**Annual Internal Audit Report for the financial year 2015/2016 to the Internal Auditor General Division**

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# ACKNOWLEDGEMENT

On behalf of the entire staff of the internal Audit Unit I would like to extend our since thanks to Management and staff of Medical Stores Department for their continued cooperation and support.

Furthermore I would like to convey our since thanks to the Audit & Risk Management Committee and the Board of trustees for their continued support and commitment to strengthen the Internal Audit Unit

# LIST OF ABBREVIATIONS

ACL Audit Command Language

IA Internal Audit

IAGD Internal Auditor General Division

MSD Medical Stores Department

IIA Institute of Internal Auditors

IPPF International Profession Practice Framework

# EXECUTIVE SUMMARY

This report provide the annual performance report for MSD internal Audit unit during the period of July 2015 to June 2016.

During the financial year 2015/2016, the Internal Audit Unit had planned to carry out twenty one (21) audit engagement assignments under nineteen (19) Business locations/processes with a planned human resource of eight (8) staff. By 30th June 2016, the unit had completed the audit engagement for fourteen (14) business process and participated in five (5) special assignment using eight (8) personnel.

The internal audit unit has been facing some challenges in achieving the annual internal audit plan such as inadequate human resources, lack of enough ACL license for data analysis and delay in receiving management responses on draft internal audit report (normally 14 days). Although there some challenges the following are the way forward to resolve them;-

1. Management continued to encourage and instruct heads of business units/processes to make available to auditors all information requested in time.
2. Management responses to draft reports should be submitted to internal audit unit within the specified time limit (normally 14 days)
3. During the financial year 2016/2017 the management has budgeted the procurement of additional two (2) ACL licenses to increase them to four (4) which will be adequate to all internal audit staff to facilitate internal audit activities. Then the internal audit unit will make a request for procurement during the financial year 2016/2017

Current, the internal audit unit is using Audit Command Language (ACL) which is an audit tool for extracting and analyzing data from the system (Epicor 9). The software had been also used to extract sales and cost of sales data extracted from Epicor 9 for the financial year ended June 2015 needed by external auditors.

The Internal Audit staff relationship with MSD management and other Staff has been kept within the professional limits to avoid creation of conflict of interest. The independence of the Internal Audit Unit has also been adequate and appropriate in line with the requirement of the International Profession Practice Framework. During the period the Internal Audit Unit did not experience any interference from Management in the course of execution of its responsibilities. Management provided the resources needed to by internal audit to carry out its duties and responsibilities except for situations where the current MSD financial ability was not favorable.

# BACKGROUND

## MSD Internal Audit Unit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls, and governance (IIA definition of 2016). To this end, internal auditing furnishes management with analysis, appraisals, recommendations, counsel, and information concerning the activities reviewed in terms of risk management, controls and governance.

Internal audit helps MSD to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of

1. MSD risk management
2. Control
3. Governance processes

The Internal Audit activity is established by the Board and will work under the Audit and Risk Management Committee. The Internal audit activity’s responsibilities are defined by the Audit and Risk Management Committee as part of their oversight role.

## Internal audit staff

The unit had eight (8) staff categorized as Chief Internal Auditor, Principal internal auditor, four (4) Internal Auditor and two (2) Assistant internal Auditor. All internal audit staff are qualified accountant and registered with the National Board of Accountants & Auditors.

## MSD key functions

Medical Stores Department (MSD) is an autonomous department under the Ministry of Health, Community Development, Elderly and Children established by the Act of Parliament No. 13 of 1993 [CAP 70 R.E. 2002] .The Department is responsible to develop, maintain and manage an efficient and cost effective logistics system of Procurement, Storage and Distribution of approved essential medicines and medical supplies for public health facilities.

## MSD Mission

To make available, at all times, medicines and medical supplies acceptable quality at affordable prices to all Tanzanians

## MSD Vision

Centre of excellence for health commodities supply chain in Africa

# AUDIT OBJECTIVE

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls, and governance. To this end, internal auditing furnishes them with analysis, appraisals, recommendations, counsel, and information concerning the activities reviewed in terms of risk management, controls and governance.

# AUDIT METHODOLOGY

The audit performed employed following audit techniques

1. Analytical Reviews
2. Review/Inspection of documents and records.
3. Discussion and interviews.
4. Physical verification
5. Re-computation

# AUDIT SCOPE

The audit assignment covered all transactions made during the period of financial year then ended 30th June 2016. The following areas will be covered within MSD.

1. Review of implementation of previous audit recommendations.
2. Stock and warehouse operations
3. Vertical program items
4. Cash and Bank
5. Trade receivable and Trade payable
6. Staff advances and travel imprests
7. Sales and customer services
8. Fuel purchases and Motor vehicle utilization.
9. Procurement
10. Review of management reports

# PROGRESS ON IMPLEMENTATION OF THE ANNUAL AUDIT PLAN

## Plan versus Actual Implementation

| **S/N** | **Planned Audit Activities for financial year 2015/2016** | **Status of Implementation (%) as at the end of FY 2015/2016** | **Any Other Remark(s)** |
| --- | --- | --- | --- |
|  | Tanga Sales point | Completed by 100% |  |
|  | Tabora zone | Completed by 100% |  |
|  | Human Resource Department |  | Staff involved in special assignment. Activity moved to the next quarter |
|  | Fleet Utilization |  | Staff involved in special assignment. Activity moved to the next quarter |
|  | Central Warehouse |  | Moved to the first quarter of FY 2016/17 |
|  | Finance Department |  | Staff involved in special assignment. Activity moved to the next quarter |
|  | Mbeya Zone | Completed by 100% |  |
|  | Moshi Zone | Completed by 100% |  |
|  | Muleba Sales point |  | Staff involved in special assignment. Activity moved to the next quarter |
|  | Mtwara zone |  | Moved to the first quarter of FY 2016/17 |
|  | Mwanza Zone | Completed by 70% | Final report issued on 1st quarter of FY 2016/17 |
|  | Vertical Program | Completed by 70% | Final report issued on 1st quarter of FY 2016/17 |
|  | Dar es Salaam Zone | Completed by 100% |  |
|  | Dodoma Zone | Completed by 100% |  |
|  | Iringa Zone | Completed by 100% |  |
|  | Clearing Unit |  | Staff involved in special assignment. Activity moved to the next quarter |
|  | Annual Financial Statements | Completed by 100% | Review of financial statement |
|  | Procurement (4Q) | Completed by 100% |  |

## Challenges Encountered

The major challenge to the achievement of the objectives were;-

1. Inadequacy of human resources as the two staff who recently joined the internal audit unit were still learning audit skills.
2. Requested information is not timely received from auditees hence necessitating audit assignments to take longer time than expected.
3. Management responses to draft reports to submitted to internal audit unit within the specified time limit (normally 14 days)
4. Internal auditors are still at the learning stage of using ACL and inadequate number of available licenses. Currently we have only two licenses enough for four (4) users only.

# STATUS OF PREVIOUS YEAR’S AUDIT RECOMMENDATIONS

## Internal Auditors’ Recommendations

| **Report**  **Date** | **Report Title** | **High Level Audit Objective** | **Audit Issue(s)** | **Recommendation(s)** | **Status of Implementation** |
| --- | --- | --- | --- | --- | --- |
| 31st August 2016 | Final Procurement Internal Audit Report for the financial  year ended 31st December 2015 | To determine compliance with PPA, 2011 and its regulations, 2013 | Over procurement of Diapers amounting to Tshs 491,700,000/= | We advise the management to:   1. Comply with the Public Procurement Act and its regulations to ensure that each participant in the procurement process adheres to his/her statutory responsibilities as outlined in the law and not assuming responsibly of another participant and without management overriding internal controls. 2. Introduce new item only after making a survey of customer needs to establish whether it is needed or not. 3. To take appropriate action against the procurement officer who is responsible for the increase of quantities in excess of the amended framework contract. | Implemented:  The MSD Board of Trustees had already take disciplinary actions relating to the issue  However the sales trend has now improved after rigorous sensitization of customers. All stocks will be sold out before expiry. On the other hand pending deliveries were differed in order to monitor the movement of the item. |
| 31st August 2016 | Final Procurement Internal Audit Report for the financial  year ended 31st December 2015 | To determine compliance with PPA, 2011 and its regulations, 2013 | Item number 20050014MDGauze absorbent BPC (90cmx100cm) was ordered in excess of 417,000 rolls equivalent to USD 7,506,000 than demand forecast and approved quantity. | Management is advised to increase the level of contract reviews by checking the accuracy of quantity and values against estimated needs and other relevant documents to ensure both accuracy and reasonableness. | Implemented:  The MSD Board of Trustees had already taken disciplinary actions relating to the issue  However the sales trend has now improved after rigorous sensitization of customers. All stocks will be sold out before expiry. On the other hand pending deliveries were differed in order to monitor the movement of the item. |
| 3rd August 2015 | Internal Audit Report - Finance | To determine the adequate and effectiveness of internal controls over the cash and cash equivalent | Excise Duty at 0.15% charged on Transfers which were not traced in the respective Bank statement. Tshs.17,285,537.80 | The Directorate of Finance and Planning is advised to:-   1. Make follow up with the Citibank and explain the origin of Excise Duty at 0.15% charges in MSD TZS Account. 2. Instruct the accountant responsible for bank reconciliation to investigate bank charges before posting them to the cash books. | Partially Implemented:  The management had issued a letter to Citibank with reference MSD/02/156/2015 requesting Citi bank dated 3rd June 2015 to Citi bank requesting the bank to refund MSD TZS 17,285,537.80 |
| 3rd August 2015 | Internal Audit Report - Finance | To confirm that procedures and controls for Fund transfers and fixed deposits are in place and adhered to | Missing receipt for interest received on fixed deposit Tshs. 943,425,464.17 Euro 201.95 and USD 59,281.50 | In order to maintain consistence of the accounting documents used to record revenue receipts Management is advised to instruct the treasury accountant to use receipt as a document for posting interest income to the system. | Implemented:  Effective from July 2015, all interest income are recognized through receipt. |
| 3rd August 2015 | Internal Audit Report - Finance | To establish existence and completeness of the balances for local creditors | Lack of evidence for reconciliation of Local suppliers accounts | Directorate of Finance and planning is advised to   1. provide the evidence of supplier’s reconciliation 2. Perform regular reconciliations on suppliers’ accounts so as to provide updated information relating to the suppliers’ account | Partially Implemented:  Currently Suppliers Reconciliation are performed. |

# AUDIT ACTIVITIES/SERVICES PERFORMED DURING THE YEAR

## Audit Services (Assurance & Consulting Services)

### Assurance Activities/ Services

The summary of Major findings is attached with this report below, it include the five attributes.

### Consulting Services

During the financial year 2015/2016 the internal audit unit had conducted the following special audits assignments requested by management;-

1. Verification of Stock discrepancies report 2014-2015
2. MCO cash management verification
3. Hired Transportation services
4. IT audit covering the period of financial year 2015/2016 conducted by e-Government Agency of Tanzania: one of the internal audit staff was part of the audit team.
5. Special assignment on bank transfers for global fund round-8 grants at Citi bank, Stanbic bank and Bank of Tanzania.

# CONCLUSION AND RECOMMENDATIONS

## Recommendations to address the challenges.

1. Management is requested to continue encouraging and instructing heads of business units/processes to make available to auditors all information requested in time.
2. Management responses to draft reports should be submitted to internal audit unit within the specified time limit (normally 14 days)
3. Regular training of staff on ACL to facilitate mastery of still and learning new versions of the software.

## Conclusion

The internal audit unit plays a great role to ensure that the objective of MSD are achieved. The management should continue cooperate and support the unit in implementing its annual audit plan.

# DETAILED FINDING & RECOMMENDATION

**INTERNAL AUDIT OBSERVATION AND RECOMMENDATIONS FOR THE FINANCIAL YEAR THEN ENDED 30TH JUNE 2016**

| **Criteria** | **Observations** | **Cause** | **Risk** | **Recommendations** | **Management Comments** | **Auditors’ comments on responses** |
| --- | --- | --- | --- | --- | --- | --- |
| **1.0 DODOMA SBU** | | | | | | |
| * 1. **Missing sales invoices amounting to Tshs. 7,225,100**   Section 65 of Financial Regulations 2011 requires Zonal Manager to be responsible for safe custody of Sales invoice, delivery note, sales order and zonal procurement contracts | Our review on the sales made during the period under audit revealed that out of **370** sales invoices amounting to **Tshs. 1,788,157,500 validated,** twenty two (22) invoices amounting to **Tshs. 7,225,100** were not made available to us for verification to establish the validity of the transaction. | 1. Lack of proper record keeping. 2. Lack of adherence to MSD financial regulations | 1. Risk of fraud through fictitious sales. 2. goods not delivered to intended customers 3. Sales may be disputed by the customers whose accounts have been charged. | Zonal Management is advised to   1. Trace the missing sales invoices and submit them to internal audit Unit for our verification. 2. Appoint a specific officer to keep sales documents serially by legal number and produce them whenever needed | 1. Out of invoices worth TZS 7,225,100 all were traced and will be submitted to auditors for verification except invoices worth TZS 177,200 which were forwarded to customers for verification and acknowledgement. 2. In addition to the existing control system we have started keeping sales documents serially and well registered in invoice register book. 3. Furthermore we have specific officers assigned with the duty of keeping all sales invoices namely; Juliana Mbogo keeps normal sales invoices while Amina Ligome keeps ILS sales invoices, while Christopher Kiula keeps VP invoices | (a) Out of twenty two (22) missing invoices amounting to **Tshs.7, 225,100** only fourteen (14) invoices amounting to **Tshs. 4,698,800** were submitted to auditors for verification.  Zonal management is advised to submit the remaining eight (8) invoices amounting to **Tshs. 2,526,300.00** for our verification.  (b) & (c) Follow up on implementation of auditors’ recommendation will be made on the next audit visit. |
| * 1. **ILS customer with Credit balance but not purchasing goods TZS 52,613,817**   SOP 9.1 Customer Service and Sales Standard operating Procedures, 2005 states that “MSD shall operate on cash and carry policy. Credit sales will be allowed on special cases as requested by MOHSW. | We reviewed ILS customer balances from the Epicor 9 system as at 30/4/2016 revealed significant improvement in reduction of credit balances on Customer accounts which resulted in a decrease by TZS **689,999,481.65 (about 52%) from TZS1, 327,657,805.63** which existed as at31st March 2015 to **Tshs 637,658,323.98 as at 30th April 2016.**  However we noted that the and noted that the TZS **637,658,323.98 credit balance outstanding as at 30th April 2016** was made up of balance related to 174 ILS customers out of which twelve (12) customers had a total balance of TZS **226,707,307.63 (about 36%)**  each having a balance of above Tshs10 Million. Out of the 12 customers two (2) customers with a total balance of Tshs **52,613,817** did not make any purchase during the period of ten (10) months to 30th April 2016 though they were receiving funds allocations from MOHSW. | 1. Possibly because of Stock out 2. Lack of regular review/visit of customer balances by Zonal Management to establish the cause of huge/growing credit balances | 1. Unexplained increase in fund balances on customer accounts could be wrongly perceived by the public as MSD inefficiency 2. Some of the facilities are either not operating or not existing. | Zonal management is advised to:-   1. Check and identify physical existence of customers relating to Dodoma zone especially those allocated with funds but there has been no sales to their account. 2. Communicate to customers’ information relating to their respective fund allocations and account balances and sensitize them to order goods according to their respective fund allocations. | 1. Physical verification exercise of PHFs has been ongoing exercise since year 2012 during introduction of DD system. Two HFs with the balance of TZS 52,613,817 in the account, only bear Dodoma code numbers (Migongo Dispensary has the address of Kasulu while Bukembe bears the address of Urambo Tabora and this has been communicated to Zonal Manager Tabora for further action. 2. We concur with auditor’s advice that we should sensitize customers to buy according to their allocations, however the stock out challenge was among the causes for these huge balances in the health facilities accounts. Stock improvement in future will eliminate this problem. | Follow up will be made during the next audit visit to assess zonal managements’ implementation of the auditors’ recommendations. |
| * 1. **ILS customer Debts amounting to Tshs.1,655,029,125.79**   SOP 9.1 Customer Service and Sales Standard operating Procedures, 2005 states that “MSD shall operate on cash and carry policy. Credit sales will be allowed on special cases as requested by MOHSW | We reviewed ILS customer balances from the Epicor 9 system as at 30/4/2016 and found that, 334 ILS customers had Debit balances amounting to **Tshs 1,655,029,125.79.** Out of these **27** customers each had debit balance above Tshs 10,000,000 amounting to **Tshs** **382,731,931.21.** | Health facilities are not receiving allocation from MOHSW or are receiving insufficient funds to enable quarterly deductions to recover the long outstanding debts. | 1. Weakening liquidity position 2. Unrecoverable debts. | Zonal management is advised to   1. Keep on monitoring customer accounts to ensure that the debts do not increase and whenever possible recoveries should be made from quarterly funds received. 2. Submit to EMT a list of all health facilities not receiving quarterly allocations and those receiving less funds than their actual needs for further communication with the Ministry of health and social welfare. | 1. We concur with auditors’ advice that we should monitor customers’ accounts to ensure debts do not increase, whenever possible recoveries will be made on quarterly basis. 2. The list of all HFs not receiving quarterly allocation and those receiving less funds than their actual requirement has been identified for submission to EMT as advised by auditors | Follow up will be made during the next audit visit to assess zonal managements’ implementation of the auditors’ recommendations |
| * 1. **Debt of Tshs 128,338,935 which Zonal management do not know how it will be recovered.** | In our review of customer balances we found that a Customer with account code DM710002 Tamisemi Dodoma had a debit balance of **Tshs 128,338,935.00.** Further analysis revealed that the balance was made of only one invoice number 218145 with legal number **INMT-011245** dated 18/3/2015 for transportation cost of Katiba bookswhich was raised by the Transport SBU at MSD Headquarters in Dar es Salaam. | The Zonal office was not involved in the transactions and they have no access to the agreement and terms related to the transaction. | Weakening liquidity position | Zonal Management is advised to communicate with the Director of Logistics to establish the terms of the contract related to the transaction and determine the appropriate strategy to recover the debt. | We concur with auditors’ advice that we need to discuss with DL to establish the terms of contract so that Zonal Management can make close follow up of this debt as it is under jurisdiction of Dodoma zone. | Zonal management is advised to prepare an action plan to implement audit recommendations and immediately submit it to CIA for follow up on implementation.  Follow up will be made during the next audit visit to assess the implementation status. |
| * 1. **Items with discrepancies identified during cycle count but reasons for discrepancies not identified. (surplus TZS 4,811,299.34 and deficit TZS 6,191,707.40)**   According to Standard Operating Procedures for cycle counting 4.6 investigation of Count cycle discrepancies involves the following steps   1. Print the Inventory Movement Report from the Count Cycle Maintenance. 2. Print the detailed stock on hand report of Discrepancy warehouse. 3. Investigate the root causes of discrepancies. (Surplus or deficit)   Adjust the discrepancies as it is deemed fit. Ensure Discrepancy report is free of stock (Empty). | Our review of cycle count performed at Dodoma zone for the quarter of July 2015 to September 2015 revealed three(3) items with a total deficit of **Tshs 6,191,707.40,** seven (7) items with a surplus amounting to **Tshs 4,811,299.34** and ten (10) vertical programme items with surplus whose value could not be established.  However reasons for these discrepancies had not been identified by zonal management. | Lack of adequate supervision and management follow up to adhere to the requirement of the SOP’s. | 1. Misstatement of stock balances. 2. Loss of stock through theft and pilferage not timely detected/reported for action. | The Zonal management is advised to ensure that cycle count process is effectively done as required in the Standard Operating Procedures for cycle counting 4.6 which should include but not limited to investigation and reconciling all stock discrepancies. | We concur with auditor’s advice of ensuring cycle counting process is effectively done  However, we have been facing some E9 challenges whereby some inventory snapshots have negative quantities while in the bins have zero quantity. After posting they lead to positive variance( eg cycle no.26)  Also when setting cycles they do not pick all bins related to the item, this lead for the item to be partially counted. It is our expectation that once this challenges are well addressed will eliminate the existing problem. | We advise the Zonal Management to immediately communicate with DICT to investigate and establish the reasons for having a negative balance.  Follow up will be made during the next audit visit to assess the implementation status. |
| * 1. **Inability to utilize the car truck system in managing vehicle utilization at the zone.**   MSD decided to acquire the car truck system in order to ensure economical, effective and efficient utilization of motor vehicle and hence value for money. However this can be attained only by ensuring that the system is fully utilized | During our audit the car truck system though installed to the Dodoma vehicles the zonal management and staff do not use them to ensure effective monitoring vehicle utilization. The same weakness was reported in the previous audit but nothing has been done. | Zonal Manager has not been trained to use the system. | No value for money/ return on investment obtained from the system installed | We advise the DHRA Office to ensure that all Zonal Managers are trained to enable effective utilization of the system | Zonal Management is ready to be trained to enable effective utilization of the system. | No action has been taken by Zonal Management to resolve the reported weakness.  Zonal management is advised to make a follow up on the issue of training with the DHRA so that training begins in the near future .Follow up will be made in the next audit visit. |
| * 1. **MOSHI SBU** | | | | | | |
| * 1. **ILS customer with Credit balance but not ordering goods TZS 185,928,209.89**   SOP 9.1 Customer Service and Sales Standard operating Procedures, 2005 states that “MSD shall operate on cash and carry policy. Credit sales will be allowed on special cases as requested by MOHSW. | We reviewed ILS customer balances from the Epicor 9 system as at 31/12/2015 and noted that as that date there was a total of 322 ILS customers with a total credit balances **Tshs 875,697,307.73** compared to a balance of **Tshs 2,855,569,825.37** which existed as at30th June 2014. Therefore there was a decrease of **Tshs 1,979,872,517.64** **during the period under review.** However Further analysis revealed that 41% of the balance of **Tshs 875,697,307.73 which is** TZS **360,542,298.99** was owed to only 20 customers each having a balance of above Tshs10 Million. Out of the 20 customers eighteen (10) customers with a total balance of Tshs **185,928,209.89** did not make any purchase during the period of six (6) though they were receiving funds allocations from MOHSW. | 1. Lack of communication with the health facilities on changes made by the MOHSW on fund allocation per population 2. Stock out | Unexplained increase in fund balances on customer accounts could be wrongly perceived by the public as MSD inefficiency | Zonal management is advised to:-   1. Check and identify physical existence of customers relating to Moshi zone especially those allocated with funds but there has been no sales to their account. 2. Communicate to customers’ information relating to their respective fund allocations and account balances and sensitize them to order goods according to their respective fund allocations. | The health facilities which were reported were checked and found to be active. During investigation it was revealed that these health facilities had more than one account. We are in process of closing one account belonging to the customers with two. Example Katesh HC and Askofu Hando HC which have two accounts. Communication has been made to LMU and customers for them to correct their data such that they create orders through appropriate account. | We will verify the implementation of our recommendation during our next audit. |
| * 1. **Growing ILS customer Debts amounting to Tshs.1,082,092,125.52**   SOP 9.1 Customer Service and Sales Standard operating Procedures, 2005 states that “MSD shall operate on cash and carry policy. Credit sales will be allowed on special cases as requested by MOHSW | We reviewed ILS customer balances from the Epicor 9 system as at 31/12/2015 and found 264 ILS customers with Debit balances amounting to **Tshs 1,082,092,125.52** with an increase of Tshs  **226,481,696.64** over the balance of Tshs **855,610,428.88 reported** as at 30th June 2014. Further analysis revealed thatout of these 26 customers each had a debit balance of above Tshs 10,000,000 and all of them had a total balance of **Tshs** **407,012,388.63** | 1. Health facilities are receiving insufficient funds to enable quarterly deductions to recover the long outstanding debts. 2. Some of the health facilities do not receive fund allocations from MOHSW. | 1. Weakening liquidity position 2. Unrecoverable debts. | Zonal management is advised to conduct a monthly review of customer accounts to identify accounts which the debts are growing, establish the cause and address it and then agree with the customer on the best recovery method. | All health facilities serviced by MSD through ILS are supplied medicines and medical devices through a Schedule (cycles) regardless of whether they have debit balance or not. As this is the directive from Ministry of health as seen in the Annex B S.O.P 9.1. need to be revised | We appreciate the importance of MSD management to comply with government directives. However We further advise that MSD management should agree with the Ministry responsible for health on debt recovery plan. Furthermore Zonal Management should make sure that documents related to proof of delivery are in a secure custody and readily available to facilitate debts verification by |
| * 1. **Delay in resolving outstanding bank reconciling items.**   MSD financial regulation 163 requires all reconciling items to be investigated and appropriate entries to be made immediately. | Review of bank reconciliation for the period of July 2015 to December 2015 revealed that there were reconciling items which remained outstanding for more than six months . | Problem in clearance of cheque at CRDB bank especially those originated from NMB bank. | Delay to receive cash which could have been used in financing MSD operations/ procure medicine. | We advise the Zonal Management to investigate and timely resolve all reconciling item within a month. | We concur with Auditors Observers ion. Currently all receipts will be reversed by raising miscellaneous invoices be for all transactions except Pasua and Levolosi.  Currently MSD account no 24110000276 has been opened with NMB bank to resolve the issues related to bouncing of NMB cheques received from customers. | Evidence to support Management responses has not been submitted for our verification. We will verify the implementation of our recommendation during our next audit. |
| * 1. **Late preparation of bank reconciliation statement for more than two weeks.**   MSD Financial Regulation 162 requires Zonal Accountants to ensure that all bank accounts are reconciled each month, within 10 days of the following month. | Our review of bank reconciliation statement revealed that some of bank reconciliation were not timely prepared as required by the MSD Financial regulation which requires bank reconciliation statements to be prepared within ten (10) of the following month. | 1. Lack of supervision and management follow up to adhere to the requirement of the Financial regulations 2. Transfer of Assistant Zonal Accountant to Arusha community outlet | Errors and irregularities may not be timely detected. | Zonal Management is advised to adhere to MSD Financial regulation 162 and clear reasons should be documented in case of any deviation. | We concur with Auditors Observations. Management has made available Accounts assistant to address the issue of work load currently shouldered by Zonal Accountant | We will verify the implementation of our recommendation during our next audit. |
| * 1. **Fixed asset register not updated**   Regulation 131 “The Director responsible for administration shall be responsible for maintenance of Fixed Assets Register in which the following information shall be recorded in respect of all fixed Assets:  a) Name of the Assets Category.  b) Assets code and Assets number, (For motor vehicles: make, year of manufacture Registration No. Chassis and Engine No. should be recorded).  c) Location  d) Depreciation method and rate.  e) Revaluation method amounts and date.  f) Depreciation provision for the period.  g) Cumulative totals of original/revalued costs, depreciation and net book value, at the end of each financial year.” | During our audit we noted that fixed asset register had not been updated since 2013 and Zonal accountant cannot update it. We further inquired Fixed asset accountant on why the fixed asset register had not been updated for all that long, she explained that the module was not properly functioning and as of now a team of 4 staff had been formed to update the register starting with Financial year 2013/2014 to 2015/2016  However the database manager explained that the asset module went live together with other modules in August, 2012 and it was properly functioning. Also errors detected were reported and timely resolved accordingly. | 1. The Regulations imposes responsibility to maintain fixed asset register to the Director responsible for Administration while in practice the Director of Finance and Planning is the custodian of the Fixed Asset Register. 2. Possible lack of effective communication between the directorate of Finance and directorate/ zones responsible for the purchase of fixed assets like DHRA and DICT. | 1. Inadequate monitoring of fixed asset movement which may result into asset loss due to theft 2. new assets are neither coded nor recorded in the system 3. Asset transfers are not recorded to indicate the correct location. | Directorate of finance is advised to ensure that:-   1. The updating process is completed before the year end. 2. Zonal accountants are instructed and enabled to maintain the asset register 3. The next financial regulation review should put the responsibility to maintain fixed asset register to the Director responsible for Finance and planning. | We concur with auditors observation recommendations | We will verify the implementation of our recommendation during our next audit. |
| * 1. **New Generator existing at the zone for more than six months but not in use.**   Section 39(1) (b) of Public Procurement Act 2011 puts responsibility to initiate procurement of goods upon the user department of the procurement entity. | During our audit we found a generator worth **Tshs 62,481,000** was purchased vide contract number IE-009/2013/2014/HQ/G/28/08 dated 23rd March 2015 and **d**elivere**d** by at the Moshi zone on 19th June 2015 whose procurement was initiated by the Administrative section without the involvement of the zonal management. Consequently the zone failed to install and utilize the generator as they did not need it. The Generator is still lying idle at the zone. Zonal Management explained to us that they did not request the Generator because the installed generator they have is sufficient for the existing zonal demand for the existing warehouse. Furthermore Zonal Manager explained that he asked the Administrative Manager concerning the generator and he was told that it will be used in the new warehouse to be constructed in future. | Zonal management was not involved in decision to procure the generator. | 1. Purchase of equipment not needed hence wrong use of financial resources. 2. The equipment may start deteriorating and become defective because it is not operating and later attracting extra costs to repair it. | Administrative Manager is advised to relocate the asset to a location where there is a need for the Generator in order to provide MSD with the intended benefits. | We concur with Auditors observation and recommendations. However on a plan of building a new warehouse this generator will be needed | Management response is not satisfactory we advise management to implement our recommendations |
| * 1. **Estimated lost sales of Tshs 736,226,125 for five items which has been out of stock in most of the period started from July 2015 to March 2016 at Moshi zone.**   The first strategic objectives mentioned in MSD Business Plan (Corporate Balanced Score Card 2015/2016) is to increase customer satisfaction from 80% to 85% in the financial year 2015/2016. At the same time the third strategic objective is to increase market share whereby it was intended to increase sales revenue from 70% to 75% in 2015/2016. Also the fourth strategic objective is to improve service delivery whereby it was intended to improve stock availability of tracer items from 70% tom 75% in the financial year 2015/2016. | Our review of sales made from July 2014 to December 2015 revealed that for the period of July 2014 to June 2015 total sales made for five items was **Tshs 1,352,839,100** that is average monthly sales related to the items in 2014/2015 was TZS 112,736,591.70 From which the sales for a period on nine months from July 2015 to March 2016 could be estimated to be Tshs **1,014,629,325.** However it was noted that the actual sales for the period of nine months from 1stJuly 2015 to 31st March 2016 amounted to **Tshs 278,746,700 only.**  Thus an estimated lost sales/shortfall of Tshs **736,226,125**  The shortfall was attributed to regular stock out.  Furthermore we analyzed sales of the same items companywide for the period of 12 months from July 1, 2014 to 30th June 2015 and compared with 9 months sales for the period of July 2015 to March 31, 2016 and found the estimated lost sales for the period of nine months for the same five (5) items companywide was **Tshs 5,344,736,650** | 1. Lack of fund to pay supplier. 2. Ineffective quantification/forecast of quantities and items to procure which resulted into overstocking of other items like gauze absorbent and understock the fast moving items. | 1. Loss of revenue and profit to MSD 2. Customer/public complaint because these are very essential medicine for treating various diseases. | We advise the Director responsible for zonal operations   1. To identify all essential and fast moving items and accord them high priority for procurement using the little money available to ensure their continued availability. 2. Review the existing skill in the Demand and Supply Unit to establish the deficiencies and staff it with the appropriate skills to ensure reliable forecasting of product demands | We concur with Observations and recommendations given by the auditor | The responses does not state whether action has been taken to implement our recommendations. we request management to implement our recommendations |
| * 1. **Failure to achieve sales revenue targets by 42%**   For the financial year 2015/2016 the Moshi zone had planned to record annual sales target of TZS 13,371,000,000 which translates into Tshs 6,685,500,000 to the period of six months to 31st December 2016. | During our audit it was noted that as at 31st December 2015 was only TZS 3,844,227,837 which was below the approved sales budget of Tshs 6,685,500,000 by TZS 2,841,272,163 equivalent to 42% | 1. Inadequate fund disbursements by government consequently negatively affecting the purchase power of health facilities 2. Stock out | 1. Failure to replenish stock of essential items. 2. Loss of revenue and contribution margin to meet other operational costs. 3. Failure to serve Tanzanians with the required health services. | We request MSD Management to continue with efforts to communicate with government to increase financial budget for medicine and medical supplies and timely disburse the funds to MSD. | We concur with observations and recommendations of the Auditor | The responses does not state whether action has been taken to implement our recommendations. we request management to implement our recommendations |
| * 1. **PROCUREMENT OF PHARMACEUTICALS.** | | | | | | |
| * 1. **Ordered stock quantities not proportional to the respective average monthly consumptions.**   According to section 3(6) of the Standard Operation procedure (SOP) for Supply and Demanding Planning requires the demand and Planning technical committee (DPTC) to Consolidates zonal demand forecast, reviews historical sales data, conducts market intelligence on future demand, reviews sales trend and reviewed and calculates Average Monthly Consumption for procurement planning | In our review of the purchases made during the period of January 2015 to December 2015, average monthly sales from July 2014 to December 2015 and the demand forecasting for the year 2014/2015 and 2015/2016 we noted the following:-   1. In some cases the quantities of goods ordered were very small compared to the average monthly consumptions. Good example was item **no. 10010059MD** Ciprofloxacin Tablets 500mg (100TB) for which the ordered quantity was 1,845 Tins (T/100) while the average monthly consumption was 11,096 tins and item No. 10010075MD Sodium Dichloroisocyanurate (100TB) for which ordered 75tins (T/100) while its average monthly consumptions was 730 tins 2. In some instances goods ordered appeared to be excessive. When compared to respective average monthly **c**onsumption it was revealed that they may last for more than 24 months. The total costs of the orders amounted to **TSHS** **19,402,077,710.52** | * + 1. Ineffective need quantifications     2. Lack of regular review of sales trend for each stock item and review price catalogue item     3. Customers not having adequate funds on their accounts with MSD.     4. Possible lack of effective communications between Zonal offices and the Demand and Supply Sections during preparations of Demand forecast | * + 1. Possibility of out of stock in the future day     2. Huge working capital being tied up in stock due to overstocking     3. Increase in the quantity and value of expired goods | 1. The capacity of the Supply and Demand Units needs strengthening to ensure accurate and reliable demand forecasting for ordering the right quantity of goods 2. The Director General is advised:-  * EITHER to instruct the Directorate of Customer Service and Zonal Operations to review the sales trend of stock items to identify slow moving items and conduct survey among the customers to establish the cause and advice EMT on appropriate action like revising the MSD catalogue to remove slow moving items or adding new items * OR form a special task force to review the list of slow moving items and visit a number of Health facilities to establish specific reasons for not ordering/ purchasing the items from MSD. | We concur with Auditor’s recommendation of strengthening DSPU by deploying the Unit with more multidisciplinary professionals (Such as Supply chain specialist, Pharmacist, Logisticians etc.). In the meanwhile we can wait from the ongoing initiative under Strategic Management Office and the review of holistic supply chain to provide us with technical advice and better way of improving our quantification.  However, during validation of the two cited items in Auditor’s observation it has been noted that ciprofloxacin (10010059MD) through its requisition no. 1473 had 90,700 qty which was raised by DSPU and sent to PMU for call offs. Same applied to Dichlorcyunurate (10010075MD) through its requisition no. 1143 had 40,000 qty which was raised and un-utilized in 2014 therefore it was carried forward for 2015, which definitely in 2015 PMU used the same requisition to make call off of 15,000 qty.  As we are all aware that health commodity supply chain is so dynamic by its nature. Therefore taking into considering of the financial difficulties MSD experienced last year had contributed significantly on the increased DOS items. However the DSPU has established the decentralized forecast structure as a risk mitigation during need identification process. | Copies of the mentioned requisition orders have not been submitted to us for verification.  However, We advise the Director of Customer and Zonal Operations to institute interim measures which will ensure accuracy of stock need forecast while waiting for the completion of the initiative being prepared by the Strategic Management Office |
| * 1. **Call off purchase Orders (PO) in Epicor 9 differs with the signed call off orders prepared for specific purchase/ supplier.**   Standard operation procedure for Procurement process no. 5.9 (ii) states that for each contract there shall be a system generated purchases order (PO) which will serve as a communication tool among the functions within the MDS supply chain. | our review of all call off orders made during the period of January 2015 to December 2015 revealed that some of calls off PO generated had different amounts from their respective signed call off orders. | 1. The system uses the total quantities on call off order to calculate the value on each delivery schedule (release) instead of using the quantity for that particular delivery schedule (release) | Overstating the value of goods purchased during a particular period | 1. We advise DICT staff to identify and rectify the system configuration which causes the errors/ 2. Head of PMU to arrange in house training of staff that causing the system to make the wrong calculations when they make changes to Purchase orders. | We concur with auditors recommendations. However, We have trained procurement officers to complete the POs with relevant attachments& comments so that to get rid of misleading auditors e.g.POT-7468 (with value of TZS 62,350,00) was without system problem but had another complementary POT- No.-6843 (with value of TZS 49,880,000) whereby both PO makes a total value of Amended Contract of TZS 112,230,000. | We acknowledge the receipt of supporting documents for PO valued at TZS. 61,380,000.00. however Purchase orders of **EUR** 3,792.33 and USD16,245.70 were not presented for verification. |
| * 1. **Lack of effective contracts management**   According to regulation 242 (2) of the Public Procurement Act 2011 state that “were receipt of goods is delayed, or is likely to be delayed beyond the time for deliver prescribed in the contract, the procuring entity shall seek reports and explanations from the suppliers or their agents and may institute liquidated damages as may be provided for in the contract. | In our reviewing of the purchased order made during the period we observed that:-   1. In some instances there were long delays of deliveries of goods taking more than five (**5)** months beyond the respective contract delivery schedule although the communication to remind them to deliver the goods were made to the respective suppliers | Poor performance caused by the suppliers not adhering to delivery schedules.  . | 1. Items may not be received from supplier on time which could result to out of stock especially when the items are urgently needed by the customers 2. Unavailability of space for the items delivery too early as a result these items could be poorly stored resulting into damages. | Head of Procurement Management Unit is advised to review the performance of all suppliers and establish the reasons why they fail to deliver the goods on time. | We concur with auditors recommendations. However  MSD liquidity problems is a challenge to suppliers performance assessment as some delays for foreign suppliers are contributed by delays in opening letter of Credit (LCS). | We advise the Head of PMU to consult and agree with the DFP on the timing of issuing call off orders in order to make sure that cash flow trend is considered when issuing call off orders. This will be in compliance with regulation 74 of MSD Financial Regulations 2011 which requires all contracts above TZS 100 Million to be appraised by the director responsible for finance. |
| * 1. **Existence of huge account balance both debits and credits on suppliers’ account which were not supported by analysis.**   Section 8.10 (a) of MSD Accounting Manual 2008 States that, “At the end of each month, the Accountant (Creditors) must:   1. Reconcile creditors’ balances with the balance on the creditors control account in the general ledger; 2. Submit a reconciliation statement to the Principal Accountant Expenditure and CFA for review and approval respectively;   Compile a list of all procurement orders, which have been outstanding for more than two months together with the reasons for not supplying the goods or services and send them to the CFA. The report should then be forwarded to the Director responsible for finance and the Director General for information and necessary action. | Our review of 34 suppliers each with a balance above 50Mill revealed that:-   1. Twenty five (25) suppliers had debit balancese on their accounts in Epicor 9 system amounting to **Tshs. 9,999,168,461.35** as advance payment made to the suppliers for various procurement commitment made as at 03/03/2016, however we could not obtain PAYMENT VOUCHER reference numbers to enable us validate the payment made to supplier due to lack of payment reference numbers against each transaction appearing in respective supplier aged payable report. 2. Nine (9) suppliers had credit balances on their accounts in the system amounting to Tshs **1,290,447,792.42** indicating that the supplier had delivered the goods but they had not been paid. However we could not obtain VOUCHER reference numbers to enable us validate the purchases due to lack of voucher reference numbers against each transaction appearing in respective supplier aged payable report. 3. We selected a sample of twelve (12) suppliers and compared their respective account balances as per Supplier Statement of Account as at 31/08/2016 to the respective Aged Payable report as at 31/08/2016. The comparison revealed a total balance of **TZS 1,314,024,709.82. In the ideal case** the two EPICOR9 statements/reports are supposed to have the same balance as at any date. The sample comprised of seven (7)supplier accounts with debit which indicated a difference of **TZS 553,264,340.35** AND five (5)supplier accounts with credit balances which indicated a difference of **TZS 760,760,369.47 .** | * + 1. Inadequate supervision to ensure that all account balances are made up of identifiable, verifiable and supported transactions     2. Lack of supplier reconciliation on monthly basis.     3. Possibility deficiency in Epicor9 configuration resulting in failure of a posted transact action to update all relevant accounts in the General and sub diary ledgers. | 1. Goods paid for but not delivered may not be timely detected and claimed 2. Short landed goods may not be detected in time. 3. Risk of fraud through payment for non-existing purchases. 4. There is high risks of preparing unreliable management accounts and the annual financial statements. | 1. The Finance section is advised to review the suppliers’ accounts to identify the transactions making each account balance and take appropriate remedial action. 2. We advise the Director Finance and planning to instruct the Chief Financial Accountant to comply with the MSD Accounting Manual by conducting monthly reconciliations on suppliers’ deliveries against their contract. 3. The reconciliation should be submitted to the director of Finance on Monthly basis with clear explanation for long outstanding/growing balances whether debit or credit for decide appropriate remedial action to take. 4. The difference between related reports in EPICOR 9 should be fully investigated and resolved. | 1. The finance department has re-organized the creditor’s management unit. All suppliers accounts have been reviewed and adjustments done to reflect the true position of creditors record. The schedules will be included in the Annual accounts for the period to June, 30 23016 2. The DFP and CFA are currently complying with the requirement of accounting manual and monthly reconciliation of suppliers’ accounts is conducted starting July, 2016. 3. The reconciliations of long standing suppliers accounts have been done up to June, 2016 and submitted with annual Financial Statements | We appreciate the management’s responses. However, No supporting documents presented to the auditors for verification. Furthermore a review of the Accounts Payable as at 31st August 2016 revealed that the problems still exist. |
| * 1. **Items with no evidence of being inspected amounting to TZS 55,034,865.40**   **Regulation 244.**-(1) of the Public Procurement Act 2011 requires all goods delivered shall be inspected, sampled and tested by the procuring entity and they shall not be  accepted if they are below the standards stipulated in the contract  Furthermore Financial regulation 2011 section 228 requires The Quality assurance unit to determine and certify the quality of medicines, diagnostic supplies and medical supplies and equipment before and after procurement to ensure that the procured supplies are of the required standards before being accepted and paid for by the MSD**.**  In the Epicor 9 system. The Standard operating procedures requires the quality assurance officer to inspect the received by checking parameters in the inspection result form.  The inspection results are then posted to the system to make good available for distribution. | In our review of Good Received Note (GRN) during the period from **January 2015 to December 2015** revealed that   1. Items amounting to TZS 55,473,841.80 had no evidence of being inspected during the period under review 2. Further analysis revealed that there were items inspected but lacked evidence of Quality Assurance manager’s approval. These amounted to **TZS 3,080,775.96** | Lack of documented procedure to separate goods received awaiting inspection. | 1. Goods with quality problems can be received and distributed and hence damaging MSD public image 2. Incurring unnecessary recall cost for goods already distributed. | The Quality assurance manager is advised to review all received items with their respectively inspections check list so as to identify goods not inspected before making them available for distribution. | * + 1. We concur with Auditors recommendations, Items mentioned were inspected, and documents are available for verification. During the period consumable from zones were not inspected, however Quality Assurance Unit is preparing mode of Inspection for all goods received at MSD locations in collaboration with zonal PMU.     2. Document submitted during Audit were reprinted copies while searching for the required documents, and therefore original and approved Inspection reports are available for verification. | * + 1. Inspection reports support goods receipt amounting to TZS **55,034,865.40** were not submitted for verification as at 30th August 2016.     2. Manager’s approval for inspection results for goods amounting to TZS **3,080,775.96** were still pending as at the date of writing this report. |
| * 1. **Lack of evidence of replacement for rejected items that had already been paid amounting to USD 12,480.**   Best practices requires for all good rejected a communication with supplier to be made and make a proper arrangement for the supplier to collect the rejected items and replaced them. | our review of Good Received Note (**GRN**) during the period from **January 2015 to December 2015** we revealed that   1. Existence of items which had been paid for but were rejected due various quality related problems amounting to **USD 12, 480** 2. Existence of items rejected but lacked evidence of being replaced by the respective suppliers amounting to **Tshs 633,771,699.10** | 1. Lack of proper follow up on rejected items 2. Poor communication between Procurement management Unit (PMU) and Quality assurance unit | Paid for rejected Items once not replaced can cause loss to MSD | We advise the PMU to communicate with suppliers on the replacement of the rejected items. | We concur with Auditors recommendation. PMU is working closely with Quality Assurance Unit for follow up of rejected goods and eventual communications to suppliers for collections and replacement of defective products. The details are also shared with DFP for further Actions | We appreciate the management responses and action taken, However, there was no time frame set for the action taken.  We will continuous monitoring the implementation status on auditor’s recommendation. |
| * 1. **Delays of special procurement Process and delivery of items**   According to customer requests for special procurement, goods were needed as soon as possible. | our review of special procurement process from January 2015 to December 2015 revealed the following:   1. Delays in the requisitions approval taking more than a month. 2. Procurement Process takes a very long time (up to 330 days) to complete after the approval of the requisition. 3. Late delivery of special items beyond the due date.      1. Goods ordered on 15th July 2014 For Muhimbili National Hospital had not been delivered by the supplier Harsh Pharmaceuticals as at 13/07/2016 though the agreed delivery due date was 14/12/2015. Twenty three (23) out of thirty seven (37) units of item No: 40100144SP Diasafe plus filter for Fresenius machines ordered for Muhimbili National Hospital since 15/07/2014 vide Purchase order no. 7778 for Framework Agreement  **No. IE 009/2014/2015/HQ/G/QSP/101/1 awarded to Harsh Pharmaceuticals Limited dated** 26/08/2015 had not been received at the date of writing this report. . | Lack of sound contract management process | * 1. Unnecessary customer complaints due to unfulfilled orders.   2. Lost sales and revenue | 1. We advise Management Transfer responsibilities of special procurement to Zonal SBUs and therefore the zonal Managers will have direct communication with PMU and customers to ensure timely order delivery. 2. Head of PMU is requested to explain the cause of the delay/ failure by the supplier to deliver the goods. | 1. Under the new undertaking of SBU operations, Zonal manager are the first point of call and direct person to manage order processes and progress including communication both with the customer and headquarters 2. Zonal managers and their customer relations officers are now responsible with direct and daily communication with customers under SBU operations. Zonal managers as well their customer relation officers are now able to communicate with PMU-HQ on orders follow up status and their management 3. The late customers’ confirmation of specs and funds has greatly contributed the delay in procurement process. PMU is currently tries to minimize internal process of approvals and contract management to ensure minimum lead time is attained | We acknowledge management’s responses.  However we have not received evidence to substantiate the delays for delivery of goods. Furthermore we have not received evidence of receipt of the 23 units of item No: 40100144SP Diasafe plus filter for Fresenius machines ordered for Muhimbili National Hospital |
| * 1. **Inaccurate evaluation report.**   Best practice requires the evaluation to be done correctly which at the end the results obtained are to be awarded to the qualified bidders | Although Tender Board approved the amount recommended by the evaluation team which was **USD 329,110, the contract sum in respect of** Contract No. I**E/009/2014-2015/HQ/G/T/VP/53** awarded to KAS Medics Ltd amounting to **USD369, 066.58** hence a difference of **USD 39,956.32**.  Further validation was done and revealed that the amount of **USD 329,110.26** appeared in the evaluation team was calculated without carefully reading the supplier’s price schedule whereby prices of some of the items were VAT exclusive. The correct Value should have been USD **343,866.58.** Therefore the correct bid value as per the supplier’s price schedule was understated by Evaluation team by USD**14, 756.38.** The remaining difference of USD 25,200 is made upby the valueof Item No. 40080020AE Surgical Masks which no bidder had qualified for award of contract BUT it was added the KAS MEDICS contract by Procurement Officer by the name of Walter Mlay for grounds alleged by him to be accidental. | * + 1. Evaluation team was not adequately careful.     2. Procurement officer failed to adhere to tender board decision and added the item which had not been awarded. | Purchases made out of tender budget and requirements could result into fraudulent procurement. | We advise the Head of PMU/tender board to properly review:   1. Evaluation reports to ensure accuracy. 2. The work of procurement officers to ensure compliance to tender board decisions. | We concur with the auditors recommendations.  In order to prevent recurrence following actions are in place:   * + - 1. PMU in its Business Plan and Budget for Financial Year 2016/17 has planned to conduct training to all procurement staff on Good Practice on Bid evaluation procedure.       2. A respective staff will be put into task to detailed explain on what has happened and necessary measured will be taken based on the response | There is not time frame set by the management on the action to be taken to improve the evaluation process including the responsibility set to each procurement staff.  We request management to provide us with evidence of action taken against the staff responsible for adding the item which had not been awarded by Tender Board. |
| * 1. **Existence of incomplete Purchase Order created in Epicor 9**   Standard operating procedures for Procurement process no. 5.9 (ii) state that for each contract there shall be a system generated purchases order (PO) which will serve as a communication tool among the functions within the MSD supply chain. Therefore from the requirement of the procedure it is expected that every purchase order created in the system is completed. | Review of the Purchase orders made during the period from January 2015 to December 2015 revealed that there were some Purchase Orders which had been created in Epicor 9 and left without being completed. These purchase orders are PO no. 7198 amounting to **Tshs 715,000** and PO no. 7332 without a value.  Further analysis revealed that Purchase orders (PO No. 7580 and 7591 for amendment contract No. **IE-009/2013/2014/HQ/G/Q/120/25** awarded to Daima Pharmaceuticals Ltd for the supply of two dental chairs worth Tshs **35,003,520** were not approved and closed in the system although the goods were delivered and received on **5/10/2015** vide **GRN-UB- 00001053** and **8/10/2015** vide **GRN-UB- 00001055**. | 1. Procurement staff were not aware of the existence of the working instructions. 2. Lack of clear and documented procedures/ guidelines that requires Supervisor/Manager to review and approve purchase orders. 3. Lack of adequate supervision/ monitoring of purchase order transactions created in the E9 system | Risk of fraud | 1. Procurement Manager is advised to review and supervise the Procurement Officers on their work to make sure that they read and comply with their working instructions. 2. Head of PMU is advised to review PO created in the E9 system on weekly basis to check their validity and accuracy. | We concur with auditor’s recommendation. PMU managers are critically reviewing each PO linked with call-offs and Framework contracts before these documents are released for CEO’s Signature | We acknowledge management’s responses.  We shall review the implementation on auditor’s recommendation during the next audit. |
| * 1. **TANGA SALES POINT** | | | | | | |
| * 1. **Low fulfilment of Stock Transfer orders from Central warehouse**   Section 5.1 of the WH-ISO-08 TRANSFER ORDER RECEIPT states that the “Warehouse Manager or the Area Manager of the shipping zone will communicate to the Area Manager/Warehouse Manager of the receiving zone about the order being shipped, the expected date of departure at Central Warehouse or shipping zone and expected time of arrival at the receiving zone.” | Our review of distribution report (Goods transferred to zones) revealed the following:-   1. For the period of July 2014 to June 2015 there was low fulfillment of zonal orders from central warehouse most of zonal orders were not fulfilled from HQ. Further analysis revealed that 261 items out of 370 itemsrequested from central warehouse were not supplied to the Sales Point as at 30th June 2015 and the orders were closed. 2. Four (4) items were shipped in excess of what was requested by the Sales Point. The value of the goods supplied in excess amounted to **Tshs 20,174,650/-** | 1. Stock out at central warehouse. 2. Lack of regular review of distribution report to establish status of goods requested/ transferred to the zone and communicate anomalies noted. | 1. Lost sales 2. Damages reputation to the public due to stock out. 3. Good shipped in excess of what was requested might result in stock expiry before distribution/sale to customers. | 1. We advise the Sales point Supervisor to work closely with the Warehouse Manager and Demand supply unit to make proper planning of their needs and to ensure adequate order fulfillment. 2. Sales Point management is advised to review the distribution report on monthly basis to establish status of goods requested and identify discrepancies and timely resolve them. 3. Sales Point In charge is advice to communicate and verify transfers of goods from central warehouse or from other zone to ensure that they reconcile with their respective order and all differences are reported to Central Warehouse or dispatching zone. | I concur with auditors recommendations, However zonal management will make sure distribution report is regularly reviewed for close follow up. Also communication between sales point and Central warehouse is improved at all times. | 1. We appreciate the continued efforts being made by management and the Board to solicit funds from the Government. We encourage the efforts to continue with efforts to request the government to set aside adequate financial budget for purchase of medicine and timely and disburse the full amount to MSD in time.   **Responsibility:** Director General  (b) Noted, we advise Sales Point management to implement auditors’ recommendations. |
| * 1. **Late transfer of stock from Central Warehouse.**   Section 5.1 of the WH-ISO-08 TRANSFER ORDER RECEIPT describes that the Warehouse Manager or the Area Manager of the shipping zone will communicate to the Area Manager/Warehouse Manager of the receiving zone about the order being shipped, the vehicle number, and the drive’s name, the expected date of departure at Central Warehouse or shipping zone and expected time of arrival at the receiving zone.  Normally the lead time from the date of request to the date of receipt is within two weeks (14 days) | We selected **ninety two (92)** Stock transfer orders from distribution report and reviewed the physical receipt of goods to zone. The test revealed that **fourteen (14**) items were transferred late to Tanga sales point from central warehouse. The delay ranged from 15 to 45days. | 1. Stock out at central warehouse. 2. Lack of effective communication and follow up with central warehouse on transfer orders. | 1. Stock out at the receiving zone. 2. Lost sales | 1. We advise Director of Logistics in collaboration with demand and supply unit to ensure that proper planning and supplying of goods requested by zone/Sales point is done in order to ensure that stock are available at the sales point/zone on time. 2. We advise Sales Point management to make a close follow up of all stock transfer orders sent to central warehouse or other zones to ensure that goods receive with the required time. | In order to ensure that the consignment from central are not lately delivered to Sales point we will improve communication between sales point, central warehouse and demand planning and supply unit. In this regards we will ensure timely availability of stock in zone sales points. | Noted, we will review Sales Point management comments during the next audit work.  **Responsibility**  Sales point supervisor Tanga and Zonal Manager Moshi |
| * 1. **Missing signed Stock Transfer Orders**   Regulation 185 of the financial regulation. “Require that, all or any of the obsolete files, records and documents that have been in the custody of the Department shall be retained to a Minimum retention period | Our review of stock transfer order s to ascertain whether receipts of goods from central warehouse were acknowledged by the receiving staff by signing the transfer order revealed that **sixteen (16)** transfer orders were missing from the files. | 1. Poor filing system 2. Non adherence to the MSD Financial regulations | 1. Goods not received or posted to E9 may not be detected and hence possibility of stock discrepancies and pilferages.. 2. Documents are not available for reference | 1. Sales Point in charge is advised to trace the missing Stock Transfer Orders and forward them to auditors for verification. 2. Sales Point management is advised to improve filing system at the zone to ensure that the documents are available when they are needed. | Since we do not have shelves for keeping filed documents. Documents are kept in the boxes and stored in the warehouses, this makes difficult to obtain documents when needed. But with the new WIB there will be shelves to keep documents therefore searching of required documents will be easy. In this regards the missed documents during verification have been found | We have received and verified nine (9) Stock Transfer Orders out of twenty five (25) that were initially missing and reported in our draft report. However two (2) Stock Transfer Orders were not signed by receiving officer at Sales Point.  We advise the sales point Supervisor to trace and submit to the auditors for verification the remaining **sixteen (16)** Stock Transfer  **Responsibility**  Zonal Manager Moshi & Sales Point supervisor. |
| * 1. **Lack of evidence of reconciliation of stock discrepancies noted during cycle count.**   Procedure for Cycle count (WH-SOP-13) step 5.11 to 5.14 states that:-  5.11 “The Warehouse Officer will generate and print a variance report from Epicol 9 system.  5.12 The Warehouse Officer will review the Variance report to find out whether or not; the counting results have brought about discrepancies.  5.14If the discrepancy still exists even, the Warehouse Officer will:-Inquire written explanations from the Warehouse Assistant responsible for stocks being verified to give reasons for discrepancy, followed by a detailed cycle count report suggesting corrective actions for discrepancies if any | During the field work we reviewed the results of cycle counts for the period under review and noted that there was no evidence that items found with discrepancies were fully investigated and resolved. | Lack of supervision and management follow up to adhere to the requirement of the SOP’s. | 1. Misstatement of stock balances. 2. Loss of stock through theft and pilferage may not be timely detected/reported for action. | The Zonal management is advised to ensure that cycle count process is effectively done as required by the Standard Operating Procedures for cycle counting. All stock discrepancies must be investigated and corrective actions be taken to prevent unnecessary reoccurring stock discrepancies. | Reconciliation of stock discrepancy was done using direct transfer which was not easy to get system documents for evidence. But for now the reconciliation is done through adjustment. | Reconciliation should not be perceived to be reconciliation but it should be seen as an action to remove the reconciled difference, Therefore we emphasize that stock adjustments should be done only after reconciliation.  **Responsibility**  Zonal Manager Moshi & Sales Point supervisor. |
| * 1. **Delay in investigating and resolving outstanding bank reconciling items.**   MSD financial regulation 163 requires all reconciling items to be investigated and appropriate entries to be made immediately. | On review of bank reconciliation for the period of July 2014 to August 2015 revealed that there were one(1) reconciling item of **Tshs 2,112,900** in the Expenditure account which remained outstanding for more than 28months. | Lack of management commitment and follow up on adherence to the requirement of the Financial regulations. | Fraud and errors may not be timely detected | 1. We advise the Sales Point Management to investigate and timely resolve all reconciling item within a month. 2. Sales Point management is advised to investigate all long outstanding reconciling items and request approval from head quarter to adjust/resolve them as appropriate. | Following the previous audit which resulted in the suspension of suppliers payments and resulted in the delaying of the reconciliation. The cash book has been corrected and reconciled as attached. | We have received and reviewed the bank reconciliation statement for the month of December 2015 both Expenditure and collection accounts. Most of the reported long reconciling items were investigated and properly adjusted. One reconciling item of **Tshs 2,112,900** is still outstanding, further follow up is continuing. |
| * 1. **Delays in making imprest retirement amounting Tshs 13,503,900/-**   MSD Financial Regulations 2011, regulation 82 states that “all travel allowance shall be paid on imprest terms and shall be retired within seven days after return from the official trip as per Staff Regulations. | We observed staff imprests were not timely retired. The Delays ranged from **eight** **(8) days** to **454 days.**  However staff was issued with new imprest without retiring the previous advances. | Lack of commitment by Sales Point management to adhere to the requirements of MSD financial regulations 2011 | 1. Imprest might be used for non MSD activities. 2. Misstatement of reports. 3. Noncompliance with the requirement of MSD Financial Regulations, 2011. | We advise Sales Point In charge:-   1. To remind the staff to retire their imprests as per requirements of MSD financial regulations 2011. 2. To request zonal accountant to produce an aged analysis report of outstanding staff imprests and take appropriate action against staff with long outstanding imprests. | The staff acknowledged the late retirement and agreed to adhere with the Financial regulation 2011. | Noted, we will review implementation of auditors’ recommendation during the next audit work.  **Responsibility**  Zonal Manager Moshi & Sales Point supervisor. |
| * 1. **Lack of payment and imprest retirement register at the Sales Point.**   It is the MSD best practices that for each payment there must be a payment register and retirement register which provides the evidence of payment and retirement. | It was revealed that the Sales Point does not keep registers for staff payments made through cheque or petty cash and imprest retirement.  Also there was no register in place for suppliers to sign upon receipt of cheque/ cash although the zonal accountant explained that suppliers signed in the dispatch book. Together with that there was no retirement register established in place. | Inadequate control over imprest payment and retirements. | Missing information on the payments and retirements.  It difficult to trace missed documents. | Sales Point management is advised to establish:-   1. Payments register at the zone with the details of the payee, imprest number; amount paid, cheque number, a person who collects cheques, date and signature.   The register should include both staff payments and supplier’s payment for all MSD account.   1. Retirement register to be signed by staff at the time of submitting their retirements to accounts. The register must have the following details staff name, imprest number retired, amount, date and signature. | We noted and it has already implemented as per auditors recommendations during verification. | Noted, however the time that the register has started to be used was not indicated.  We will review implementation of auditors’ recommendation during the next audit work.  **Responsibility**  Zonal Manager Moshi & Sales Point supervisor. |
| * 1. **Car truck system was not used in managing vehicle utilization at the Sales Point.**   MSD decided to acquire the car truck system in order to ensure economical, effective and efficient utilization of motor vehicle and hence value for money. However this can be attained only by ensuring that the system is fully utilized. | Through discussion with Sales Point in charge we noted that all distribution vehicles have installed CARTRACK system to ensure effective monitoring of vehicle utilization. And some staff has been trained on how to access the system and produce the report.  However we observed that CARTRACK system were not used at all. No staff uses the system to access/produce the report on vehicle movement. | Lack of SOP or regulations that demand Area manager/Sales Point in charge to monitor the car movement through car tracking system and prepare the report. | 1. Misuse of office vehicles might occur without timely detected. 2. No value for money/ return on investment obtained from the system installed. | 1. Director of Logistic in collaboration with head of transport is advised to institute Standard operating procedure requiring Area Manager/Sales Point to use CARTRACK system for effective monitoring of vehicle utilization and prepare report which include in the monthly/quarterly report to DCZO. 2. Sales Point Management is advised to use car track system to monitor vehicles movement and utilization. | Some of the staff was trained, but there were no guidelines on how and where to report. | We advise Sales Point management to request and obtain the said guidelines from the Director of Logistics and implement CARTRUCK immediately.  **Responsibility**  Zonal Manager Moshi & Sales Point supervisor. |
| * 1. **Lack of records for generator fuel consumption.**   MSD Financial regulation 2011, regulation 90 requires a consumption register to be maintained for each vehicle and generator, monthly consumption of fuel and kilometers performed shall be arrived at by calculating the average kilometers/hours performed per litre during each month. Each responsible manager shall prepare weekly consumption report and submit to the EMT. | 1. Our review of Fuel controls revealed that Sales Point introduced the consumption register for generator in August 2015 for generator currently used at the Sales Point offices. However some of information in the register like time generator was running, average running hours per litre was missing/not filled in the register. 2. We also noted that for the period of July 2014 to July 2015 no information recorded on generator consumption as well as no consumption register for generator used in new offices of Pongwe area. | Inadequate supervision of fuel consumption for generator. | Fuel purchased might not be filled/used into MSD generator. | 1. Sales Point in charge is advice to maintain the consumption register for all generators used at SP. The registers must have the details of date, time fuel filled, litres of fuel filled, time generator switched on and off, staff name, signature and average running hours per litre. 2. Sales Point in charge should review and sign the register weekly or monthly to ensure that generator consumption of fuel is controlled. | The register has now been improved as per auditor’s advice during auditing. The generator cannot display the fuel consumption per hour, but the use of generator is recorded based on the time power went off and on. | Noted, we will review the implementation during the next audit visit  **Responsibility**  Zonal Manager Moshi & Sales Point supervisor. |
| * 1. **Payment of overtime to casual labours**   Overtime is a work over and above ordinary hours of  Work. The payments of overtime are paid to employee by the employer in accordance with an agreement.  The best practice shows that casual employee has no guaranteed hours of work, usually works irregular hours, doesn’t get paid sick or annual leave and can end employment without notice, unless notice is required by a registered agreement, award or employment contract | Review of payment made during the period under review, revealed that casual labourers for office cleanness and warehouse activities were paid on daily basis through imprest taken by staff and included the overtime. There was no contract with casual laborers.  Sales Point In charge explained that budget for casual labour is Tshs 9,000/- per day but they pay them Tshs 6,000 and the different is used to pay as overtime for hours above 3:30pm however this is contrary to Employment and Labour Laws. | 1. Lack of awareness and guidance on payment to casual labours. 2. Lack of contract for casual labour | Casual Labours are not employee of MSD payment of overtime is contrary to Employment and Labour Laws. | The Sales Point management is advised to:-   1. Consult Human Resource Manager to obtain the guidance of payment of casual laborers. 2. Obtain approval from PMU head office to initiate procurement process of casual labour services. | Sales Point management concurs with the Auditor’s recommendations; however we are seeking consultation from the office of Human Resources Manager on the guidelines for overtime. | We advise the Sales Point Management to consult human resource office as soon as possible and the responses office should be submitted to auditors for verification.  **Responsibility**  DHRA |
| * 1. **Payments made to suppliers without valid contracts.**   Public Procurement Act, 2011 and its regulations requires the public institutions to enter into contracts with suppliers of goods and services in order deliver the works, goods and services of the required quality, in a timely manner and within the agreed costs. | During the audit we validate payments made during the period under review and observed that payments were done to suppliers of Catering Services, Fuel and Lubricants and Maintenance and repair of Motor vehicles without a valid contract.  The contracts were expired in 30 June 2014 and extended for 2 months after that no extended or approved contract were issued to suppliers. | Lack of commitment and follow up to comply with Public Procurement Act, 2011 and its regulations of 2013. | Suppliers may deny or supply substandard goods or services without any legal action to be taken.  It is difficult to perform contract management as there are no contracts with suppliers. No obligation to either part in case of defamation. | We advise Sales Point management to ensure that:-   1. Payments to suppliers are done by using valid contracts in order to deliver the goods and services of the required quality, in a timely manner and within the agreed costs. 2. Effective communication and follow up must be done to ensure the approval of contract extensions are done immediately or initiate new procurement process on time. | The valid contracts has been made available and attached | Management comment is not satisfactory. The contract submitted is for Repair and Maintenances of Motor Vehicles for the year 2014/2015 was expired June 2015.  The contracts for services used from July 2014 to August 2015 for the following services:-   * Catering Services, * Fuel and Lubricants and * Maintenance and repair of Motor vehicles   were not submitted for verification.  We advise Sales Point management to comply with Public Procurement Act 2011 and its regulations.  **Responsibility:** Zonal Manager Moshi & Sales Point supervisor. |
| * 1. **Missing Quotations and evaluations to support award of contract Fumigation Services**   Regulation 68 of G.N 97 - (4) Quotations shall be obtained from at least three suppliers which may include qualified agents of foreign suppliers in Tanzania. | On 28th January 2015 Tanga Sales Point awarded a contract of Tshs 2,200,000/- with number ZMS/MS-TG/S/2014/15/01 to Dips General Services for the supply of Fumigation Services. However there were no evidence of quotations sent to bidders and evaluation report to support the award of contract to Dips General Services | 1. Lack of effective supervision to ensure compliances to the laws and regulations. 2. Poor record keeping. | 1. There is a risk of fraud by favouring certain supplier. 2. Loss of important procurement records. | 1. Sales Point Management should provide the missing quotations and evaluation which support the award of Contract to Dips General Services. 2. We advise Sales Point in charge to make a thorough review of procurement documents to ensure compliance to all legal process before signing letters of award of contracts. | Sales Point management is of the opinion that the service provider awarded the contract had framework contract with GPSA in this situation the sales point management saw no obstacle to award the contract to the service provider as he/she is shortlisted with GPSA. However other shortlisted service providers did not respond accordingly to pave the way for further proceedings. | Management comment is not satisfactory. We didn’t receive the evidence that the quotations were sent to the shortlisted supplier and the responses documents from Dips General Services who was awarded the contract.  We advise Sales Point management to comply with Public Procurement Act 2011 and its regulations no.131 (5).  **Responsibility**  Zonal Manager Moshi & Sales Point supervisor. |

**AUDIT OBSERVATIONS AND RECOMMENDATIONS DAR ES SALAAM ZONE**

| **Criteria** | **Observations** | **Cause** | **Risk** | **Recommendations** | **Action taken by Management as at 27th April 2016** | **Auditor’s evaluation on Management Comments.** |
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| * 1. **Sales not supported/partially supported with proof of delivery and approved Customer requisition/orders.**   MSD Financial regulation, 2011 regulation 65 declares the responsibility for custody and handling of financial documents, these documents are sales invoices, delivery note and sales order pertaining to sales, also best practice requires that documents should be filled, kept properly and made accessible readily at any time when required for verification. | Review of 245 sales invoices amounting to **Tshs. 3,068,387,967.86** for the period of January 2014 to March 2015 revealed that:-   1. Twenty nine (29) sales amounting to TZS **209,672,700**/= were not supported by both proof of delivery and customer orders 2. Sixteen (16) sales amounting to **TZS 75,664,700**/= were supported by approved customer orders but proof of delivery to respective customers was missing 3. Twelve (12) sales invoices amounting to **Tshs. 100,571,600** were not supported by approved customer orders. | 1. Lack of proper record keeping. 2. Lack of adherence to MSD financial regulations | 1. Risk of fraud through fictitious sales. 2. Disputed sales due to missing proof of delivery of goods to respective customer | Zonal Management is advised to   1. Trace the missing sales invoices and customer orders and submit them to internal audit Unit for verification 2. To strengthen control over the movement of documents by appointing specific officers to be responsible for safe custody of the documents. The officers will also be responsible for ensuring that the documents are made available for verification whenever a need arises. | 1. 16 missing sales invoices and customer orders have been traced out of 42. 2. 8 customer orders out of 14 have been found. 3. A team of staff members has been appointed to work out on the missing sales invoice and customer orders and the documents will be produced by May 31, 2016. 4. The control is now is in place and all invoice are filed in serial numbers for easy verification and availability when needed | We appreciate the management commitment to implement the recommendations by 31st May 2016.  The internal audit Unit is set to verify the implementation status during the next Audit in August 2016.. |
| * 1. **Customers not ordering goods with credit balances of Tshs. 1,390,156,544.73 not ordering goods**   The Ministry of Health and Social Welfare transfers funds to MSD which are allocated and posted to the accounts of public health facilities. In turn the health facilities use the allocated funds to purchase medicine and medical supplies from MSD and the respective fund allocations to each health facility. According to existing arrangement both dispensaries and health centres are served through Integrated Logistic System (ILS) whereby health facilities are supplied with goods after submitting their orders to MSD. | We reviewed the movements of account balances for 950 customers during the period of ten (10) month from 1st July 2014 to 30th April 2015 and observed that:  168 Customers with a total credit balance of **Tshs. 1,390,156,544.73** had not made any purchases during the period of July 2014 to April 2015. Further review revealed the following:   1. One customer Medical Equipment and Maintenance (MOHSW) (DR100054) had a credit balance of **Tshs. 836,826,243.50** and the last sale was made on 30th June 2013 through INHQ-004430 for **TZS 781, 390.50.** 2. 33 customers with credit balances amounting to Tshs. **267,419,111.30** were receiving fund allocations without making purchases.   It was further noted that the zone does not conduct routine review of customers account to observe all accounts with abnormal movement during the period. | Lack of regular management review of customer balances to establish the cause. | 1. Negative corporate image for accumulating funds on customer accounts without supplying medicine and medical equipment. 2. Lost sales from dormant customers | Zonal Management is advised to:-   1. Check and identify physical existence of customers relating to zone especially those allocated with funds but there has been no sales made to them. 2. Make routine customer visit to non-returning customers during the period. | (a)Routine customer visit to non-returning customers is being made during this year.  (b)Health facilities which receive/with huge credit balance are now used to serve others with debit balance with the concert of respective DMO therefore credit balance has gone down | We appreciate management’s comments; however we have not received evidence of customer visit or verification conducted by the zonal management to identify the physical existence of the customer.  Verification of the balances will be carried again during the next Audit in August 2016.. |
| * 1. **Increase in Customer Debts to Tshs.** **11,282,365,133.05**   MSD Financial regulation 2011 Section 184. States that; MSD policy shall be cash and carry; however, when necessary a temporary credit facility to customers shall be approved by the Director General in consultation to the Director responsible for Finance. Director responsible for customer and Sales may approve credit sales in accordance with MSD credit policy, Section 214 requires the Director responsible for sales in collaboration with the Director responsible for finance to collect all debts arising from sales. | Analysis of customer balances for the period of July 2014 to April 30, 2015 revealed that customer debts had increased by Tshs. 1,063,343,976.79 from Tshs. **10,219,021,156.26 as** 1st July 2014 to **Tshs. 11,282,365,133.05** as at 30th April 2015. Further review on the customers’ accounts revealed the followings;-   1. 17 customers with debts amounting to **Tshs. 438,470,193.31 h**ad no receipt of fund during the financial year 2014/2015 2. 83 customers with debts amounting to Tshs. **1,233,757,162.49** Neither received funds nor purchased goods during the Financial year 2014/2015 3. 349 customers with debts amounting to **Tshs. 9,610,137,777.25 had** higher purchases than the funds allocations credited to their accounts. | 1. Health facilities are not receiving allocation from MOHSW or are receiving insufficient funds to enable quarterly deductions to recover the long outstanding debts. 2. Lack of regular management review of customer balances to establish the cause of growing debit balances. | 1. Continued growth of trade of debts negatively affects MSD liquidity. 2. Risk of fraud through false sales to non-existing health facilities. | Zonal management is advised to:-   1. Investigate and establish reasons for customers receiving goods but doesn’t receive fund allocations, and then decide whether to stop distribution of medicine to them or consult the ministry. 2. Check and identify physical existence of the customers relating to the zone in relation to the E9 customers list and establish the reason for not purchasing medicine and medical supplies from MSD. 3. Advise customer and supply them with goods based on their respective fund allocations. 4. Area manager to instruct the sales staff and the ILS supervisor to ensure that the credit sales to ILS customers are not exceed the respective quarterly allocation. | 1. Health facilities with Debit balances have been noted and verified. 2. Customers with debit balances have been served with letters to pay e.g. MNH were notified and payments of Tshs. 95 million were paid recently. 3. Close follow up to other customers to pay is in place rationalization to fit the merger allocations is also done. | We appreciate the management commitment to implement the recommendations  The internal audit Unit is set to verify the implementation status during the next Audit in August 2016. |
| * 1. **Unsupported adjustments made to customers’ accounts. Tshs.** **357,107,223.10**   Regulation 106 of the MSD Financial regulation 2011 requires that, “All the vouchers to be fully supported by relevant documents.” | We conducted a review of 59 miscellaneous invoices amounting to **Tshs.1, 366,962,138.81** which were raised to adjust customers account. It was revealed that 18 miscellaneous invoices amounting to **Tshs. 357,107,223.10** lacked supporting documents. | Lack of effective control over customer accounts by Zonal management. | 1. Potential dispute with customers for transferring funds from their accounts without their consent. 2. Fraud through unauthorized adjustments to customer accounts | The zonal management is advised to:   1. Provide the missing supporting documents for the adjustments made to the customer accounts. 2. Improve the documentation of adjustments to customer accounts by ensuring that they are properly supported with the relevant documents. | 1. The missing supporting documents for the adjustments made to customer accounts available for verification. 2. We accept the auditor’s recommendation for implementation. | We acknowledge receiving the copy of supporting documents relating to adjustments made to the customers’ accounts however our review of the documents revealed that the narration in the Epicor 9 system is not properly completed to explain the reasons for corrections made to customer accounts or transfer of funds from one accounts to another due to existence of more than one account. The zone management is advised to implement auditor’s recommendations. |
| * 1. **Lack of evidence that Adjustments to customer accounts were acknowledged by customers. Tshs. 1,330,217,226.33**   As part of the control to any movement in the customer’s account the Epicor 9 system generated adjustment invoice requires the customers’ officer to acknowledge any transaction made to the customers’ accounts. | A review of fifty nine (59) miscellaneous invoices amounting to **Tshs. 1,366,962,138.81** raised to adjust customer accounts, revealed that 55 miscellaneous invoices amounting to Tshs1, 330,217,226.33 had no evidence of customers’ acknowledgement of the adjustments made to the customers’ accounts for the period of January 2014 to March 2015. | Inadequate control over customers account | Possibility of errors and irregularity due to lack of approval and customer acknowledgement of transactions entries to customer accounts. | The zonal Management is advised to:   1. Provide the evidence that the adjustments were acknowledged/authorized by the customer’s officials.   (b) Obtain customer acknowledgement of any adjustment made to their respective accounts and keep proper records of all transactions made to customer accounts. | 1. A team of staff will be sent to customers in order to obtain their acknowledgement of the adjustment made to their respective accounts. 2. Auditors’ recommendations have been noted for action and by May 31, 2016 the evidence for the same will be put available for verification. | Verification of the balances will be carried again during the next Audit in August 2016.. |
| * 1. **Inaccurate Epicor 9 aged receivable report.**   According to Cobit 5 Integrity is among of the three key information security criteria namely Confidentiality, Integrity and Availability (CIA). I n a nut shell integrity refers to information which is accurate, complete and free of errors. This implies that reports generated from the ERP should provide management with a reliable information for decision making. | Review of balances on 950 customer accounts as at 30th April 2015 revealed that two reports for the same customers which are supposed to give the same balance were found to differ. The aged receivable report in Epicor 9 system was compared to customer statement of account and a net difference of TZS 327,041,530 CR was noted. Further verification revealed the aged receivable report was generating incorrect account balances | 1. Lack of user verification of the systems generated reports 2. Lack of ownership of the E9 system reports. | Misleading information for decision making | Zonal Manager is advised together with the Director of Finance and Planning are advised to review the Aged Receivable Report in Epicor 9 and consult DICT staff to address the configuration deficiencies | Zonal Manager has already communicated with DFP on this issue. Feedback is awaited from both DFP & DICT | We appreciate zonal management’s comments, however we have not received evidence of communication between the Zonal Manager and the Director of Finance and planning |
| * 1. **Stock in transit between Dar es salaam zone and WiB Tshs. 326,332,709.67**   Accounting Manual 2008 (11.5.7) Transfer of stock within or between warehouses/zonal warehouse  (b) Zonal transfers  (iii) Zonal managers shall ensure that a reconciliation of goods issued and received at their zones is done on a monthly basis. | Analysis on inventory transfer between Dar es salaam zone and other zone for the period of January 2014 to March 2015 revealed that stock worth Tshs. 326,332,709.67 had been in transit since May 2014 and before. | Lack monthly reconciliation of goods issued and goods received at the zone | Risk of loss through fraud | The zonal management is advised:   1. To investigate the mentioned short deliveries and take appropriate action. 2. To remind the warehouse staff the importance of ensuring that all deliveries are supported by system generated transfers and receipt forms. | 1. There was a push system from WIB to Dar zone whereby orders were created from WIB to Dar zone, and items were not physically received per shipment. And also partial delivery of items to Dar zone caused retuned of the said item system wise but were not pulled by WIB responsible staff. | 1. The zonal management’s comments are not satisfactory as we have not received any documentary evidence to support the comments provided. 2. Documentary evidence will be provided before May 31, 2016 to clear the doubt. |

**AUDIT OBSERVATIONS AND RECOMMENDATIONS FOR IRINGA ZONE**

| **Criteria** | **Observations** | **Cause** | **Risk** | **Recommendations** | **Action taken by management as at 27th April, 2016** | **Auditor’s evaluation** |
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| * 1. **ILS customer with Credit balance but not ordering goods TZS 69,882,894**   SOP 9.1 Customer Service and Sales Standard operating Procedures, 2005 states that “MSD shall operate on cash and carry policy. Credit sales will be allowed on special cases as requested by MOHSW. | We reviewed ILS customer balances from the Epicor 9 system as at 31/3/2015 and noted that as that date there was a total of 219 ILS customers with a total credit balances Tshs **1,626,183,713.54** However after a review by zonal Management and an agreement with DMOs and approval from Head office some of the Credit balances were used to offset some of the debts. We also noted that all ILS customer of Makete DC were transferred from Iringa Zone to Mbeya Zone. Therefore the total credit balance decreased from **Tshs 1,626,183,713.54** to Tshs **631,368,187.47 as at 24th December 2015.**  Furthermore ILS customer with Credit balance but not ordering goods had decreased from **Tshs 393,600,258.83** to **Tshs 69,882,894** as at 24th Nov 2015. | 1. Lack of communication to health facilities on changes made by the MOHSW on fund allocation per population 2. Stock out | Unexplained increase in fund balances on customer accounts could be wrongly perceived by the public as MSD inefficiency | Zonal management is advised to:-   1. Check and identify physical existence of customers relating to Iringa zone especially those allocated with funds but there has been no sales to their account. 2. Communicate to customers’ information relating to their respective fund allocations and account balances and sensitize them to order goods according to their respective fund allocations. | Zonal Management continued with communications with customers and utilized the balance and now is amounting to **TZS 27,880,776.23** | We appreciate the actions taken by management. We will verify the implementation during the next audit in September 2016. |
| **1.2 ILS customer Debts amounting to Tshs 954,175,058.12**  SOP 9.1 Customer Service and Sales Standard operating Procedures, 2005 states that “MSD shall operate on cash and carry policy. Credit sales will be allowed on special cases as requested by MOHSW | We reviewed ILS customer balances from the Epicor 9 system as at 31/3/2015 and found 365 ILS customers with Debit balances amounting to **Tshs 1,631,699,238.73**. This included Tshs935, 608,167.44 **which** was due from **only** 55 customers each having a debit balance above Tshs 10,000,000/which is very high compared to their total annual allocations/deposits which was less than TZS 2,000,000/= for most of them. However after a review by zonal Management and an agreement with DMOs and approval from Head office some of the debts were offset with some of the credit balances and reduce total debt decreased from **Tshs 1,631,699,238.73**. to Tshs **954,175,058.12 as at 24th December 2015.** | 1. Health facilities are receiving insufficient funds to enable quarterly deductions to recover the long outstanding debts. 2. Some of the health facilities do not receive fund allocations from MOHSW. | 1. Weakening liquidity position 2. Unrecoverable debts. | Zonal management is advised to conduct a monthly review of customer accounts to identify accounts which the debts are growing, establish the cause and address it and then agrees with the customer on the best recovery method. | We concur with Auditors recommendations and Zonal Management continued with monthly review of customers’ accounts, and aggressive communication with customers and managed to reduce the balance to **TZS 236,670,462.38** | We appreciate the effort made by Zonal management which has reduced the debt to TZS 236,670,462.38 from Tshs 954, 175,058 previously reported**.**  It is expected that efforts will continue to recover the remaining balance. |

**AUDIT OBSERVATIONS AND RECOMMENDATIONS FOR MBEYA ZONE**

| **Criteria** | **Observations** | **Cause** | **Risk** | **Recommendations** | Action taken by management as at 27th April, 2016 | Auditor’s evaluation |
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| * 1. **Inadequate implementation of the auditors recommendations**   Regulation 24 (b) of the MSD financial regulation 2011 requires the managers and directors to corporate and support appropriately the internal audit when carrying out their work and provide timely and appropriate responses to audit queries and recommendations. | Review on the audit report issued on May 2013 covering the period of July 2012 to April 2013. indicates that the following observations lacked evidence of implementation;   1. Missing Customer Requisition Orders for 131 sales amounting to Tshs. 579,436,440.00 2. Lack of proof of delivery for 66 Sales amounting to Tshs. 168,607,840.00 | 1. Lack of proper records keepings 2. Lack of action plan to implement audit recommendations. | (a) There is a risk of making sales/delivery to unauthorized customer.  (b)Risk of fraud through false sales/shipment | Zonal management is advised to   1. Provide evidence of implementation of auditor’s recommendations. 2. To prepare action plan to implement both internal and external audit recommendations. | 1. Auditor recommendation has been implemented as can be observed on this report that we have only 6 missing customer order or proof of deliver with total value of 16,811,400/= of which we are sorting it out compared to 197 documents with total value of 748,044,280/= that were observed in previous audit. 2. The documents were found and sent to Internal Audit Unit for further verification. 3. We agree with auditor’s advice on preparation action plan for implementation of auditor’s recommendation. | We appreciate the effort made by the zone to improve the management of transaction documents at the zone, however the six (6) missing documents mentioned had neither been presented no included in the action plan to ensure that they are made available for audit verifications.  We will verify the implementation during the next audit in September 2016. |
| * 1. **Negative balance in CRDB Bank Collection cash book (21305) Tshs. -23,923,800.**   Cashbook is an important control record for management to ensure that all collections are properly recorded and later reconciled with the bank statement. Furthermore, cashbook assists management to establish how much money the business has from time to time and avoid issuing cheques without having sufficient funds. | 1. The CRDB Cash book collection account No 21305 as at 31st October 2014 was indicating an overdraft balance Tshs 23,923,800. the overdraft was mainly caused by a fictitious bank fund transfers of Tshs 15,000,000/= made by Headquarter accounts staff on 12th August 2014 from the zonal account to Headquarter CRDB account No 21508 2. A further review of the Mbeya cash book revealed that on 24th October 2014 Tshs.57, 000,000 was transferred by Head office accounts staff from zonal the zonal CRDB cash collection account 21305 to Headquarter collection account 21508 while the actual cash book balance for the Mbeya Zone was Tshs.56,110,000. Therefore the amount transferred exceeded the cash book balance as at that date by TZS 890,000/=. It was possible to transfer from bank the TZS 57,000,000/= because the actual balance in bank as per bank statement (before the transfer) was Tshs.79, 821,300 on 27th October 2014. | 1. Transaction involving fund transfers in Epicor 9 are effected without managerial review and approval. 2. Delays in resolving and posting to Epicor 9 some of direct bank deposits by customers. 3. The transfers are made based on the funds available at Bank instead of the cashbook balance | 1. High risk of errors, fraud through fictitious entries in Epicor 9. 2. Possibility of creating unauthorized bank overdraft in case the bank discovers the unresolved credit entries to the Zonal bank account were erroneous and decides to reverse them. | 1. The Director of Finance and Planning is advised to make bank fund transfers from zonal account to head office account based on the available cashbook balance. 2. The Zonal Accountant is advised to make a timely investigation of all direct bank deposits and post them immediately to Epicor cashbook | The transfers are now being booked timely in our cash books by Headquarter accounts staff. This can be evidenced through the monthly bank reconciliation. | We appreciate the action taken by zonal management. We will verify the implementation during the next audit in September 2016. |
| * 1. **Fictitious fund transfers from Zonal bank account to Headquarter account. Tshs 15.Million**   It is a common accounting practice to record a transaction only when all relevant facts are well known about the existence/occurrence of the relevant event. For this reason every transaction posting to a computer system should be supported by both source document and approval of responsible head of section or department in order to ensure that only valid transaction are processed, | Our review of bank reconciliation statements for the Mbeya zone revealed that on 12th August 2014 an Accountant at head office created a fictitious bank fund transfer of Tshs 15,000,000/= made by Headquarter accounts staff **(vide cash disbursement journal CD-744 )**  from the zonal account to Headquarter CRDB account No 21508. However there was no actual fund transfer and the transaction continued to remain as a reconciling item(unpresented cheque) in Mbeya monthly bank reconciliation statements from August 2014 to April 2015 when it was reversed by the Mbeya Zonal Accountant vide journal CD- 4848 created on 2nd April 2015 but dated 12/08/2014 | 1. Transaction involving fund transfers in Epicor 9 are effected without managerial review and approval in the system. 2. The system allows head office staff to make journal entries to zonal cash book 3. Head office has the authority to transfer funds from Zonal bank account without consulting the management of the affected zone. | 1. Transactions are passed in zonal cashbook without the knowledge of Zonal Management hence creating reconciliation problems 2. Head office staff can assist in committing/concealing irregularities in zonal accounting records. | 1. The system controls should be redesigned to prevent head office staff to make fund transfers from Zonal cash books to head office cashbook without the approval of Chief Financial Accountant. 2. The system controls should be redesigned to prevent head office staff to make transaction entries in Zonal accounting records.an intermediary accounts for fund transfers may be created to allow the head office to manage and track fund transfers through this account. For instance head office when transferring funds will debit head office cash book and credit the intermediary fund transfer account. Equally the zone to recognize the transfer will debit the fund transfer account and credit their cash book. | Transfers from zonal bank account to Headquarter are currently done by Zonal Accountant hence the strong control on the mentioned issue is well observed. Also there is closed communication between treasury management officer at headquarter and zonal accountant. | We appreciate the action taken by zonal management. We will verify the implementation during the next audit in September 2016 |
| * 1. **Delays in banking cash/cheque receipts amounting to Tshs 33,001,149.66**   Accounting Manual 7.2 (iii) requires the receiving Cashier to be responsible for collecting revenue, issuing receipts and ensuring that the cash collected is banked on the same day or the next day. | Review on daily banking of Cash and Cheque collections revealed that 15 cash and cheque collections amounting to Tshs. 33,001,149.66 were not banked on time. Out of it there were eight (8) cheque collections amounting to Tshs 24,107,099.66 and seven (7) cash collections amounting to Tshs 8,894,050.00.  The delays ranged from two (2) to ten (10) days. | Lack of adequate supervision to ensure compliance with the requirement of MSD accounting procedures. | 1. Theft of cash through burglary or any other form of theft 2. Provides an opportunity to be tempted to lend himself the money for personal needs. | The zonal management is advised to make a daily verification of cash and cheque banking to ensure consistent compliance with the requirement of the MSD accounting procedures. | Daily verification of cash and cheque banking is done. No delay to date. | We will verify the implementation status during our next audit review in September 2016 |
| * 1. **Fuel purchase Tshs 3,617,400.00 and other important information not traced in the motor vehicle log book.**   Regulation 95 of MSD Financial regulations, 2011 states that “In addition to the maintenance of inventories for vehicle, logbooks shall be maintained for each vehicle, recording its history, performance, servicing, overheads, repairs, in sufficient detail for periodic assessment to be made of its performance compared with its cost of upkeep.” | Review of fuel purchases at the zone revealed that records on motor vehicle utilization were not maintained adequately in some of the motor vehicle logbooks.  It was revealed that;   1. Fuel purchases amounting to 1420 litres of diesel, 165 litres of petrol, and 10 litres of engine with a total value of TZS **3,550,200.00** related to nineteen (19) fuel orders were not recorded in their respective motor vehicle log books. 2. Furthermore, it was noted that other important details like driver’s name, reason for travel and vehicle registration numbers were not properly recorded in the respective motor vehicle logbooks. | Lack of regular manager check of motor vehicle logbooks to ensure compliance to existing controls. | Fuel purchased may not be used for MSD intended activities. | Area Manager is advised to:-   1. Make regular review of motor vehicle log books to identify unauthorized motor vehicle use and take appropriate remedial action. 2. Remind the zonal drivers to fill in the logbook all required information’s as indicated in the logbook. | 1. Auditor’s advice is taken and a reminder letter has been given to zonal drivers for improvement. 2. Reviewing of motor vehicle log books is now done regularly as per internal auditor recommendations. | We appreciate action taken by zonal management. However no any document presented to the auditors for verification. We will verify the implementation status during our next audit review in September 2016 |
| * 1. **Missing evidence of monitoring of fuel consumption to support the quantity of fuel issued to motor vehicles on different routes.**   Regulation 89 of the MSD Financial regulations requires that; the Fuel consumption shall be strictly controlled by regularly monitoring the average kilometers/hours performed per litre. The performance of a vehicle/generator in terms of expected average running kilometers/hours per litre shall be as provided by the franchise dealers. | The procedure of issuing fuel to motor vehicles at the zone starts with an approved MSD requisition order form. The form describes the amount and type of fuel to be taken by the driver. The driver can draw the amount of fuel indicated when approved order is presented to the fuel supplier.  Through enquiry we observed that fuel quantities given to drivers for distribution activities of medicine and medical supplies were not supported by a clear computation of fuel consumption rate (kilometers/litre) in order to provide a realistic estimation of the quantity of fuel in litres needed for the planned/travelled route distance.  In some cases drivers was given cash for purchasing excess fuel when the existing fuel was finished due to the limit of the tank capacity. In absence of such important monitoring it was difficult to the auditors to judge the reasonableness of the fuel issued for each route travelled with confidence. | Inadequate reading and understanding of MSD financial regulations. | Waste and theft of fuel purchased may not be detected. | The zonal management is advised that, the fuel Issued should be supported by appropriate calculations based on the distance to be travelled and the computed average kilometers travelled per litre of diesel/petrol. | 1. We concur with auditors advice to strengthen controls though the fuel normally is issued based on the kilometer to be travelled of which sometimes varies as the routes changes with weather change. 2. All documents of fuel issued against the distance travelled are kept for further review. | We acknowledge receiving the management action plan indicating that the management team has established all the distance for zonal distribution routes. We will verify the implementation status during our next audit review in September 2016 |
| * 1. **Lack of payment and imprest retirement register at the Zone.**   Regulation 152 (e) of the MSD financial regulation 2011 requires the maintenance of cheque register where the first and second signatories shall initial.  Furthermore, MSD head office maintain a retirement register which provide evidence of the retirement made from the advance paid to accomplish intended activities. | It was revealed that the zone does not keep registers for all payments made through cheque or petty cash and imprest retirement. The register available was not sufficient for either payments or retirement. The existing register records the imprest number and the name of the payee only.  Further review indicated the following:   1. Payee was not signing anywhere to acknowledge receiving the amount that was claimed to be given to him/her. 2. There was no register in place for suppliers to sign to acknowledge receipt of cheque/ cash although the zonal accountant explained that suppliers signed in the dispatch book. 3. There was no register to record retirement of special/safari maintained at the zone. | 1. Inadequate supervision over controls related payment. 2. Director of Finance has not issued a circular to direct all zonal offices to introduce and maintain a register to record retirement of staff imprests. | 1. Suppliers may claim not receiving payment. 2. Lost cheque may not easily detected. 3. In absence of retirement register it will be difficult to establish whether retirement was misplaced by accounting section or the responsible staff did not make retirement | Zonal management is advised to establish:-   1. Payments register at the zone with the details of the payee, amount paid, date, payee signature and Cheque numbers. The register should be maintained for both staff payments and supplier’s payment. 2. Retirement register to records the staff retirement. | The imprest register and retirement register have been established to reflect the suggested changes. | We appreciate action taken by zonal management. We will verify the implementation status during our next audit review in September 2016 |
| * 1. **Increase in Customer Debts to** **Tshs. 2,432,254,627.84**   MSD Financial regulation 2011 Section 184. States that; MSD policy shall be cash and carry; however, when necessary a temporary credit facility to customers shall be approved by the Director General in consultation to the Director responsible for Finance. Director responsible for customer and Sales may approve credit sales in accordance with MSD credit policy, Section 214 requires the Director responsible for sales in collaboration with the Director responsible for finance to collect all debts arising from sales. | Analysis of customer balances for the period of July 2014 to May 19, 2015 indicates that the customer debts have increased by **Tshs.372, 608, 193.38** from previous year ended June 2014. It was noted that on July 1, 2014 the customer debts was Tshs. 2,059,646,434.46 and on May 19, 2015 the debts had increased to Tshs. 2,432,254,627.84.  Further analysis on the customers’ debts revealed the following:   1. Nineteen (19) customers with total debts of **Tshs. 530,171,144.88** did not make any transaction with MSD during the period of review as there was neither sales recorded nor receipt of cash/cheque. 2. Seven (7) customers with a total debt of **Tshs. 20,974,750.00** related to new customers with either no fund allocation from MOHSW or less fund allocation than their purchases. 3. We noted that Zonal Management had taken the following measures to reduce/recover the debts. 4. Sending letters to DMO’s, Referral Hospital and Designated hospital reminding them to clear their accounts. 5. Seeking and obtaining authority from DMOs to use accounts with huge credit balance to clear accounts with debit balance. | 1. Health facilities are not receiving allocation from MOHSW or are receiving insufficient funds to enable quarterly deductions to recover the long outstanding debts. 2. Lack of regular management review of customer balances to establish the cause of growing debit balances. | 1. Continued growth of trade of debts negatively affects MSD liquidity. 2. Risk of fraud through false sales to non-existing health facilities.   . | Zonal management is advised to:-   1. Investigate and establish reasons for customers receiving goods but doesn’t receive fund allocations, and then decide whether to stop distribution of medicine to them or consult the ministry. 2. Check and identify physical existence of customers relating to the zone in relation to the E9 customers list and establish the reason for not purchasing medicine and medical supplies from MSD. 3. Advise customer and supply them with goods based on their respective fund allocations. 4. Area manager to instruct the sales staff and the ILS supervisor to ensure that the credit sales to ILS customers are not exceed the respective quarterly allocation. | The implementation is under place.  Also we have issued letters to remind DED’s (District Executive Directors) to pay debts for their respective facilities. | We appreciate action taken by zonal management. However a copy of letter sent to customers were not presented to the audit for verification. Therefore we will verify the implementation status during our next audit in September 2016 |
| * 1. **Dormant customers with credit balances Tshs.** **146,889,685.19**   The Ministry of Health and Social Welfare transfers fund to MSD for purchase of medicine and medical supplies and the respective fund allocations to each health facility. According to existing arrangement both dispensaries and health centres are served through Integrated Logistic System (ILS). Under the system health facilities are only supplied with goods when they submit their orders at MSD. | Analysis of customer balances as of 1st July 2014 and 19th May 2015 to establish account movements during the eleven month period revealed 23 customers which whose accounts did not record any transaction from July 2014 to 19th May 2015. Therefore the customers were dormant during the entire period of eleven months with a total credit balance of **Tshs. 146,889,685.19 as at 19th May 2015** | 1. Lack of regular management review of customer balances to establish the cause of huge credit balances. | 1. Negative corporate image for accumulating funds on customer accounts without supplying medicine. 2. Lost sales from dormant customers | Zonal Management is advised to:-   1. Check and identify physical existence of customers relating to Mbeya zone especially those allocated with funds but there has been no sales to their account. 2. Make routine customer visit to non-returning customers during the period. | We are still persuading them to purchase from us. Also we are still doing customer visit to ensure that all customer mentioned are aware with range of products available in Warehouses. For instance now the credit balance as at 27th April is Tshs. 99,819,984.19. There is significant decrease. | We appreciate action taken by zonal management. And we will verify the implementation status during our next audit review on September 2016 |
| * 1. **Long outstanding Complaints on Special procurement of Orthopedic Instrument for Mbeya Referral Hospital**   **Section 13 of the Client Service Charter States that, “**We welcome constructive criticisms and feedback about ourproducts and services, as well as compliments and suggestions on how to serve you better. Furthermore, we promise that complaints and suggestions will be taken seriously and dealt with as quickly as possible by an officer of appropriate seniority. | Review of customer complaints at the zone indicate that on 4th July 2014 the zone received complaints from Mbeya Referral Hospital about their long outstanding special procurement of Orthopedic Workshop instrument which were urgently requested as per the letter Ref: MRH/M.10/13/F.115 of 4th September 2013.  The Zonal customer service officer explained that the complaints was forwarded to PMU –HQ, however as at 15th April 2015 the item had not been delivered to the customer. There was no written communication between the Zonal management and PMU regarding the complaints. Through enquiry with one Procurement Officer for special item on 24th August 2015, it was explained that the procurement process for the item was still pending awaiting for receipt of specifications from the Quality Assurance as requested through the internal Memo dated 16th December 2014.  Further enquiry with one Quality assurance officer, it was explained that they were waiting for response from the customer. However no formal communication was obtained between the Quality assurance office and the customer.  However review of the audit of special procurement report issued on 10th June 2015 management commented the item to be delivered by March 2015 | 1. Inadequate management of special procurement process. 2. Inadequate communication of the procurement status of special items. | 1. Reputation risk. 2. Lost sales from special procurement. | 1. The zonal management is advised to respond to customer complaints in writing on the status of the item requested. 2. Zonal management should be directly responsible for coordinating all communication to PMU and customer regarding special procurement. The current arrangements whereby communications are made through different sections within MSD like Quality Assurance Unit and Customer Service Manager should be discouraged. | The issue was closed by the customer note. Though there were communication gap among MSD Mbeya office, MSD HQ procurement unit and Mbeya referral hospital. Email evidence sent to internal audit unit. | Our enquiry to PMU and Quality assurance unit revealed that the procurement of the item was cancelled by customer through email communications on 27th August 2015.  We appreciate action taken by management. However the responses indicate clearly that the zonal management does not have adequate information on the procurement process of the special items to zonal customers.  We will verify the auditors recommendations during our next period audit in September 2016 |
| * 1. **Lack of supporting documents to adjustments made to customers’ accounts.** **Tshs. 450,133,540.67**   Regulation 106 of the MSD Financial regulation 2011 requires that, “All the vouchers must be fully supported by relevant documents.” | We conducted a review of 144 miscellaneous invoices amounting to Tshs. 1,136,358,141.21 which were raised to adjust customers account. It was revealed that 118 miscellaneous invoices amounting to **Tshs.** 482,044,334.96 lacked supporting documents. On 7th September 2015 management presented supporting document for 57 miscellaneous equal to Tshs. 482,044,334.96. The remained 61 miscellaneous invoices equal to Tshs. 450,133,540.67 are still missing.  Through enquiry from the Zonal Accountant it was explained that most of the customer accounts adjustments relates to approved transfers of balances from customers with huge credit balances to customers with huge debit balances from the same district.  However we could not obtain any documented customer/DMO approval to authorize the zonal management to make adjustments. | Lack of effective control on customer accounts by Zonal management. | 1. Potential dispute with customers for transferring funds from their accounts without their consent. 2. Fraud through unauthorized adjustments to customer accounts | The zonal management is advised to:   1. Provide the missing supporting documents for the adjustments made to customer accounts 2. Improve the documentation that relating to any adjustments transaction to customers’ accounts. | 1. We concur with the auditors recommendations and the sample of letters that authorized such adjustment to be passed are attached. 2. The list of invoices and supporting document of the previous were sent to the internal audit unit for further verification. Also at the moments supporting documents is attached to each adjustment made. | We acknowledge receiving copies of letters that authorized adjustment and a list of some invoices. However the invoices amounting to Tshs. 450,133,540.67 were still pending for verification.  We will verify the auditors recommendations during our next period audit in September 2016 |
| * 1. **Adjustments to customers’ accounts were not authorized by Zonal manager.**   As part of the control to any movement in the customer’s account the Epicor 9 system generated adjustment invoice requires the Area Manager to authorize any transaction to customer’s accounts. | A review of 144 miscellaneous invoices amounting to Tshs. 1,136,358,141.21 was raised to adjust customers account. However it was revealed that 125 miscellaneous invoices amounted to Tshs. 972,039,732.86 lacked evidence that they were reviewed by Area Manager. | 1. Weak supervision of internal controls by Zonal Manager 2. Inadequate system security configuration which allows the created adjustments to posted without supervisors’ approval. | Possibility of errors and irregularity due to lack of approval on transactions. | The zonal Management is advised to:   1. Review and authorize any adjustment to customers account. 2. We advise DFP to consult the DICT to re configure the system security features to introduce a requirement for Manager to approve all adjustments to customer accounts. | 1. Now authorized and supporting documents have been presented to the auditors. 2. The adjustments are now approved by Area manager as per audit recommendations. | We acknowledge receiving copy of approved miscellaneous invoice.  However we still advice the DFP to consult the DICT to re configure the system security features to introduce a requirement for Manager to approve all adjustments to customer accounts.  We will verify the auditors recommendations during our next period audit in September 2016 |
| * 1. **Lack of evidence that the fire extinguishers- Water type were serviced regularly.**   Section 3.2.3.2 of the MSD Safety and fire Management policies and procedures 2006 requires the Horse reel to be inspected weekly and tested monthly to check for discharge and whether the reel is operational at the acceptable pressure 3 bar. | Inspection on existence and regular servicing of the fire extinguishers at the zone indicates that there were no evidence that the fire extinguishers Water horse and reel were serviced periodically. The last service date was 26th January 2013 and the next service was supposed to be 30th July 2013 but there was no evidence that it was done and there was no evidence of any subsequent service being performed.  However it was noted that preventive maintenance for the powder type fire extinguishers was last conducted on 25th February 2015. | 1. Zonal management is not aware of the existence of the Safety and fire management policies and procedures 2. Lack of follow up to ensure that all fire extinguishers are serviced. | In case of a fire outbreak, the fire extinguishers may fail to help serve MSD property over an outbreak. | The zonal management is advised to:   1. Consult the Administrative Manager to obtain the Safety and fire management policies and procedures 2. Conduct regular preventive maintenance on all fire extinguishers as required. 3. Indicate the date when they were serviced and the next date required for service. | We concur with auditor’s advice and The policy is now available and all fire extinguishers are serviced regularly as per auditor recommendations. | We shall make follow up on the implementation status during our next period audit in October 2016 |
| * 1. **Stock adjustments not supported by approved documents. TZS 5,477,521.32**   Regulation 106 of the MSD Financial regulation 2011 requires that, “All the vouchers must be fully supported by relevant documents.” | Review on 1171 stock adjustments made during the period of July 2014 to May 2015 indicates that 32 adjustments amounting to a net **Tshs. 5,477,521.32** lacked supporting documents to provide evidence of both reconciliation and approval.  Through enquiry and inspection of documents it was explained that the unsupported adjustment was caused by cycle count implementation and the zone was waiting for resolution from DICT.  However we could not obtain the evidence that the challenges had been communicated to IT for corrections. | 1. Cycle count reconciliation not properly completed. 2. Inadequate documentation of stock adjustments. | 1. Fraud over stock. 2. Error may not be timely detected. | Zonal management is advised to:   1. Provide the supporting documents for the stock adjustment at the zone. 2. Improve the documentation of all stock adjustments for easy reference when the need arise. 3. Obtain the assistance from DICT in case the pending adjustments were due to system misbehaviours. | We concur with the auditor’s advice and the supporting document will be provided for those items without contra entry.  Noted for implementation | Supporting documents have not been presented. Therefore we will verify the auditors recommendations during our next period audit in September 2016 |
| * 1. **Lack of evidence that the Public procurement Act 2011 and its regulations 2013 were followed in obtaining the suppliers of goods and services at the zone.**   MSD Financial regulation 2011 section 70 and 71 state, “MSD procurement procedures shall be in accordance with Public Procurement Act in force, The Director responsible for procurement shall ensure compliance by all officers with the MSD procurement manual which shall be updated regularly in accordance with Public Procurement Act. | It was noted that there was no evidence to confirm that the procurement process in respect of ten **(10) procurement contracts for goods and services** awarded by the zone for the period of July 2014 to April 2015 adhered to the requirements of the Public procurement Act 2011 and its regulations of 2013.  The following information’s were missing at the zone to support the contracts issued to the suppliers of goods and services.   1. Quotations requested from the suppliers. 2. Record to indicate the date when the request for quotations was dispatched to suppliers 3. Record to indicate the date when request for quotations was received from suppliers 4. Some of the evaluation reports were missing.   Only two evaluation reports were available out of ten (10) procurement contracts reviewed. | Lack of effective supervision to ensure compliances to the laws and regulations. | 1. Noncompliance to the PPA 2011 2. There is possibility of irregularities being committed in the procurement of goods and services. | 1. The zonal management is advised to comply with the requirement of Public Procurement Act 2011 to support the award of the contract to the supplier of goods and services. 2. Area Manager should make a thorough review of procurement documents to ensure compliance to all legal process before signing letters of award of contracts. This can be effectively achieved by making sure that PPRA are used at all stages of procurement. | 1. We agree with auditor’s advice and compliance is ongoing since June 2015. 2. As for now the PPA 2011 and its regulation has been adhered. | There were no documents provided by zonal Management for our verification. Therefore we will verify the auditors recommendations during our next period audit in September 2016 |

**AUDIT OBSERVATIONS AND RECOMMENDATIONS FOR TABORA ZONE**

| **Criteria** | **Observations** | **Cause** | **Risk** | **Recommendations** | Action taken by management as at 27th April, 2016 | Auditor’s evaluation | **Status as at 27th April 2016** |
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| * 1. **Existence of customers who receive fund allocations from MOHSW but do not purchase medicine and medical supplies**   It is a very good accounting practice to make a regular review of customer accounts to identify dormant accounts and non performing accounts in order to determine the appropriate remedial measures to take e.g. debt collection strategy, bad debt provision ascertaining the customer physical existence. | During our verification of 544 customer accounts we observed that Sixteen (16) customers with a total credit balance amounting to **Tshs 102,846,936.00** had no evidence of existence and they had not been served since their registration in MSD book of account. | Lack of regular Management reviews of customer balances. | 1. Possibility of fraud being perpetrated by using non existing health facilities. 2. Reputational risk for holding customer funds without serving them with the required medicine and medical supplies. | The Area Manager is advised to:-   1. Make a regular review of all customer accounts and identify dormant customer account. And investigate the reason of being dormant. 2. Update customer accounts to close one account out of the two held by the same customer. 3. Notify the Ministry about the existence of the dormant health facilities and their respective account balances | 1. Most of the customer balance are from Igunga district, Igunga was one of the pioneer for community health fund in Tanzania opened by the MOHSW 2. Once MSD is informed of the availability of services at health center then we will start sending medicine and medical supplies and hence exhaust their accumulated balance in their accounts. 3. Zonal management is communicating with customers through customers visit which enables to reduce debt from **Tshs 102,846,936.00** to **Tshs 93,483,636.00**. | We appreciate to the action taken by the zonal management.  We will review the implementation status during our next audit in September 2016 |  |
| * 1. **Existence of huge customer receivables amounting to Tshs. 1,832,194,747.68**   According to MSD financial regulation no. 51 of 2011 required that, the Department shall operate a “Cash and Carry” policy where by the funds shall be received by the Department before the sale transaction is processed and goods released to the customer. In exceptional cases, credit arrangement will be possible in accordance with sales policy to be approved by the Board. | We reviewed customer balances from the system as at 21st August 2015 and revealed 345 customers had a debit balance of **Tshs. 1,832,194,747.68.**  Further analysis revealed that out of the 345 customers thirty six (36) customers each had a balance above Tshs 10,000,000/= and their total balance was **Tshs. 1,352,430,584, and** continued to receive medicine and medical supplies. Out of the 36 customer 14 were **not receiving any fund/deposits and had a total balance of TZS 288,010,636.** | 1. Customers receiving less fund compared to their need/order. 2. Lack of strict credit control in the customers and ILS customer. 3. Directive from MOHSW with the letter reference no. FA.15/297/01/39 dated 02/02/2015 directed MSD to distribute medicine and medical supplies even if the health facility have no fund on account. | The recovery of the debts might take long and affect MSD liquidity positions. | 1. Zonal management is advised to make quarterly reviews of customer balances to identify customers receiving goods but do not receive adequate funds and submit the list to EMT for further communication with MOHSW. 2. Management is advised to continue with their efforts to request MOHSW to pay the outstanding debt. | 1. ILS cost of distributions are reported every quarter to MoHSW with the amount spent on each facilities through M & E Manager. The Zonal management has taken measures to control the debt. It has reduced the quarterly supplies to each facility and asked DED’s to pay through other sources of fund at the district council e.g. Community Health Fund – CHF 2. Zonal Management establishes measures to control debts by verifying and sending letter to RAS and DED for settling their debts. 14 facilities which were not receiving fund already settled Tshs 169,399,500, their debt balances is Tshs. 118,610,094. 3. Debts for DMO Mpanda is for Mbeya zone. | We appreciate management action on auditor’s recommendations.  We will review the implementation status during our next audit in September 2016 |  |
| * 1. **Existence of customers with huge credit balance amounting to Tshs. 840,600,063.08**   According to MSD financial regulation no. 51 of 2011 required that, the Department shall operate a “Cash and Carry” policy where by the funds shall be received by the Department before the sale transaction is processed and goods released to the customer. In exceptional cases, credit arrangement will be possible in accordance with sales policy to be approved by the Board. | During our review of customer account it was observed that a total of 199 customers had a huge credit balance amounting to **Tshs. 840,600,063.08**. Out of the mentioned balance, a total of Tshs**. 538,437,723.65** (about 64%) was made up of only eighteen (18) customers each with a balance of above TZS 10 Million. further review revealed that the balance includes two customers with a total balance of **TZS 43,502,536** whose accounts did not record any sale during the period of July 2014 to August 2015. The customers were Migunga Dispensary (Kasulu) TZS 12,423,918/= and Nyarugusu Dispensary (Kasulu) TZS 31,078,618 | 1. Low level of order fulfillment due to out of stock for some items. 2. Non existing health facilities. | 1. Failure to meet sales and revenue collection targets. 2. Damage to MSD reputation | 1. Management is advised to continue with the efforts to request the Government to settle the outstanding debt to enable MSD replenish its stock. 2. Zonal Management is advised to meet the DMOs in charge of the health facilities and discuss the possibility of transferring the excess funds to the accounts of other health facilities without funds on their accounts to enable them purchase medicine and medical supplies from MSD. 3. Zonal management is advised to verify the physical existence of customers with growing credit balances. | 1. Stock is not enough to exhaust the available balances. We visited the DMO and DED Igunga, it was established and verified that the Health facilities are existing but with no service providers. MSD will send medicines to HF which when assured of availability of service providers. 2. Amount Tshs 246,466,916.42 already consumed by customers now balance is Tshs 594,133,147 3. Zonal management establish efforts of contacting DMO Kasulu where 2 facilities accounts for Tshs 43,502,536 They assures from next financial year will start operations because they have already got manpower 4. Balance for DED Kasulu was for arrears (bakaa) it was remained in the account of DED Kasulu because council was merged into 2 now already distributed for DMO Buhigwe and Kasulu. | We appreciate the action taken by zonal management. However we request zonal management to continued monitoring the customer accounts.  We will verify the implementation during our next audit in September 2016 |  |
| * 1. **Poor quality of New ILS Building**   Regulation 176 of MSD Financial Regulations, 2011 requires every officer entrusted with the warehouse/store to be accountable for safeguarding the stores and ensure that they are properly sheltered, protected and maintained. The manager in-charge or zonal manager has the overall accountability for the warehouse/store. | During our review of warehousing operations we noted that:-   1. The floor is weak and it has started wearing out (potholes have started to occur). Although it is still new warehouse and its floor cannot sustain the fork lift movements and medicine and medical supplies. The building has not been handed over to Zonal management however it has been used | 1. Substandard works by the contractor SAMCAT which was subsequently terminated. 2. Management has not made efforts to rectify the defects. | 1. The existence of dust within the warehouse poses health hazards to warehouse staff and may affect the quality of medicine and medical supplies. 2. The existence of pothole might cause forklift accidents while carrying goods which might result into staff injuries and breakage/damage of medicine and medical supplies. | The area manager is advised to   1. Communicate with the DHRA to agree on the best alternative to rectify the defects within the warehouse. 2. Transfer to the new Warehouse in Box (WiB) the medicine and medical supplies currently stored in the defective warehouse. | 1. The defective warehouse has been reported several times and internal auditors have been picking it every now and then. It is a well-known issue to the management. However, we will keep reminding the EMT to take action 2. All items requiring specific storage conditions have been shifted into a new warehouse WiB. 3. Zonal management always reminding EMT on issues of New ILS building in various reports and meeting. | We appreciate action taken by zonal Management. However no evidence of communication from Zonal to EMT on the New ILS building provided to auditors for verification  We will verify the implementation during our next audit in September 2016 |  |
| * 1. **Items with discrepancies identified during perpetual count were not investigated and reconciled.**   According to Standard Operating Procedures for Central Warehouse and Zonal Stores Operations 2005: number 14.9 (b) requires perpetual inventory control, reconciliation of location quantities and physical quantities at warehouse level shall be carried out continuously on daily basis to ensure proper location management | Our review of perpetual count during the period of July 2014 to July 2015, we observed the following;-   1. There was no reconciliation carried out on the discrepancies revealed during the perpetual inventory count performed from September 2014 to December 2014 and February 2015 to April 2015. 2. There was no evidence whether the perpetual count was conducted for vertical program items during the period of August 2014, January 2015 May 2015 and July 2015 | Lack of supervision and management emphasis to adhere to the requirement of the SOP’s. | 1. Loss of stock through theft and pilferage may not be timely detected/reported for action. 2. Huge and unexplainable stock discrepancies during the annual stock taking exercise. 3. Misstatement of stock balances. | 1. Zonal management is advised to ensure that perpetual count is regularly carried out at all locations for detection of errors or loss of stocks and the identification of expiring and damaged stock. 2. The Zonal management is advised to investigate and reconcile all stock discrepancies and demand responsible custodian to explain the reason for the discrepancies discovered during perpetual count. 3. The zonal management is advised to Seek EMT approval of stock adjustments on quarterly basis. | 1. This issue has been taken care of through cycle count where items are being identified by ABC so all of the items which fall under the category are counted 2. Discrepancies will be investigated and reconciled regularly to maintain stock integrity and whenever no reasonable reasons are given the officerresponsible for warehouse will be held responsible. | We accept management’s responses. However   1. Will appreciate to receive evidence of investigation and reconciliation of stock discrepancies identified during the regular cycle counts. 2. We will continue monitoring and evaluating compliance to the approved Standard Operating Procedures. | The items are being reconciled on time see the sample of the cycle count report to support this. |
| * 1. **Inadequate management of goods transfer orders**   According to Procedure for receipt of replenishment order at zones (WH-SOP-08):   1. Procedure no 5.1 requires the Warehouse manager or the Area manager of the shipping zone to communicate to the Area manager/Warehouse manager of the receiving zone about the order being shipped, the vehicle number, and the Driver’s name, the expected date of departure at Central Warehouse or shipping zone and expected time of arrival at the receiving zone. The information is transmitted through telephonic communication and/or electronic mail and serves as an advance notification to the Area manager of the receiving zone. 2. Procedure no 5.20 requires the warehouse officer to confirm receipt of goods in the system to clear goods In Transit account (GIT). Confirmation should include both damage, shortage and excess items. Receipt confirmation requires the warehouse officer to record the actual quantity of each item received and the system will automatically transfer the difference to an investigation location within the system created for this purpose. Finally the Warehouse officer will print transfer order receipt.   Procedure no: 5.13 requires the Area manager/ Warehouse manager to communicate the discrepancies to Warehouse manager/Area manager of the shipping zone. The communication is to be made by telephone call or electronic mail and will form as an advance notification of discrepancy. The report should be confirmed later by a shortage/surplus/damage report to be filled in by a warehouse officer, signed by Area manager and accepted by the driver | The following items were shipped to Tabora zone however there was no evidence of being received at zone as at 31/08/2015   1. Item LAMIVUDINE 150MG+ZIDOVUDINE 300MG+NEVIRAPINE 200MG TABLETS (10010156AB) was requested 20,000(60TB) vide order number TB00084, and the shipped quantity was 21,034 (60TB) resulting into **over shipment of 1,034** (60TB). Further, analysis revealed that the quantity received at the zone was only 20,134 tins were received by the zone. Therefore 900 tins had not been received at Tabora zone at the time of the audit. 2. **Lower Transfer orders’ fulfilment:** we observed that during the period of July 2014 to July 2015 we observed that from the total order requested by the zonal only 37% were fulfilled therefore about 63% of orders requested from Tabora zone were not fulfilled during the period. | 1. Lack of regular review of goods in transit to identify the cause and take appropriate action. 2. Staff not reading Standard Operating Procedures. | 1. Loss of stock in transit. 2. Unfulfilled customer orders and lost sales. | We advise the management to:-   1. Investigate the goods which were transferred to the Tabora zone but have not been received to date, take appropriate remedial action and report to the auditors for verification. 2. Make all Standard Operating Procedures available to all staff at the Zone and instruct them in writing to read and adhere to them. | 1. All of the consignment noted by internal unit have been received 2. SOP’s are available to all staff and are constantly explained to staff. The challenge is that English language is not known to some of our zonal staff. | No documentary evidence has been submitted to the auditors to verify the alleged receipt of the goods.  Will appreciate to receive evidence of receipt of the goods. | The issue was caused by system problem which allow over shipment from other zone, the issue was already reported to IT people for resolution.  We have evidence to support that what was received was exactly what was reported by auditors. |