PRINCIPAL SECRETARY  
MINISTRY OF FINANCE AND PLANNING  
ZANZIBAR

RE: AUDIT REPORT OF THE CONTROLLER AND AUDITOR GENERAL  
ON THE FINANCIAL STATEMENTS OF ZANZIBAR URBAN SERVICES PROJECT (ZUSP) FOR THE PERIOD ENDED 30TH JUNE 2019

Please refer the above subject.


I hereby on submit for your necessary action.

Thanks.

SHAABAN J. SHAABAN  
/CONTROLLER AND AUDITOR GENERAL  
ZANZIBAR
REVOLUTIONARY GOVERNMENT OF ZANZIBAR
OFFICE OF THE CONTROLLER AND AUDITOR GENERAL - ZANZIBAR

AUDIT REPORT OF THE CONTROLLER AND AUDITOR GENERAL – ZANZIBAR

ON THE FINANCIAL STATEMENTS OF ZANZIBAR URBAN SERVICES PROJECT (ZUSP)

FOR THE PERIOD ENDED 30TH JUNE 2019

Office of Controller and Auditor General
P.O. Box 258, Zanzibar
Tel: +255 24 2234009
Fax: +255 24 2234009
E-mail: info@ocagz.go.tz
Website: www.ocagz.go.tz
We have audited the financial statement of Zanzibar Urban Services Project (ZUSP) for the year ended 30th June 2019 and related statement of sources and application of funds for the year ended on the date. The audit was conducted in accordance with International Standard on Auditing (ISA) and included such other procedures that we considered necessary in the circumstances.

Responsibilities of the Management

The preparation and maintenance of financial statements is the responsibility of the Management of the Project. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statement that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.
Responsibilities of the Controller and Auditor General

Our responsibility is to express an independent opinion based on the audit. Specifically, we are required to satisfy our self whether the funds contributed to the Project were exclusively and judiciously to meet eligible expenditures with due regard to economy and efficiency, whether the accounts have been kept in accordance with International Accounting Standards, whether the internal control system applied is effective, and whether the procurement of goods and consultancy services were done in accordance with the agreement between the Revolutionary Government of Zanzibar and Development Partner.

Basis of opinion

The audit was conducted in accordance with International Standards on Auditing (ISA) and included such other procedures that we considered necessary in the circumstances. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the significant estimates and judgments made in the preparation of the financial statements, assessing whether the internal control system and the accounting policies are appropriate to the circumstances of the Project consistently applied and adequately disclosed. It also involves evaluating the overall financial statements preparation, and assessing the extent of compliance with the relevant statutory requirements. I believe the audit provides a reasonable basis for my opinion.

Unqualified Opinion

In my opinion, the financial statements present in all material respects, the true and fair view of the financial position of Zanzibar Urban Services Project (ZUSP) Additional Financing for the period ended 30th June 2019 and the results of the operations for the year ended in accordance with the Development Loan Agreement.

SHAABAN J.SHAABAN
/CONTROLLER AND AUDITOR GENERAL
ZANZIBAR
MANAGEMENT AUDIT REPORT FOR ZANZIBAR URBANSERVICES PROJECT (ZUSP) FOR THE PERIOD ENDED 30TH JUNE 2019

We have completed the audit of the books of accounts and financial statements of Zanzibar Urban Services Projects (ZUSP) for the period ended 30th June 2019. Our findings and recommendations are contained in part 3 of this report for attention and necessary actions by the management.

1.0 THE PROJECT BACK GROUND

Introduction:
Zanzibar Urban Services Project (ZUSP) is the first World Bank supported urban sector project in Zanzibar with the main objective of improving access to the urban services in Zanzibar and conserving the physical cultural heritage at one public location within the Stone Town.

1.1 Project Beneficiaries

The main beneficiaries of the Zanzibar Urban Services Project (ZUSP) are Zanzibar Municipal Council (ZMC) and three Town Councils of Pemba (Wete, ChakeChake and Mkoani Town Councils); Project Management Team which is under the Ministry of Finance and Planning; Stone Town Conservation and Development Authority (STCDA) and the Department of Urban and Rural Planning (DoURP) which are under the Ministry of Land, Water, Energy and Environment.

1.2 Project Components

The project has three (3) main components:-

Component 1: Institutional Strengthening and Infrastructure Development in the Zanzibar Municipal Council (ZMC) Area (US$31.2 million). This component will focus on ZMC on Unguja Island and will comprise of six subcomponents:

(i) Institutional Strengthening of Zanzibar Municipal Council (US$4.3 million).
(ii) Preparation of a Diagrammatic Indicative Structure Plan for ZMC and its immediate periphery (US$2.2 million).

(iii) Construction of storm water drainage channels in the areas outside of the Stone Town (US$10.8 million).

(iv) Design and Installation of street lighting in ZMC (US$2.6 million).

(v) Solid Waste Collection and Transportation within ZMC (US$2.8 million).

(vi) Construction of the Mizingani Sea Wall and Associated Promenade within the Stone Town (US$8.5 million).

Component 2: Support to Town Councils (TCs) on Pemba Island (US$3.8 million). This component will assist the three Town Councils of Chake Chake, Mkoani and Wete on Pemba Island with:-

(i) Institutional Strengthening of Pemba Town Councils (US$1.4 million).

(ii) Small-scale investment projects (US$2.4 million).

Civil works will not exceed US$ 1.1 million in Chake Chake TC, US$ 0.5 million in Mkoani TC and US$ 0.8 million in Wete TC.

Component 3: Project Management (US$3.0 million). This component will provide support to the Project Management Team (PMT) located within the Ministry of Finance and Planning for project management, supervision of environmental and social safeguards, project monitoring and reporting. It will also facilitate other implementing ministries and departments responsible for specific sub components to implement and coordinate their respective components.

1.3 Project Management Team (PMT).

The project management has been established and supported by the Ministry of Finance and Planning for the management of project, monitoring and reporting systems. It also assists the other participating ministries [Stakeholders] to implement
and coordinate their activities. The preparation and maintenance of the books of accounts is the responsibility of the management of the project.

During the year under review the Project Management Team [PMT] consist of seven officials from RGoZ, which includes; Project coordinator, Finance Officer, Procurement and Administrative Officer, Environment and Social Safeguard Officer, Project Cashier, Office Management Secretary and a Driver.

1.4 Project Objectives

The objective of this project is to develop selected urban infrastructure within the Zanzibar municipal council, enhance the physical environment and cultural heritage of one public location within Stone Town and strengthen institutional capacity for urban management in Zanzibar [Unguja and Pemba].

1.5 Project Finance.

The project was estimated to cost around US$ 38.00 million from International Development Association [IDA], and was agreed to be used over the five years project period from July, 2011 to June, 2016. On August, 2016 the Project got an Additional Finance that is estimated to cost around US$ 55 million from International Development Association [IDA], and was agreed to be used over the period of three years project period from August 2016 to June, 2019. Financial Statements for ZUSP Additional Financing is reported separately from the Original Project.

The Project has three components and the cost for each component is as shown below:-

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount in million</th>
<th>US$</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Strengthening and infrastructure Development</td>
<td>31.2</td>
<td></td>
<td>82%</td>
</tr>
<tr>
<td>Support to Town Councils</td>
<td>3.8</td>
<td></td>
<td>10%</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Providing support for Project management Team</th>
<th>3.0</th>
<th>8%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>38.00</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

2.0 BACKGROUND INFORMATION OF THE AUDIT.

The Controller and Auditor General is the statutory auditor who is appointed to exercise this duty according to the Zanzibar Constitution Sec. 112-113, Public Finance Act of 2005 under Sec. 25 and Establishment of the Office of Controller and Auditor General Act No. 11 of 2003.

2.1 AUDIT OBJECTIVES.

The main objective of the audit exercise is to express the professional opinion on the financial Statements of (ZUSP) project for the period ended 30th June 2019 and in particular:

- To verify whether all expenditure made on the basis of the statement of expenditures [SOEs] are in accordance with accounting records.
- To determine whether the Financial Statements have been prepared on the basis of International Public Sector Accounting Standards, and whether the accounting policy adopted has been applied consistently.
- To verify whether the goods and services bought during the year in question were procured according to the laid down procurement procedures.
- To ascertain whether all necessary supporting documents and accounts have been kept for all project activities and transactions.
- To confirm the correctness of the special account transactions by verifying reconciliation of receipts and payments by the Bank, fund balances and that special account statement reflect transactions authorised to be made from the account.
2.2 SCOPE OF AUDITING.

Our audit was carried out in accordance with International Standards on Auditing and International Standards of Supreme Audit Institutions. This covered the evaluation of the effectiveness of accounting system and internal control over various activities of the project. We also covered examination and verification of financial statements, assets as well as receipts and payments items for the period ended 30\textsuperscript{th} June 2019. We also carried out such other auditing procedures as we consider necessary for the purpose of forming an opinion on the financial statements.

The audit was conducted on a sample basis and the findings are confined to the extent that the records, documents and information requested for the purpose of the audit were made available to us.

As auditors we are not required to search specifically for fraud and therefore our audit cannot be relied upon to disclose all such matters. However our audit was planned so that we would have a reasonable expectation of detecting material misstatements in the financial statements resulting from irregularities or fraud. The responsibility for prevention and detection of irregularities or fraud rests with the management who are responsible for maintenance of an adequate system of Internal Controls.

2.3 AUDIT METHODOLOGY.

The audit of the project was conducted on sample basis and includes the following audit steps:-

- A review of internal control structure to assess significant policies, procedure and regulations and determine whether they are being followed.
- A review of the terms and conditions of the performance agreement applicable standards and regulations, guidelines and documents as deemed necessary under the circumstances.
Examination of receipts and disbursement transactions from the project funds if complied with Loan Agreement, financial Regulations and other instructions or directives issued by respective authorities.

Review project financial statements, progress report, supervision report and any other information associated with implementation of the project.

Review of the system of awarding consultancy contracts and their execution.

Interview and discussion with some of the project staff and other key players in the implementation of the project.

Conducting Site visit on project operation areas to evaluate the progress and the status of implementation.

Hold the entrance and exit meetings with auditee to discuss the audit objectives and results of audit.

3.0 AUDIT FINDINGS AND RECOMMENDATIONS.

3.1 Follow up of previous Audit Recommendations.

In our previous year’s management audit report for the year ended 30th June, 2018 we had highlighted some areas of weaknesses and shortcomings. We had given four recommendations for improvements. During the current audit we observed that out of four recommendations given, one recommendations had been partially implemented and three was fully implemented as summarized below:-

Table 2: Previous Audit Recommendations

<table>
<thead>
<tr>
<th>NO</th>
<th>ISSUE</th>
<th>RECOMMENDATION</th>
<th>STATUS OF IMPLEMENTATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Payments made without deducting Withholding Tax</td>
<td>The Project should ensure that all payments made to suppliers and service providers are deducted with a withholding tax as per the Income Tax in order to enhance tax compliance and improve</td>
<td>Partially Implemented</td>
</tr>
</tbody>
</table>
2 Lack of coding of Movable Assets

Lack of coding of Movable Assets

We urge the Project management to ensure that projects’ movable assets are coded with identification mark for easy control and monitoring.

3 Unsupported expenditure

Unsupported expenditure

The management of the Project should ensure that all payment vouchers are attached with relevant supporting documents for audit purposes.

4 Anomalies Noted in ZMC Head Office

Anomalies Noted in ZMC Head Office

The Beneficiary management should ensure that the Projects’ Assets are fully maintained in order to archive the projects’ goals.

3.2 CURRENT YEAR AUDIT FINDINGS

During the course of this audit we discovered some flaws on which we would like to bring to your attention. It is better to peruse our observations and recommendations, and finally we request your course of action you intend to pursue relating to these matters.

3.2.1 Financial Performance during the year

The Project has two sources of funds, Revolutionary Government of Zanzibar (RGOZ) and International Development Association (IDA). During the year under review, the project was no outstanding balance from World Bank (IDA) against the budgeted amount of US$ 1,500 which is equivalent to 0% as depicted by the table below.
Table 3: Sources of Fund during the Year

<table>
<thead>
<tr>
<th>SOURCES OF FUNDS</th>
<th>Budget US$</th>
<th>Actual US$</th>
<th>Variance US$</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan from IDA</td>
<td>1,500</td>
<td>1,500</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>1,500</td>
<td>1,500</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

3.2.2 Expenditure Performance

During the year 2018/2019 the project spent a total of US$ 1,473,665.46 with the Opening balance of US$ 1,477,680.47 to finance its planned activities from the IDA funds. Table below show the details;

Table 4: Financial Performance

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>Funds Available</th>
<th>Funds Spent</th>
<th>Closing Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Balance</td>
<td>1,477,680.47</td>
<td>1,473,665.46</td>
<td>4,015.01</td>
</tr>
<tr>
<td>Total</td>
<td>1,477,680.47</td>
<td>1,473,665.46</td>
<td>4,015.01</td>
</tr>
</tbody>
</table>

3.2.3 Value for Money are not observed USD 104,461.

During the year under review, audit observed that ZUSP project was paid to SOFTEL TRADING through Pv.2-3/11, as 70% of USD 149,230, for payment of Completion of Development of RCIS at Zanzibar Urban Municipal Council. Our physical verification we observed that, the system supposed to provide different Modules such as License, Parking, Market, service Charge, Human Resources, and so on. But the System only used License Module and that module the revenue are not properly entered in a systematical ways.
Implication

The Money paid compared with the work done is too much as it does not depict value for money.

Recommendation

The Project management should ensure that the System purchased are well utilized and used accordingly for the purpose of Maintain Public Money.

Management response

There were delay in usage of full package due to various processes, the only module which is not used is HR module that will be completed in March 2020.

Audit Comment

We noted the response though during our audit the system are not well utilized, we recommend the Project Management to make sure the money are well utilized.

3.2.5 Payments made without deducting Withholding Tax

According to Sections 81 and 83 of Tanzania Income Tax Act of 2004 as revised under Finance Act of 2016, every taxable income should be deducted a withholding tax (in order to enhance tax compliance which is a stable base of a government income). Payees (supplier/service provider) should then be furnished with a certificate stating the amount of the payment and the amount of tax deducted.

During our Audit for ZUSP’s staff, we revealed that, there is one staff who received USD 18,450 as salary did not deducted WHT, instead ZUSP Project are deducted this WHT.

Implication

Failure to deduct the tax from the Beneficiary’s source of Income is against the Income Tax Act.
### Recommendation

The Project should ensure that all payments made and service providers are deducted a withholding tax as per the Income Tax in order to enhance tax compliance.

### Management Response

The payments were made according to the addendum 2 of the contract.

### Audit Comment

We noted the response.

### 4.0 CONCLUSION

The detailed audit findings presented above were communicated to management of ZUSP during the exit meeting held on 14th November, 2019 in which the issues raised were discussed and agreed upon. The management of the ZUSP has promised to take appropriate action with a view to rectify the situation.

The Office of Controller and Auditor General appreciate to formally receive your response within an appropriate period from the date of receiving this report on the actions taken on the observations and recommendations contained therein.

Lastly, we would like to express our appreciation to the management of ZUSP for the cooperation extended to the audit team. It is my hope that such good working relationship will be extended to us during our next audits.