and is a means of shifting profit to offshore tax havens.

This has brought attention to the fact that Star Times as the majority shareholder, benefits from the business in other ways around than solely depending on dividend as its returns.

Depreciating decoders which are sold to customers is a means of shifting profits to offshore tax havens.

Star Times should refund all the amount, and Star Media books be adjusted accordingly.

6.1.5 Questionable Acquisition of Loans without Informing TBC USD 10.5 Million

I noted that Star Media obtained two loans amounting to USD 10.5 million under their name without the knowledge of TBC and these amounts were not disclosed in the Financial Statements for the year 2014.

On enquiry, the Chief Finance Officer (CFO) of the Star Media (T) Ltd asserted that, it was not a loan but rather a short-term financial assistance from Star Group and thus reported as Trade and other Payables.

However, my review of the Loan Agreement noted that, the loans were from Star Times International Holdings of China, a Sister Company of Star Times. The loans were provided to meet working capital requirements at an interest rate of 8.5 percent, and that properties of Star Media were used as security for the loan.

It is uncertain that the interest rate that was charged by the Sister Company for the loan was competitive comparing to

what is being charged by the market which may imply transfer pricing arrangements with Star Times affiliates.

Star Times should refund all the amount charged as interest since the loans were obtained from their sister Company.

6.1.6 Non -Contribution of Star Times Owners' Equity in the JVC

Clause 1.4 and 1.5 of the Memorandum of Understanding between TBC and Star Times describes the JVC's Share Capital as 1,000,000 USD to be raised from 10,000 issued shares at par value of 100 USD each. The JVC's equity proportion was 35 percent and 65 percent for TBC and Star Times respectively. The authorized Share Capital of USD 1,000,000 ought to be raised from TBC and Star Times for USD 350,000 and 650,000 respectively.

I noted that Star Times had not contributed funds to cater for its owner's equity in the Star Media.

Further enquiry from the Chief Finance Officer (CFO) of Star Media (T) Ltd indicated that Star Times had fully subscribed and paid for its shares where a total amount of USD 620,000 was paid vide account No.6004133 with Barclays Bank and account no 8706021257800 with Standard Chartered Bank Tanzania.

Further, review of Star Media Financial Statements for the year ended 31 December 2011, 2012 and 2013 noted that share capital for Star Times had not been called up and paid for.

There was no evidence of receipt of funds in respect of Star Times Share Capital in the Star Media Financial Statements.

Star Times should contribute the required capital, otherwise the shareholding arrangement within Star Media should be

reviewed to take into account the actual number of shares contributed by Star Times.

6.1.7 Transfer of 300 Star Times Shares a Subsidiary in Mauritius

I noted that Star Times transferred 300 shares in Star Media to one of its subsidiary, SDTV in Mauritius.

My review of the Due Diligence Report regarding the request for transfer of the remaining shares (6,200) to SDTV Holding Ltd by Star Times which was commissioned by TBC and funded by Star Times noted that SDTV Holding company was an offshore Company which is not allowed to invest in Mauritius or Dubai.

In addition, the transferred shares were sold at a total consideration of USD 300, implying that, each share was sold at a price of USD 1. Clause 1.4 of the MOU between TBC and Star Times described the JVC share value (par value) being USD.100 per share. Due to the fact that the shares were sold at a loss, no capital gain tax was levied. Only a stamp duty of Tshs 5,000 was paid on 21 September 2011.

The opening of an overseas shell company and the underpricing of the share indicates an intention to carry out a fraudulent manipulation of records so as to facilitate transfer pricing malpractices.

TBC should carry out an investigation of all the transactions carried out by Star Media through its affiliated offshore companies to ensure that all the transactions between the related companies are at arm's length.

6.1.8 Star Times Charges Star Media interest on Outstanding Balance for Goods and Services Through its 100 Percent Owned Subsidiary Company (SDTV)

During review of Star Media financial statements, it was noted that the JVC is charged 8.5 percent interest annually

on the outstanding balance arising from supply of goods and services from SDTV Holding Co. Limited.

This practice is likely to lead to transfer pricing since there is no any other creditor which charges interest on payables to Star Media except for SDTV which a holding company of Star Times Ltd. is

My substantive test on a sample of import documents for the year 2013 and 2014 noted that there were no goods which were supplied by STDV Holding Co. Ltd to Star Media. In addition, I requested detailed ledgers for receivables and payables for related parties for the year 2013 and 2014 through email dated 13 December 2016; the same did not indicate any amount due to SDTV Holding Co. Ltd. We were not able to substantiate the amount of interest paid to SDTV by Star Media due to non-availability of requested expenses supporting documents.

Charging of interest for unsupplied items indicate a fraudulent repatriation of profits through related party transactions.

As noted above, TBC should investigate all the transactions carried out by Star Media through its related offshore companies to ensure that all the transactions between them are at arm's length and that they are not aimed at profit shifting to related offshore companies.

6.1.9 Overstatement of Depreciation Charges Amounting to USD. 1.01 Million on Terminal Equipment

My review of the Asset Register for 2014 indicated that the fixed assets (Terminal equipment) which had their useful lives of 3 years expired as per the company accounting policy were still being charged with depreciation. We noted an instance where set up boxes bought in 2011 which had a total of four years but were still being depreciated of which USD

1.01 million was charged against the annual profit thereby understating the Company profit for the year.

This practice amounts to financial statements misrepresentation which is aimed at defrauding the other shareholder (TBC) and may lead to profit shifting to offshore affiliated companies.

6.2 Cashewnuts Industry Development Trust Fund (CIDTF)

6.2.1 Inefficiency in Collecting Contributions from Cashewnut Growers and Processors

Para 4(a)(i) and (ii) of MoU between cashewnut growers and processors and CIDTF requires TZS 10 per kilogram to be charged from cashewnut growers and processors by CIDTF. I noted that TZS 4.85 billion was charged by various Cooperative Societies between 2011/12 and 2016/17. However, the same was not remitted to CIDTF.

There is a possibility that the money collected on behalf of CIDTF was used by respective Cooperative Societies and hence affecting the operations of CIDTF.

CIDTF is advised to recover the TZS 4.85 billion from various Cooperative Societies collected on its behalf.

6.2.2 Overstayed Fixed Deposits without Getting Interest

Cashewnuts Industry Development Trust Fund (CIDTF) has been investing some of its funds in Fixed Deposits at CRDB Mtwara and Holland Branch. The respective deposits are supposed to be refunded together with the interest earned to the operation accounts of CIDTF after the expiry of the period described in deposit certificate.

However, I noted some of the Fixed Deposits which had stayed for more than the pre-determined period without receiving any interest. The Fixed Deposits overstayed for up to 60 days and hence interest of TZS 518.84 million was lost

by leaving the funds in Fixed Deposit Accounts without renewal of Contracts.

CIDTF should hold accountable all employees who had the duty to manage the Fixed Deposit accounts with CRDB. Also, it is advised that proper tracking of investments should be in place to ensure CIDTF Fixed Deposits are properly managed so that the funds earn returns.

6.2.3 Contract Entered with a Company Which Was Not Technically Evaluated

Section 31(2) of the Public Procurement Act, 2004 prohibits any person or entity from entering into a Contract with a contractor before approval of award by the Tender Board. Also, Section 53(1) of the Public Procurement Act of 2004 requires all suppliers to submit a tender guarantee as a security against satisfactory performance of the contract.

My audit noted that M/s Hammers Incorporation Ltd was eliminated at the preliminary stages in respect of a tender for the supply of 5,000 kilograms of Sulphur for not submitting Performance Security. Three Companies, namely M/s Export Trading Company, M/s Tanzania Fertilizer Company and M/s Mukpar (T) Ltd passed for technical and financial evaluation of which M/s Export Trading Company was evaluated as the lowest evaluated bidder but the Evaluation Committee decided to split the tender into two halves between the first ranked bidder and the second bidder M/s Tanzania Fertilizer.

The Board of Directors endorsed the Evaluation Report but decided to give the whole tender to M/s Export Trading Company for being the cheapest and experienced as well as financially capable.

However, M/s Export Trading Company failed to deliver as per the contract which caused M/s Hammers Incorporation

Ltd to be awarded the tender to supply half of the consignment at TZS 1.92 billion. The payment was made but there was no Performance Contract that was given to the Supplier.

Awarding a tender to a Company which was not technically evaluated, may lead to failure to deliver the intended deliverables.

The responsible Ministry should take to task the Board of Directors and other Officers involved in giving out this tender to a bidder who was not technically evaluated.

6.2.4 Non-submission of Performance Security TZS 7.63 billion

Section 53(1) of the Public Procurement Act of 2004 requires all suppliers to submit a tender guarantee as security against satisfactory performance of the contract.

During the audit, it was learnt that CIDTF had four contracts with M/s Hammers Incorporation Ltd and Mukpar (T) Limited totaling TZS 7.63 billion without having performance security. It was also noted that, M/s Hammers Incorporation Ltd did not deliver as per the Contract after altering weights of bags of Sulphur and delivered fewer bags than those contracted.

CIDTF is advised to ensure that procurement laws are adhered to during its procurement processes. Also, appropriate actions should be taken against the Company for the non-delivery of the agreed consignments.

6.2.5 Non-submission of 837 Tons of Sulphur TZS 803.52 million

CIDTF entered into a contract with M/s Hammers Incorporation Ltd for a supply of 3000 tons of Sulphur. However, during the execution, the supplier delivered Bags presumed to have 2307 tones leaving bags of 693 tones. I further noted that, the weights of some of Bags delivered were tempered with, leading to a less delivery by 144 tons.

The noted fraud above resulted into a loss of 837 tons worth TZS 803.52 million. I thus advise CIDTF and the Government to take appropriate action against officials involved in any way in facilitating this fraud. Also, through Government Law Enforcement organ, appropriate course of action should be taken against the supplier M/s Hammers Incorporation Ltd.

6.2.6 Expired Pesticides Worth TZS 594.03 Million

I noted the presence of expired pesticides at Mtwara Town, Naliendele and Tandahimba Warehouses. Also, the same were noted by Cashewnut Board officials at Kibaha Warehouse. The total expired consignment worth TZS 594.03 million. Tropical Pesticides Research Institute took a sample of some of the pesticides to see if they could still be used.

The Government is at a risk of losing TZS 594.03 million if the respective pesticides will be found not useful.

Cashewnut Board is advised to review its stock management procedures and identify gaps to avoid remaining with expired stock in the future.

6.2.7 Loans Granted to Cashewnut Processors Not Recovered TZS 881.16 Million

Total loans of TZS 881.16 million were issued to Southern Jumbo Cashewnut Limited and Demros Women Group.

As at the time of this audit in April 2017, only TZS 1.5 million had been repaid and TZS 881.16 million is still outstanding.

Non-application of due diligence on issuing loans caused the loan not to be refunded timely hence affecting CIDTF operations.

CIDTF is advised to take appropriate action against these processors to make sure the loans are recovered.

6.3 Air Tanzania Company Limited (ATCL)

ATCL entered into contracts with different service providers and suppliers, some of whom caused huge losses to the Company due to some irregularities as detailed below:

6.3.1 Wallis Trading Inc. and ATCL

ATCL entered into a contract with Wallis Trading Inc. for hiring of a plane type AIR BUS A-320-214 AIRCRAFT.

During my review, I noted that the contract was signed on 9th October 2007 but the plane was inspected between 14th January-22nd January 2008 contrary to clause 4.5 of the contract which requires that “before entering into contract agreement, lessor is required to give opportunity to a lessee to select two technicians for inspection to see if the respective plane fits the standards as stipulated in the first schedule of the contract.

The inspection conducted noted that, the plane had major technical problems and thus it had to undergo major maintenances for seven months for a monthly charge of USD 370,000 totaling USD 2.59 million for the whole period of maintenances. ATCL had to pay for the charges simply because it had already entered into the contract to hire the plane.

Further review noted that during the signing of the contract only the Director General of ATCL was involved on the side of ATCL without any other officer as witnesses.

6.3.2 Payments for leased City Garden Not Deposited into ATCL’s Bank Account

ATCL leased Paradise Holiday Resort a space to build a restaurant known as City Garden for 10 years from September 2006 to October 2016.

The tenant, Paradise Holiday Resort, was obligated to pay a fixed amount of rent and electricity for the whole period of 10 years without considering usage or market value of the area and ATCL would be the one to pay electricity bills to TANESCO. Total rents for the whole period was TZS 101.3 million and TZS 52.3 million for electricity bills.

During my audit however, I noted that no payment from the tenant was ever made to ATCL. I noted that Paradise Holiday Resort wrote cheques to ATCL for payment of contracted amounts which were acknowledged vide receipts number 3837 of TZS 101.3 million for rental charges and receipt No 3836 of TZS 52.3 million for electric bills in the whole period of 10 years. However, it was noted that the same were not deposited into any ATCL's Bank Accounts.

6.3.3 Payment of Revenue and Accounting Fees Even if the Plane is Grounded

ATCL entered into a contract with Cashiering-Emirates HQ-UAE for the service of revenue and accounting systems for USD 48,750 to be paid on a quarterly basis.

My review of the contract learnt that the payments were to be made whether the plane was in operations or grounded, further the contract indicates neither the starting nor ending date.

I further noted that, ATCL did not have sufficient documents to support the claims made by Cashiering - Emirates. My third part confirmation request made on 28th March 2017 to confirm the claims, did not obtain any responses from the Cashiering Emirates.

ATCL should look into the matter and take appropriate actions, including reviewing the contract to ensure that the terms within the contracts are fair to both parties to the contract.

6.3.4 Continuing receiving legal services without renewal of contract

ATCL entered into a contract with Octavian Company and Advocates, a Law Firm, for ATCL to be represented in legal matters. The firm was charging a monthly fixed amount of USD 1,500 as a legal fee and other payments were made once there were Court sessions. The contract which commenced on 1 June 2007 was for 2 years renewable after its expiry.

However, I could not be availed with evidences indicating renewal of the contract despite the fact that the firm continues to provide legal services to ATCL.

ATCL should request the Law Firm to refund the money which was paid to them without having a legal contract.

6.3.5 Overdue Amount of Claims TZS 14.76 Billion

My audit noted that, ATCL did not timely settle its obligations with Suppliers resulting in increase of interests and penalties as indicated in the table below:

Table 6: Overdue Amount of Claims

Entity	Currency	Actual Debt	Accrued Interest	Court Expenses	EXCHANGE RATES	Total (TZS) 'Million
AEROVISTA	USD	1.06	0.56	0.22	2,200.00	4,057.30
CO-ARCHITECTURE	TZS	154.53	150.02	12.91	1.00	317.46
TIB	TZS	2,478.00	739.19	0.00	1.00	3,217.19
KENYA KAZI	TZS	30.93	31.86	0.00	1.00	62.79
PSPF	TZS	39.20	15.70	0.00	1.00	54.89
PPF	TZS	1,202.29	1,929.72	0.00	1.00	3,132.02
COMAIR	USD	0.38	1.29	0.00	2,200.00	3,653.60
TANZANIA MICROFINANCE LTD	TZS	143.38	109.68	7.73	1.00	260.79
Total			2,978.01	20.86		14,756.04

ATCL is advised to ensure that all outstanding dues are timely settled to avoid unnecessary interests and penalties.

6.3.6 Inadequate Debts Management

During the audit, I noted that ATCL does not properly manage its creditors. We noted that some invoices from suppliers were received by ATCL, but my confirmation from suppliers indicated that some suppliers did not recognize their claims as evidenced in the table 7 below.

Table 7: Inadequate Debts Management

Na.	Name of Supplier	Currency	Debt as per ATCL records	Debts as per submitted invoices	Debts endorsed by Supplier
1	Mwanza Handling Coy Limited	USD	385,683	385,683	258,667
2	Tanzania microfinance Bank	TZS	234,981,629	260,788,609	260,788,609
3	Moku security	TZS	78,425,000	78,425,000	43,830,000
4	cemair	USD	300,750	1,457,284	1,457,284
5	Aerovista	USD	862,154	1,849,526	1,849,526
6	CO-Architecture (Architerial Services)	TZS	134,532,837	317,416,678	317,461,678

Inadequate record keeping and poor management of creditors may lead to double payments for the same claims.

I advise ATCL to ensure proper keeping of records and to investigate these variances to ensure that they are not fraudulently misstated.

6.4 Joint Venture Operations Between National Development Corporation (NDC) And Intra Energy Tanzania Corporation (IETL)

6.4.1 Unrealistic Exploration Expenditures in TANCOAL Financial Statements TZS 880.71 Million

Review of TANCOAL's financial statements for six years (i.e. 2011 to 2016) indicated that exploration expenditure amounting to TZS 6.58 billion was unrealistic.

Further analysis of the financial statements in line with the exploration report noted that exploration cost of TZS 6.58 billion which was booked in the financial statements was overstated by TZS 880.71 million. This is due to the fact that exploration activities ended in 2012 and thus the related expenditure was also expected to end during the same year. Inclusion of these unrealistic costs in the financial statements during the period reduced the profitability by the same amount leading the company to make a loss. Thus, the Government could neither receive dividend nor collect taxes from the company's profit.

It is recommended that, NDC should enhance supervision in the operation of the Joint venture to ensure that all financial reports are correct and realistic.

6.4.2 Ineligible Expenditure Incurred by TANCOAL Energy Ltd TZS 940.34 Million and USD 3.36 Million

Review of payment vouchers for three years (i.e. 2014, 2015 and 2016) noted that TANCOAL incurred expenditure amounting TZS 940.34 million which was not directly related to mining and other operational activities in accordance with the JV agreement.

More scrutiny of the same indicated that since 2011 to 2016 a total of USD 3.36 million was paid to meet expenses for mining operations for TANZACOAL in Malawi (Intra Energy Subsidiary Company), consultancy fees, shipping expenses, hiring of plant, marketing, direct cash transfers to Intra Energy Malawi as well as other company's payments whose activities do not relate to TANCOAL's operations

Ineligible expenditure incurred by TANCOAL Energy Ltd amounting to TZS 940.34 million and USD 3.36 million had caused TANCOAL failure to report profit which could not

allow the company to declare dividend and pay taxes payable to the Government.

It is recommended that, NDC management should ensure all ineligible payments made by TANCOAL Energy Ltd are refunded back and reverse the transactions in books of account to ensure fair reporting.

6.4.3 Donations and Corporate Social Responsibility (CSR) Contributions Overstatement by TZS 917.62 Million

Review of TANCOAL financial statements for five (5) years from 2012 to 2016 noted that TANCOAL Energy Ltd contributed a total of TZS 993 million being donations for community development activities in Ngaka and Songea as part of Corporate Social Responsibility (CSR)

Audit review verified that only TZS 75.4 million was actually contributed in relation to donations in respect of CSR by TANCOAL Energy Ltd. The amount was also supported by documentation provided by the Manager for Health Safety and Environment (HSE) whose role among others, is to execute CSR activities for the company.

However, upon inquiry from TANCOAL Management regarding the difference of TZS 917.6 million there were no supporting documents provided in respect of the amount disclosed in the Financial Statements. The excess amount over and above the actual spent amount confirms an intended financial statement misrepresentation.

TANCOAL Energy Ltd should refund the amount wrongly paid as Corporate Social Responsibility and adjust its books of accounts accordingly.

6.4.4 Improper Payment to Intra Energy Corporation (Australia) as Management Fees Amounting TZS 1.47 billion

Review of TANCOAL financial statements and General ledgers for five (5) years from June 2013 to March 2017 indicated that a total of TZS 7.26 billion was paid as management fees. Such expenditure was recognized as loan which raised the current liabilities of each respective accounting year in a manner that once TANCOAL is financially stable it will be responsible for the payment of the Management fees to the Joint Venture parties in the form of loan repayment.

The loan repayment for Operating Expenses (OPEX), capital expenditure (CAPEX) and management fees effectively started on 21 May 2013 to June 2017 for a total USD 1.81 million whereby a total of USD 1.72 million was paid to IEC out of which USD 0.67 million equivalent to TZS 1.47 billion was for Management Fees.

Review of the minutes of the 24th TANCOAL Energy Ltd Board Meeting held on 15 November 2012 noted that, TANCOAL Board decided that instead of having Management Service Agreement, Intra Energy Corporation (IEC) Australia should be reimbursed on actual basis all the costs incurred by its expatriates. The improper payment of Management Fees without Board of Director's approval may lead to increase in expenditure which denies the company to make profits and paying Government taxes.

It is recommended that, all transactions relating to management fees paid to IEC should be recovered by TANCOAL Energy Ltd.

6.5 National Social Security Fund (NSSF)

6.5.1 Apollo Clinic in Dar es Salaam

NSSF entered into an agreement and signed a contract on 23 September 2014 with Apollo Hospitals Enterprises Limited and

Apollo Hospitals Singapore PTE Ltd for construction of the entire infrastructure.

According to the contract AHEL was supposed to provide all the equipment and manage the hospital for 15 years at an agreed fee with agreed terms of 50 percent for NSSF and 50 percent for Apollo Hospital. To date the project has already spent TZS 4.19 billion.

My site visit in February 2018 noted that the project was abandoned by the contractor due to the geographical location which provides no easy accessibility and movement to and from the intended clinic due to the construction of DARTS infrastructure which does not allow other public and private cars to pass through its special lanes.

NSSF is advised to find another strategic partner to develop the facility since there is still a high demand for better health services in the country.

6.5.2 Construction of High Commission Chancery and Commercial Complex Building in Nairobi

The Ministry of Foreign Affairs owns a piece of land in which the building will be constructed and NSSF is required to provide funds for the proposed project. The project cost is estimated to be KSHS.1.05 billion (Equivalent to TZS.77.4 billion) and the payback period is estimated to be 7 years.

A sum of TZS. 854,275,672 have so far been spent on the project up to date. There are no activities being carried out in respect of this project. It is unlikely that any value will be realized out of the already paid amount of TZS 854 million.

6.5.3 Mkuranga Power Generation

It was noted that TANESCO, TPDC and some Pension Funds agreed that in order to address the shortage of power supply an immediate solution should be sought followed by a long

term solution. A total project cost was estimated to be USD 490 million. NSSF had purchased 100 acres of land at Mponga village in Mkuranga District for construction and fixing of a plant and machines and drilled 11 boreholes to cater for water to be used in cooling of heavy plant machines. A Total amount of TZS 3 billion has so far been spent on various activities.

I noted that the acquired land was not surveyed, and no demarcations of the land have been put.

I was not provided with a feasibility study to substantiate the economic viability of the project.

6.5.4 Proposed Residential Building/ Apartments on Plots No 249 Block 'D' Njiro Arusha

The Fund purchased several plots at a total consideration of TZS 440 million to construct 34 modern residential apartments which would be sold to the general public with a total estimated cost of TZS 14.7 billion. The sale agreement was signed on 4 November 2010 which stated 30 percent of the contract sum will pay after execution of the agreement and the balance will be paid after the transfer of the title deed to the Fund. The first payment of TZS 132m was made on 10 November 2010 while the final payment of TZS 308 million was made on 22 March 2011.

Site visit conducted in January 2018 rnoted that, the area was invaded by neighbors including constructing churches and other human activities. We have not been able to verify the documents confirming the transfer of the right of occupancy and the title deed.

It is unlikely that the NSSF will realize the amount already paid TZS 440 million.

6.5.5 Mwanza Housing Scheme at Kiseke and Bugarika

In 2008 the Fund intended to construct affordable houses at Kiseke and Bugarika and to sell them to members of the Fund and the general public.

NSSF entered into a sale agreement with Mwanza City Council for buying 357 plots at Bugarika and 299 plots at Kiseke of TZS 1.89 billion to be paid in three instalments. A total of TZS 1.51 billion was paid which is 80 percent of project cost. Our audit noted that, till now, the Fund has not obtained all the plots as per the sale agreement and no development has been carried out so far on that land. The land was acquired before conducting a feasibility study to assess the project viability.

An interview with Buhongwa village executive officers it was claimed that, some of the villagers were not compensated by Mwanza City council as agreed. Also, the Fund has not put any efforts to protect the allocated plots such that ongoing human activities are being carried out at the area.

NSSF may not be able to reclaim the plots which have been invaded by local residents.

6.5.6 Mwandiga International Transportation Terminal

The Fund had planned to develop an international transportation terminal on a piece of land of 28 hectares at a projected cost of TZS 33.3 billion. Out of these hectares 23 have already been acquired at Mwandiga area, Kigoma District at a total cost of TZS 1.85 billion.

There are no current activities being carried out in respect of project development. It is unlikely that NSSF will recoup the total amount of TZS 1.85 billion already paid for the project.

6.5.7 Acquisition of Land in Dar Es Salaam and Coast Regions

The Project involves aquisition of 5 Plots at Madale (76,633 Sq.m) (Dar Es Salaa), Mlunga (1,496.8 acres) (Kibaha),

Misugusugu (100 acres) (Kibaha), Mataya (187,103 Sq.m) (Bagamoyo) and Ngarambe (300 acres) - Mkuranga (Coast Region) for the purpose of creating a land bank for future use as analyzed below:

- i. Mlunga - Kibaha (Coast Region) - Development of dry Port
- ii. Madale - Kinondoni - Establishment of Satellite Town
- iii. Mataya - Bagamoyo - Establishment of Satellite Town
- iv. Misugusugu - Kibaha (Coast Region) Establishment of Satellite Town/Service Plots
- v. Ngarambe - Mkuranga (Coast Region) - Establishment of Residential Units

As at the date of this audit, the Fund had spent TZS 15.8 billion to acquire these pieces of land.

During our site visit we noted that, the Fund had already sold Madale plots. However, a piece of land at Ngarambe area in Mkuranga District does not have a clear demarcation and the area is not surveyed, while the remaining plots are located in remote areas with no economic prospects and difficult to reach.

All these pieces of land were acquired before conducting a feasibility study to assess the related project viability. There were no Management Investment Committee (MIC) and Board of Trustees approval for the project implementation. Most of the pieces of land purchased were not valued, hence, there is no evidence whether there was value for money obtained from these purchases costing TZS 15.8 billion

The Fund is advised to survey the acquired lands to obtain legal titles in a view of increasing the value of the land.

6.5.8 Mkulazi Holding Company

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 6 September 2016, to construct and implement a Sugar Factory with a capacity to blend out 200,000 tons of sugar cane per year at Mkulazi area, Morogoro Region.

Mkulazi Holding Company Ltd covers development of two farms, namely Mkulazi Farm No. 217 (Mkulazi I) located at Mkulazi Ward, Morogoro District covering a total of 63,227 hectares and Mbigiri Farm (Mkulazi II) located in Mvomero District, Morogoro and with 4,856 hectares, the project is in line with the Government philosophy of Industrialization.

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

The total project cost for Ngerengere (Mkulazi I) and Mbigiri (Mkulazi II) is USD 184.2. Mkulazi project is being implemented in a span of three years from 2016/17 to 2019/20.

A review of the feasibility study indicated that, the project has an average return on investment of 41.1% and 34.7%, internal rate of return of 34% and 30.5%, net present value of USD 320.7 million and 76.3 million and payback period of 4.59 years and 3.92 years for Mkulazi I and II respectively.

My further review indicated that, it is projected that total sales will be USD 18.8 million in Year 1 (2018/2019) increasing to USD 30.6 million by Year 5 and USD 35.2 million in Year 10 and USD 39.5 million by Year 15.

The project is expected to generate profit throughout the projection period, where a profit of USD 5.4 million is

anticipated in Year 1 to 4 of operation and expected to increase up to USD 16.8 million in Year 5 onwards.

According to Management, the proposed project has a number of social and economic benefits among others include, reducing the existing sugar shortage and increasing employment to Tanzanians, to increase tax base to the local and central Government as well as improving the social welfare of people living around the project area.

My review of the Project Implementation Report indicated that, among the challenges which the Company is facing which are likely to hinder smooth implementation of the project includes the following;

- i. Construction of siding railways to connect the central line to Mbigiri Factory;
- ii. Availability of seedcane to carter for the nucleus farms
- iii. Associated conflicts between farmers and pastoralists on the land uses;
- iv. The allocated land on development of the sugar factory and farm at Mbigiri-Mvomero District, Morogoro has no title deed;
- v. Irrigation, being the driving factor to farming activities is observed to lag behind as compared with the pace of land preparation.
- vi. The location of the project has limited infrastructures, especially bridges with capacities of 30 tons from estate and outgrowers' farms;
- vii. Availability of qualified personnel to operate the modern sugar factories; and

- viii. The located area receives heavy rainfalls which cause seasonal flooding which led into difficulties for the implementation of the project.

Mkulazi Holding Company Limited is advised to ensure that it addresses the challenges noted so as to ensure smooth running of the project.

CHAPTER SEVEN

REVIEW OF PERFORMANCE OF EXTRACTIVE INDUSTRY

7.0 Introduction

Extractive Industry refers to 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 unexpectedly the contribution of the sector to the economy has been unsatisfactory.

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, Mining Commission, TANSORT, State Mining Corporation (STAMICO), Tanzania Revenue Authority (TRA), Petroleum Upstream Regulatory Authority (PURA) and Tanzania Petroleum Development Corporation (TPDC).

7.1 General Observations

(i) Absence of Regulations to Amplify Natural Wealth and Resources

The Government has resolved to ensure that the natural wealth and resources of Tanzania are protected and equitably enjoyed by its citizen by undertaking protective measures which safeguard arrangements and agreements made in respect of exploration, extraction and management of natural resources.

In implementing its objective, the Government has enacted two acts namely; Natural Wealth and Resources (Permanent Sovereignty) Act, 2017 and Natural Wealth and Resources

Contracts (Review and Renegotiation of Unconscionable Terms) Act, 2017. The two acts resolved in declaring the permanent sovereign right of the URT over its natural resources. In order for the country to realize her rights the country through the National Assembly will review all arrangements and agreements on natural wealth and resources for the purpose of ensuring that any unconscionable terms therein are rectified or expunged.

However, my review has indicated that to date regulations to amplify the Acts have not been issued. I am of the opinion that, in the absence of regulations to amplify the two acts, the Government might fail to realize the full potential of the relevant provisions.

The Government through the Ministry of Minerals is advised to establish regulations which will govern applications of relevant provisions of the two Acts.

(ii) Limitation of Scope for the Controller and Auditor General in the Extractive Industry

Article 143 of the Constitution of the United Republic of Tanzania mandates the Controller and Auditor General (CAG) to audit and give audit report in respect of the accounts of Government, the Judiciary and the Parliament. Further, regulation section 5 and 15 of the Public Audit Act, 2008 has granted CAG unrestricted access to any information or persons considered necessary for proper performance of his functions.

However, this mandate is not supported by other laws governing the management of the Mining and Oil and Gas Sectors. For example, Section 26 of the Mining Act, 2010 as amended by Written Laws (Miscellaneous Amendments) Act, 2017 prohibits disclosure of mine Companies' information to

third parties except with the consent of the mine owner and unless required in connection with this Act.

In addition, Section 93 Petroleum Act, 2015 provide that Information furnished or report submitted under this Act by a license holder and permit holder shall not be disclosed to any person who is not PURA or an officer in the public service except with the consent of the license holder or permit holder. However, Article 18(k) of MPSA 2013 provide that Government and TPDC, through their duly authorized representatives and employees, shall have full and free access to the Contract Area and be entitled to monitor the Petroleum Operations conducted by the Contractor hereunder and at all reasonable times to inspect all assets, material, records, books and data kept by the Contractor relating to such operation.

Due to the absence of explicit mandate in these laws, my Office was forced to engage the Ministry of Minerals through the Mining Commission and through Tanzania Petroleum Development Corporation to facilitate getting access to the mining and Oil and gas companies records.

My office informed the Ministry of Minerals on 3 January 2018 on the intension of my office to review recoverable costs and revenue generation by these companies for the period of five years from the year 2012 to 2017. However, it was until the end of February 2018, when my Office received a letter from the Ministry explaining the consent by these Companies to visit their offices.

This has contributed to the failure by my office to audit the company records on allowable and recoverable costs incurred by these companies including the declared revenue.

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.

7.2 Review of the Mining Sector

7.2.1 Tanzania Mining Commission

The Mining Commission was established by the Tanzania Mining Act 2010. Following the dissolution of the then Tanzania Mineral Audit Agency (TMAA), all the activities which were being carried out by the Agency were vested into the Commission.

The following were the findings emanating from my review:

(i) Non-Verification of Mining Initial Capital Investment Cost

Among the functions of Ex-TMAA (now the Mining Commission) was to verify the forecasted capital investment specified under Section 41(4)(c) of Mining Act, 2010 as amended under written laws (Miscellaneous Amendment) Act, 2017 during the application of special mining license for any form of malpractice within twelve months after issuance of a license as well as examine and monitor implementation of Feasibility Reports.

My review noted that there was no evidence that TMAA (now Mining Commission) was verifying the forecasted capital investment after the issuance of special mining licenses to mining companies.

In the absence of a proper monitoring mechanism of the initial and subsequent investments, the Government may not be able to accurately determine its share of revenue (royalty and taxes) from these mining Companies due to the possibility of cost escalation and invoice mispricing including

profit shifting and transfer pricing arrangements with affiliated companies.

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.

(ii) Sale of Assets by Mining Companies on Which Capital Allowances Have Been Provided

Article 22(a) of the Model Production Sharing Agreement (MPSA) 2013 provide that, “All fixed assets, owned by Contractor in connection with the Petroleum Operations carried out by Contractor shall become the property of TPDC at the option of TPDC after the expiring of the Agreement or when it is terminated or at the time when full costs of the acquisition of the asset in question have been recovered by Contractor out of Cost Oil and/or Cost Gas, whichever occurs first”

Further Article 22(f) of the Model Production Sharing Agreement (MPSA) 2013 state that, “Where the cost of a physical asset has been recovered for more than 50% in accordance with the terms of the Agreement, TPDC may elect to have the title to the asset transferred from the Contractor to the TPDC upon payment by the TPDC of the unrecovered portion of the cost of the asset”.

Contrary to the requirements of the Model Production Sharing Agreement (MPSA) 2013, my review of the Mining Development Agreements (MDAs) noted that, the Agreements do not provide for transfer of mining assets to the Government once acquisition cost of the assets have fully been recovered.

For example, according to the Tanzania Daily News of 3rd March 2018, a public notice by Harvest Tanzania Ltd in collaboration with Slattery Auctions of Australia and Liquidity Service of South Africa was issued for the company to conduct a Public Auction to liquidate Acacia Mining Assets, Inventory and Plant at Buzwagi Gold Mine as part of the mine closure plans which is scheduled to be finalised in 2020. Further, I noted that in November 2013, STAMICO acquired Tulawaka Gold Mine and exploration licenses from African Barrick Gold plc at a consideration of US\$4.5 million.

It is evident that the capital allowances given to these Companies, including full recoverable cost which have been charged against their revenue, amounts to revenue foregone by the Government which implies that the Mining Companies had already recovered their original cost involved in the purchasing of those assets. These mine assets therefore, should have become the properties of the Government upon full recovery of the capital expenditures by these Companies.

In addition, I could not get any evidence that the capital allowances given including tax exemptions on raw materials issued to all mining companies, tax holidays and VAT refunds, match with the benefits in the form of taxes and royalty accruing to the Government from the operation of these Mining Companies.

The Government is advised:

- a) To make use of Section 4 of Natural Wealth and Resources Contracts (Review and Renegotiation of Unconscionable Terms) Act, 2017 to amend all MDAs to provide that upon winding up of mines operations or when a capital expenditure having been fully recovered the respective assets should become the property of the Government; and

- b) To form a special task committee to investigate and reconcile all transactions relating to capital allowances, tax exemption and VAT refunds to determine whether all the Government revenues forgone match with the benefits in the form of taxes and royalty accruing to the Government from the operations of these Mining Companies.

7.2.2 Tanzania Sorting Company (TANSORT)

Tanzania Sorting Company (TANSORT) was established to conduct valuation and pricing of diamonds for the purpose of determining royalty and taxes payable.

(i) Absence of Gemstone Sorting and Valuation approved Guidelines

Under the Mining Act, 2010 as amended by Written Laws (Miscellaneous Amendment) Act, 2017 Section 22(r) &(s) the Mining Commission is tasked to sort and assess the value of minerals produced and produce indicative prices of minerals with reference to prevailing local and international markets for the purpose of assessment and valuation of minerals for the purpose of assessing royalty and taxes payable to the Government. In additional Section 100(b) of the same Act requires presence of Mine Resident Officer, an Officer from TRA and other relevant Institutions of State Organs during mining, sorting and valuation of raw minerals.

Given the fact that the then TANSORT now Mining Commission, the Commission has established internal procedures and guidelines which govern gemstones sorting and valuation activities including; use of standard diamond sieves in gemstone sorting, utilization of standard rough & rough to polish diamond valuation methods, and employment of prevailing prices and report in determining gemstones value. There is no evidence that these procedures were approved by the Ministry of Minerals.

Absence of approved guidelines to govern sorting and valuation activities may bring about inconsistencies and human interventions during gemstones pricing and valuation which may be prone to errors and personal judgement.

The Government through the Ministry of Minerals is advised to establish and approve guidelines which will govern gemstone sorting and valuation operation.

(ii) Non-charging of Sorting Fees

According to Section 90 of the Mining Act, 2010 as amended by Tanzania Extractive Industries (Transparency and Accountability) Act, 2015 there shall be sorting and valuation fees payable to the government by the mineral right holder upon sale of gemstones produced or acquired by such mineral right holder at the rate prescribed by the Minister through a notice published in the Gazette.

My review of the Mining Commission operations noted that the referred above fee is not operational as the minister has not yet published prescribed payable rates as required by the Act.

The Government through the Ministry of Mineral is advised to establish and publish sorting and evaluation fee payable rates for its implementation.

7.2.3 Inefficient Operations at Kyerwa Tin Company

Kyerwa Tin Company Limited (KTCL) previously known as STAMITRADE Company Limited was incorporated on 6 February 2014 as an independent legal entity, wholly owned subsidiary of STAMICO.

My review of Company operations noted the following challenges:

Tin sorting and purity determination during purchases is done manually, which is subject to human error and incorrect valuation of tin ore bought. For instance, in October 2016, while selling tin ore to African Top Minerals, KTCL determined to have purchased 26.739 tons of cleaned tin ore but after resorting and valuation during sales only 18.0652 tons were identified as clean tin ore leaving impurities of almost 8.3138 tons. The selling price was TZS 18,000 per kilogram. This led the Entity to incur a loss of around TZS 150 million.

The entity is unable to directly export its Tin Ore in the active world market as Tanzania is not registered with the International Tin Research Institute (ITRI) which establishes traceability in the supply chain and assists in increasing transparency and best practice in the extraction and trade of minerals from the Great Lakes Region in Africa.

Tin sale made during the year ended 30 June 2017 was based on concentrate ore per kilogram rather than percentage of actual Tin metal in a ton (Quality) which is the Company's pricing mechanism and Tin marketing best practices. Further, the entity selling price used is not adjusted to reflect increase in value per kg resulting from the tin ore being cleaned through removal of impurities and it does not reflect world market prices (London Metal Exchange Market). For instance, in October 2016 the selling price was TZS 18,000 per Kg for tin ore while the purchase price was TZS. 19,000 per kg.

Tin purchases from local brokers and small scale miners are being made on cash basis. The entity makes cash withdraws on average of TZS 40 Million a month to facilitate the transactions. Further, purchased Tin Ore from Local brokers and small scale miners are not supported by Mineral Sales Voucher (Government approved receipt used in monitoring

mineral trading) from the seller. In addition, there is lack of segregation of duties over the Tin payment process as one person is assigned with all duties from weighting of the supplied tin up to payment of the supplier with no evidence of being reviewed.

STAMICO is advised to;

- a) Investigate and take appropriate actions against the officials involved in the loss of TZS.150 million;
- b) Acquire modern technology and equipment for the tin ore sorting and valuation;
- c) Attain membership on International Tin Research Institute to enhance Tin market; and
- d) strengthen controls over tin ore purchases and sales operations.

7.2.4 Tanzania Revenue Authority (TRA)

(i) Lack of Mining Costs Comparability Database

Section 33 of the Income Tax Act, 2004 requires in any arrangement between persons who are associates to quantify, apportion and allocate amounts to be included or deducted in calculating income between the persons as is necessary to reflect the total income or tax payable that would have arisen for them if the arrangement had been conducted at arm's length.

My audit has noted that TRA does not have a software which can enable it to make costs comparability analysis in assessing whether transactions made with related parties are at arm's length and that they don't involve transfer pricing malpractices.

Lack of mining costs software limits TRA from ascertaining whether related parties' inter-transactions were not inflated to transfer or/and reduce corporate profit.

TRA is advised to allocate a budget for the procurement of a software which can analyse and compare cost to ascertain whether Mining Companies transactions are at arm's length and that they don't involve transfer pricing malpractices including trade mispricing by fraudulently manipulating the price, quantity or quality of goods or services on purchase invoices.

(ii) Absence of Guidelines on the Implementation of the Mining Commission's Audit Issues By TRA

Among the functions of mining commission as provided under Section 22 of Mining Act 2010 as amended by the Written Laws (Miscellaneous Amendments) Act, 2017 is the audit of capital investment and operating expenditure of large and medium scale mines for the purpose of gathering taxable information and providing the same to the Tanzania Revenue Authority (TRA) and other relevant authorities for further action.

Before the establishment of the Mining Commission the then TMAA had issued four reports for Geita Gold Mining Limited (2014 and 2015), Bulyanhulu Gold Mines Limited (2013 and 2014) and North Mara Gold Mine Limited (2013), however, my review noted that these have not been included in TRA follow up matrix.

Lack of adequate follow up of the reports issued by the Mining Commission may weaken the Government's efforts to collect enough revenue from the mining sector.

TRA is advised to closely work with the Mining Commission by establishing clear guidelines on how the two entities may work together.

(iii) Absence of Income Tax Act Provisions to Govern Additional Profit Tax

My review of Model Production Agreement (MPSA) 2008 and 2013 under article 15 and 17 respectively indicates that additional profit tax shall be calculated for each Calendar Year and will vary with the rate of return earned by Contractor for oil and gas Companies on the net cash flow from the Development Area in question. Further, the MPSAs detail that such tax due if any, shall be paid in cash at such time and in such manner as the Commissioner of Income Tax may reasonably require.

An additional profit tax is a tax levied by Governments against certain industry when the economic conditions allow those industries to experience above average profits. To achieve a fair distribution of profit and return to the Government, additional profit tax needs to be charged and paid by International Oil Companies (IOCs).

As noted in my previous year audit report, some companies provide for this tax in their financial statements however they lack guidance on how to pay this tax since TRA does not have any legal mandate to collect this kind of tax.

Further review of the Income Tax Act, 2004 (amended under Finance Act 2016 and 2017) noted that, the Act does not have any provision regarding collection of additional profit tax from both Mining and Oil and Gas Companies.

The Government should consider amending the Income Tax Act to include this provision in order to enable TRA collect this tax.

(iv) Low Coverage of Transfer Pricing Audit in Extractive Industry Sector

Section 33 of the Income Tax Act, 2004 requires that in any arrangement between persons who are associates should

apportion and allocate amounts to be included or deducted in calculating income between the persons as is necessary to reflect the total income or tax payable that would have arisen for them if the arrangement had been conducted at arm's length.

The Government has enacted Transfer Pricing Regulations, 2014 to regulate transfer pricing arrangements and TRA has established International Taxation Unit (ITU) mandated to conduct audits and provide technical advice to TRA Auditors and Management on all matters relating to transfer pricing arrangement.

My review of the work performed by the unit noted that, since it was established in the year 2014 until July 2017, the Unit has only completed 28 audit cases out of which only 3 cases (PETROBRAS, SONGAS LTD and TANZANITE ONE MINING) relating to Extractive Industry.

More coverage of transfer pricing arrangements in the Extractive Industry would lead to increased government revenue and curb profit shifting through transfer pricing arrangements with affiliated companies in the sector.

TRA is advised to increase audit coverage of transfer pricing in the Extractive Industry sector to ensure that transaction made between affiliated companies are at arm's length and do not involve transfer pricing malpractices.

7.3 Review of Natural Oil and Gas Sector

7.3.1 Delays in Explorations of Block 4/1B & 4/1C

The then Minister for Minerals and Energy Reserved Blocks 4/1B and 4/1C for TPDC through Government Notice No.184 of 20 May 2016.

TPDC submitted a proposed work programme and minimum expenditure relating to the 4 years blocks initial exploration

divided into sub stages of 2 years with minimum expenditure of USD 50 million for each block and stage. With allowance of four and three years extension period for each sub stage with minimum expenditure of USD 200 million for each block and stage.

My review of the progress of the given blocks noted that, there is no exploration license given to TPDC concerning the exploration operation to be carried out in these blocks and no funds have been released by the Ministry for implementation of the project.

Delaying in exploration activities in the given blocks inhibits the Government from realizing some potential discoveries. Also, the absence of exploration license deters the involvement of interested partners to join with TPDC to develop the blocks.

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 blocks exploration activities.

7.3.2 Redundant Seven Deep Sea and One Lake Tanganyika North Blocks

In October 2013, during the 4th Tanzania Offshore Licensing Round, the Government invited bids submission using the 2013 Model Production Sharing Agreement (2013 MPSA) for exploration and extraction of oil from Seven Deep-Water blocks and One block in Lake Tanganyika. Two oil companies,

M/s China National Offshore Oil Corporation (CNOOC) and M/s Ras Al Khaimah Gas LLC (RAKGAS) were invited for contract negotiations.

Pre-contract negotiations concluded in August 2015 and resulted in RAKGAS being awarded an exploration contract in Lake Tanganyika North, however, RAKGAS Company withdrew from signing the contract while negotiations for block 4/3A with CNOOC of China failed to be concluded. Review of the International Oil Companies indicated that, the investors were not comfortable with the terms of the 2013 MPSA used in the 4th Licensing Round. It was further noted that, the Government incurred a loss of TZS 443,253,186.50 for unsuccessful tendering process.

Further, I noted that no re-advertisement for these bids have been made ever since, despite the huge prospects available in those areas.

TPDC is advised to consult the Government to review the terms and conditions in the 2013 Model Production Sharing Agreement.

7.3.3 Objected Capital Gain Tax by British Group Plc amounting TZS 1.14 trillion

Section 51(5) of the Tax Administration Act, 2015 asserts that a person who is aggrieved by a tax decision made by the Commissioner General, may object the decision by filling an objection to the Commissioner General, within thirty days from the date of service of the tax decision. Likewise, section 51(6) of the same Act requires not admitting any objection unless the tax payer has paid the amount of tax which is not in dispute or one third of the assessed tax whichever amount is greater.

On 27 January 2016 the Royal Dutch shell Plc. acquired British Group Plc Shares. As a result of the transaction, Tanzania

Revenue Authority after it had reviewed the acquisition on 03 May 2016, came up with a Capital Gain Tax Assessment of USD 524,848,587 equivalent to TZS 1.14 trillion.

British Group Plc lodged an objection on 31 May 2016 being aggrieved by TRA tax assessment and lodged an appeal with the Tax Revenue Appeals Board.

The Tax Revenue Appeals Board concluded that TRA should admit and determine the objection made according to law whereas on 14th June 2017 TRA confirmed the same tax assessment however, the decision was again aggrieved by British Group Plc.

TRA has not collected on third of the assessed amount or the amount which is not in dispute in line with the requirement of the income Tax Act.

TRA is advised to collect one third tax revenue amounting TZS 381 Billion of tax assessed while making follow ups on the Tax Revenue Appeal Board resolution.

7.3.4 Review of TPDC Operations

(i) Underutilization of Natural Gas Processing Plants

My review of TPDC gas processing plants at Madimba and Songosongo noted that the plants have a combined capacity to process gas of 350mmscfd however currently the plants are processing a combined volume of only 85 mmscfd about 24 percent of the planned processing. The plant's production capacity is underutilized by 76 percent. This leads to reduction of the TPDC profitability since the plants fixed operation costs such as depreciation, maintenance and other operational costs which accrue regardless of the plant's operation capacity.

TPDC is advised to look for more potential customers to buy the gas so as to achieve the planned processing levels and benefit from the advantage of economies of scale, in order to be able to generate more profit.

(ii) Holding Participation Interest Below 25 Percent Threshold

Section 44(5) of the Petroleum Act, 2015 requires the National Oil Company i.e. TPDC, to maintain a participating interest of not less than 25 percent of petroleum rights granted unless the National Oil Company decides otherwise.

My review of various existing development licenses noted that TPDC holds only 20% shares under Mnazi Bay gas fields and no shares are being owned under Songosongo gas fields and Kiliwani North gas fields this is contrary to the requirement of Section 44(5) of the Petroleum Act, 2015.

The Government is advised to make use of Section 4 (1) of the Natural Wealth and Resources Contracts (Review and Renegotiation of Unconscionable Terms) Act, 2017 to acquire and maintain a minimum participating interest in all the above development licenses as per the requirement of the Petroleum Act 2015.

(iii) Royalty Paid Out of the Government's Profit Share

Section 113 of the Petroleum Act, 2015 requires a license holder and contractor to pay royalty to the government at a rate of 12.5% and 7.5% for onshore and offshore respectively of total crude oil / natural gas production prior to cost oil and/or cost gas recovery.

However, Article XII of Songosongo PSA Para 12.2(c) stipulates that royalty from Mnazi bay gas field shall be computed from Government's profit share and TPDC shall pay royalties and development license fees from its share of profit gas from a

given contract area. This is contrary to Section 113 of the Petroleum Act.

Through the mandate granted under Section 4 of the Natural Wealth and Resources Contracts (Review and Renegotiation 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.

(iv) Lack of Price Review for the Protected Gas

According to Section 3.1(c) of the agreement between the Government of Tanzania, TPDC, Songas Limited and PAET the price of protected gas shall be subject to change from time to time in accordance with the regulations and directives of regulatory authority.

My review of TPDC invoices noted that protected gas from Songosongo gas field by Songas is sold at US\$ 0.69 per mmBTU while that from Mnazi Bay gas field by M&P is sold US\$ 3.00 per mmBTU. Further, no price review of the gas has so far been made as stipulated by the agreement.

The Government is advised to ensure gas price reviews are being done from time to time as required by the Production Sharing Agreement (PSA).

(v) Financial Distress Facing TPDC Due to Non-Settlement of TANESCO Long Outstanding Bills TZS 248 Billion

TPDC and TANESCO entered into a Gas Sales Agreement (GSA) in September 2015 whereby the TANESCO buys natural gas from TPDC for power generation at Kinyerezi, Ubungo II and Symbion Power Plants.

I have noted that between September 2015 and December 2017 monthly invoices totaling to TZS 567,514,961,312.95

(USD 254, 448,796.08), were issued by TPDC to TANESCO with respects to the natural gas supplied to TANESCO for power generation.

My audit noted that by December 2017, TANESCO had managed to settle TZS 318,904,743,618.61 (USD 142,982,887.87) equivalent to 56% of the total amount of invoices leaving TZS 248,610,217,694.34 (USD 111,465,908.21) unsettled.

TPDC may not be able to service the loan obtained to facilitate construction of Mtwara-Dar Gas Pipeline from EXIM Bank of China and their respective interests, if TANESCO does not settle this liability.

Failure to repay the loan shall subject the Corporation to a compounded interest of 0.8% charged on the unpaid loan balance which will increase financial cost to TPDC and the Government.

Further, failure to pay the loan shall amount to transfer of TPDC rights under the Gas Sales Agreement (GSA) to EXIM Bank of China as per Clause 2 of the Security Assignment Contractual Rights which forms of the Agreement signed between TPDC and EXIM Bank of China.

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.

7.3.5 Review on Acquisition of 40% Stake in PAET by Swala Oil & Gas

(i) Acquisition of 40% Stake in Pan African Energy Tanzania Ltd by Swala Oil & Gas (Tanzania)

PanAfrican Energy Tanzania LTD (PAET) is among the Companies involved in the development of gas field in the country. The Company is wholly owned by PanAfrican Energy Corporation (PAE) which in turn is wholly owned by Orca Exploration Group Inc (Orca).

Orca Exploration Group has arranged for an investment agreement transaction to sale 40% of its shares of PAET to Swala Oil & Gas (Tanzania) at a total consideration of up to US\$ 130 million. The government through the Ministry of Energy via letter dated 5 January 2018 with ref. No: CBC105/294/01/50, directed TPDC to instruct PAET and Swala Oil & Gas to suspend the ongoing transaction, pending Government's review.

Based on my previous year audit findings, PAET Songosongo PSA had the following anomalies;

- **Decrease in Government Share of Profit While Production Increases**

Section 10.4 of Article X of Songosongo PSA has structured additional Gas profit apportionment in a reverse order with the Government share of revenue declining as production increases.

- **Unestablished Field Restoration Fund**

With 16 years having elapsed since Songosongo PSA was entered and 9 years remaining before it comes to an end on 10th October 2025 TPDC and PAET are yet to set aside funds for abandonment and field restoration.

- **Provisional Corporate Taxes Being Deducted Directly From Gas Sales Proceeds**

Provisional corporate tax paid by PAET as per Para 12.2(a) of Songosongo PSA is recovered from sales invoices of gas from

TPDC. It implies that PAET does not pay Tax at all since all the tax paid is recoverable against sales.

- **Royalty being Calculated and Paid from the Government Share of Profit**

According to Article XII Para 12.2(c) of Songosongo PSA provides that TPDC should pay royalties and development license fees from its share of profit gas from given contract area. Royalty charged from TPDC share of profit relieve PAET from such payment, indicating that PAET does not pay royalty.

- **Market and Market Research Costs being allowable for Recovery**

Para 2.6 and 3 of Article II and III under Annex D (Accounting Procedure) of the Songosongo PSA lists costs which qualify to be recoverable without further approval by TPDC. Among the allowed costs is a Market and Market Research expense. The expenses are downstream activities being recovered from sales contrary to the model PSAs which provides that only upstream costs shall be recoverable from gas sales revenue.

- **Unresolved Dispute over Recoverable Cost of USD 34 million as of 30 November 2012.**

TPDC and PAET have an unresolved dispute over recoverable cost of USD 34 million from 30 November 2012, which TPDC rejected the amount to be charged as recoverable cost against the revenue earned during that particular year.

Subject to the existing anomalies facing PAET's PSA, the Government is advised to withstand its decision to suspend the share sales to Swala Oil and Gas (T) Ltd until these matters are resolved including review and negotiating some of the clauses which do not reflect fair dealings between PAET and the Government in line with Section 4 of the

Natural Wealth and Resources Contracts (Review and Renegotiation of Unconscionable Terms) Act, 2017.

CONCLUSION

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

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

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

Further, it is my expectation that my Office will be empowered with the mandate to access all information relating to the Extractive Industry Sector, through amending the principal Acts i.e the Petroleum and Mining Acts.

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

APPENDICES

Appendix I: Analysis of Audit Opinions

SN	Public Authorities	Opinion
1	Ardhi University (ARU)	Unqualified
2	Arusha International Conference Centre (AICC)	Unqualified
3	Arusha Urban Water Authority	Unqualified
4	Babati Urban Water Supply and Sanitation Authority (BAWASA)	Unqualified
5	Bukoba Urban Water Supply and Sanitation Authority	Unqualified
6	Cancer Institute (Ocean Road)	Unqualified
7	Capital Markets and Securities Authority (CMSA)	Unqualified
8	Centre for Agricultural Mechanization and Rural Technology	Unqualified
9	Centre for Foreign Relations	Unqualified
10	College of African Wildlife Management, Mweka	Unqualified
11	Contractors Registration Board	Unqualified
12	Dar es Salaam Maritime Institute (DMI)	Unqualified
13	Dar es Salaam University College of Education (DUCE)	Unqualified
14	Dar es Salaam Water and Sewerage Authority	Unqualified
15	Dar es Salaam Water and Sewerage Corporation (DAWASCO)	Unqualified
16	Dodoma Urban Water Supply and Sanitation Authority	Unqualified
17	Energy and Water Utilities Regulatory Authority (EWURA)	Unqualified
18	Energy and Water Utilities Regulatory Authority CCC	Unqualified
19	Export Processing Zones Authority	Unqualified
20	Fair Competition Commission	Unqualified
21	Fair Competition Tribunal	Unqualified
22	Gaming Board of Tanzania	Unqualified
23	Government Employees Provident Fund	Unqualified
24	Institute of Accountancy Arusha (IAA)	Unqualified
25	Institute of Rural Development Planning	Unqualified
26	Institute of Social Work	Unqualified
27	Iringa Urban Water Authority	Unqualified
28	Jakaya Kiwete Cardiac Institute	Unqualified
29	Kahama Shinyanga Water Supply and Sanitation Authority	Unqualified
30	Kahama Urban Water Supply and Sanitation Authority	Unqualified
31	LAPF Pensions Fund	Unqualified

SN	Public Authorities	Opinion
32	Makambako Urban Water Supply and Sanitation Authority	Unqualified
33	Masasi- Nachingwea Water Supply and Sanitation Authority	Unqualified
34	Mbeya University of Science and Technology	Unqualified
35	Mbeya Urban Water Supply and Sanitation Authority	Unqualified
36	Mkwawa University College of Education	Unqualified
37	Morogoro Urban Water Supply and Sanitation Authority	Unqualified
38	Moshi Co-operative University	Unqualified
39	Moshi Urban Water Supply and Sanitation Authority	Unqualified
40	Mtwara Urban Water Supply and Sanitation Authority	Unqualified
41	Muhimbili National Hospital (NMH)	Unqualified
42	Muhimbili University of Health and Allied Sciences	Unqualified
43	Mwalimu Nyerere Memorial Academy (MNMA)	Unqualified
44	Mwanza Urban Water Supply and Sanitation Authority	Unqualified
45	Mzumbe University	Unqualified
46	National Council for Technical Education (NACTE)	Unqualified
47	National Economic Empowerment Council- 2017	Unqualified
48	National Examinations Council of Tanzania (NECTA)	Unqualified
49	National Housing Corporations	Unqualified
50	National Institute of Transport	Unqualified
51	NHC and PPF Investment Company	Unqualified
52	Njombe Urban Water Supply and Sanitation Authority	Unqualified
53	Open University of Tanzania (OUT)	Unqualified
54	PPF Pensions Fund	Unqualified
55	Procurement and Supplies Professionals and Technician Board	Unqualified
56	Public Procurement Regulatory Authority (PPRA)	Unqualified
57	Public Sector Pension Fund (PSPF)	Unqualified
58	Same Urban Water Supply and Sanitation Authority	Unqualified
59	Shinyanga Urban Water Supply and Sanitation Authority	Unqualified
60	Singida Urban Water Authority	Unqualified
61	Sokoine University of Agriculture (SUA)	Unqualified
62	Songea Urban Water Supply and Sanitation Authority	Unqualified
63	Sugar Board of Tanzania (SBT)	Unqualified
64	Sumbawanga Urban Water Supply and Sanitation Authority	Unqualified

SN	Public Authorities	Opinion
65	Surface and Marine Transport Regulatory Authority	Unqualified
66	Tabora Urban Water (TUWASA)	Unqualified
67	Tanga Urban Water Supply and Sanitation Authority	Unqualified
68	Tanzania Agriculture Development Bank	Unqualified
69	Tanzania Atomic Energy Commission	Unqualified
70	Tanzania Broadcasting Corporation	Unqualified
71	Tanzania Bureau of Standards	Unqualified
72	Tanzania Civil Aviation Authority (TCAA)	Unqualified
73	Tanzania Commission for Universities	Unqualified
74	Tanzania Communication Regulatory Authority	Unqualified
75	Tanzania Communication Regulatory Authority CCC	Unqualified
76	Tanzania Cotton Board	Unqualified
77	Tanzania Education Authority	Unqualified
78	Tanzania Fertilizers Regulatory Authority	Qualified
79	Tanzania Food and Drugs Authority	Unqualified
80	Tanzania Institute of Education	Unqualified
81	Tanzania Investment Bank - Corporate	Unqualified
82	Tanzania Investment Bank - Rasilimali	Unqualified
83	Tanzania National Parks (TANAPA)	Unqualified
84	Tanzania Postal Bank	Unqualified
85	Tanzania Tourist Board	Unqualified
86	Tanzania Wildlife Research Institute (TAWIRI)	Unqualified
87	Tanzania Women's Bank	Unqualified
88	Tax Revenue Appeals Board	Unqualified
89	Tax Revenue Appeals Tribunal	Unqualified
90	TIB Development Bank Ltd	Unqualified
91	University of Dodoma (UDOM)	Qualified
92	UTT Project and Infrastructures Development (PID)	Unqualified
93	Watumishi Housing Corporation	Unqualified
94	Workers Compensation Fund	Unqualified
95	Chalinze Urban Water Supply	Qualified
96	Kibaha Education Centre	Unqualified
97	Universal Communications Service Access Fund	Unqualified

SN	Public Authorities	Opinion
98	Institute of Finance Management	Unqualified
99	Self - Microfinance	Unqualified
100	University of Dar es Salaam	Unqualified
101	Tanzania Industrial Research and Development Organisation	Unqualified
102	Tanzania Tropical Research Institute	Unqualified
103	Tanzania Trade Development Authority	Unqualified
104	Higher Education Students Loans Board (HESLB)	Unqualified
105	Tanzania Ports Authority (TPA)	Qualified

Appendix II: Loans Disbursed Beyond Contract Amount TZS 6.18 Billion

LOAN	Contract Amount TZS	Actual disbursement TZS	Difference TZS
15% TPDF 2 LOAN TO FINANCE PROCUREMENT OF ULTIMATE BUILDING MACHINES AND MATERIALS (UBM)	23,120,000,000	26,221,927,476	3,101,927,476
15% POLICE LOAN (POLICE HOUSES)	20,000,000,000	20,216,942,986	216,942,986
15 % LOAN - PCCB HEADQUARTERS ON PLOT NOS. 339,340 & 341 UPANGA, DAR ES SALAAM	4,160,698,188	5,044,802,325	884,104,137
ILALA BUSINESS PARK	13,409,792,000	15,390,653,189	1,980,861,189
TOTAL	60,690,490,188	66,874,325,976	6,183,835,788

Appendix III: Overdue Government Debts

S/N	Lender institution	Nature of loan	Borrower/responsible	Past due 'TZS Billion'
1	PPF Pensions Fund	Various	Several Institutions Government	264
2	PSPF Pensions Fund	Various	Several Institutions Government	127.8
3	LAPF Pensions Fund	Various	Several Institutions Government	165.8
4	LAPF Pensions Fund	Back purchases	Treasury	75.34
5	GEPF Pensions Fund	Various	Several Institutions Government	10.51
6	Songea Urban Water Supply and Sanitation Authority	Water Bills	Several Institutions Government	0.79
	Total Debt			644.24

Appendix IV: Absence of Board of Directors and Trustees

Sn	Public Entities
1	Musoma Urban Water supply and Sanitation Authority (MUWASA)
2	Tanzania Library Services Board (TSLB)
3	Kariakoo Market Corporation (KMC)
4	National ranching Corporation (NARCO)
5	Medical Stores Department (MSD)
6	Reli Assets Holding Company (RAHCO)
7	National Board of Accountants and Auditors (NBAA)
8	Social security Regulatory Authority (SSRA)
9	Tea Board of Tanzania (TBT)
10	Copyright Society of Tanzania (COSOTA)
11	National Arts Council (NAC)
12	Baraza la Kiswahili Tanzania (BAKITA)
13	Tanzania Tobacco Board (TTB)
14	Tanzania Small Holders Tea Development Agency (TSHTDA)
15	National Institute of Productivity (NIP)
16	Arusha Technical College (ATC)
17	National Institute for Medical Research (NIMR)
18	Co-Operative Audit and Supervision Corporation (COASCO)
19	Deposit Insurance Board (DIB)
20	Tanzania Fisheries Research Institute (TAFIRI)

Appendix V: Long Outstanding Debts

S/n	Entity	Amount TZS (Billion)
1	Mwanza Urban Water Supply and Sanitation Authority	5.99
2	EWURA	3.53
3	NHC	18.00
4	N.I.C	6.70
5	T.C. U	1.87
6	UTT Project and Infrastructure Development Plc.	1.09
7	Mbeya Urban Water Sanitation Authority	0.20
8	Moshi Urban Water Supply and sanitation Authority	1.48
9	STAMICO	0.67
10	National Institute of Transport	0.71
11	EPZA	0.30
12	Mwalimu Nyerere Memorial Academy	0.91
	Total	41.45

Appendix VI: Deductions Not Submitted Within the Statutory Deadlines

S/n	Entity	Amount in TZS Billions					
		W/Tax	Sdl	Paye	Pension	W/Comp	Total
1	Songea Urban Water Supply and Sanitation Authority (SOUWASA)	-	-	0.1	0.12		0.1
2	University of Dar es salaam	-	-	0.05	-		0.05
3	Moshi Urban Water Supply and Sanitation Authority	-	1.51	-	-		1.51
4	Songea Urban Water Supply and Sanitation Authority (SOUWASA)	-	-	-	0.12		0.12
5	Jakaya Kikwete Cardiac Institute	-	-		0.53		0.53
6	Tanzania Investment Centre	0.01		0.13	0.06		0.2
7	Tanzania Petroleum Development Corporation (TPDC)		1.24	5.36		0.41	7.01
8	Dar-es-Salaam Water Sewerage Corporation (DAWASCO)		0.69			0.04	0.73
	TPC				2.7		31.7
9	Open University Tanzania	0.05	-	-	-		0.05
	Total	0.047	1.51	0.154	0.655		42

Appendix VII: Status of Biolarvicides Spraying in Various Councils

COUNCIL	RECEIVED (LTRS)	UTILIZED (LTRS)	AVAILABLE (LTRS)
Arusha CC	620	180	440
Arusha DC	440	140	300
Bahi DC	4,420	0	4,420
Bukoba DC	1,740	1,740	0
Bukoba Mc	840	540	300
Bunda DC	680	0	680
Bunda TC	660	0	660
Butihama Dc	960	0	960
Chato Dc	1,320	1,320	0
Dodoma MC	20,480	1,280	19,200
Gairo	460	380	80
Geita DC	2,100	2,100	0
Hai	200	0	200
Handeni DC	320	0	320
Handeni TC	320	0	320
Ikungi DC	1,680	0	1,680
Ilemela MC	440	100	340
Kibiti District Council	560	560	0
Kigamboni	4,000	2,800	1,200
Kilwa District Council	1,260	220	1,040
Kishapu	960	635	325
Korogwe DC	2,400	0	2,400
Korogwe TC	340	0	340
Lindi District Council	1,800	80	1,720
Lindi Municipal Coouncil	1,080	260	820
Longido	240	42	198
Manyoni DC	1,140	0	1,140
Masasi District Council	1,060	0	1,060
Masasi Town Council	580	300	280
Meru	280	200	80
Misugwi DC	1,300	260	1,040
Mkuranga District Council	860	800	60
Monduli DC	480	120	360
Morogoro Mc	960	440	520

COUNCIL	RECEIVED (LTRS)	UTILIZED (LTRS)	AVAILABLE (LTRS)
Moshi DC	1,140	0	1,140
Moshi Municipal	1,760	1,090	670
Mtwara DC	780	340	440
Mtwara Mikindani Municipal Council	720	60	660
Muheza DC	740	0	740
Muleba	2,580	740	1,840
Musoma Dc	680	680	0
Mvomero DC	1,020	500	520
Mwanga	1,220	0	1,220
Mwaza CC	440	0	440
Nanyumbu Dictrict Council	680	480	200
Newala Town Council	540	440	100
Newala District Council	800	580	220
Rufiji District Council	680	680	0
Same	400	380	20
Shinyanga DC	1,240	380	860
Shinyanga MC	820	820	0
Siha	200	0	200
Singida DC	1,260	0	1,260
Singida MC	1,080	20	1,060
Tandahimba District Council	1,440	1,000	440
Tanga CC	9,880	0	9,880
Temeke	5,000	2,922	2,078
Grand Total	92,080	25,609	66,471