



THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE



**PERFORMANCE AUDIT REPORT ON THE IMPLEMENTATION OF
NATIONAL INITIATIVES TO COMBAT MONEY LAUNDERING**

AS IMPLEMENTED BY

**THE MINISTRY OF FINANCE AND PLANNING THROUGH THE NATIONAL
MULTI-DISCIPLINARY COMMITTEE ON ANTI-MONEY LAUNDERING AND
THE FINANCIAL INTELLIGENCE UNIT**

REPORT OF THE CONTROLLER AND AUDITOR GENERAL

MARCH 2020

NATIONAL AUDIT OFFICE



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PREFACE

Section 28 of the Public Audit Act No. 11 of 2008 authorizes the Controller and Auditor General to carry-out Performance Audit (Value-for-Money Audit) for the purposes of establishing the economy, efficiency and effectiveness of any expenditure or use of resources in the MDAs, LGAs and Public Authorities and other Bodies which involves enquiring, examining, investigating and reporting, as deemed necessary under the circumstances.

I have the honour to submit to His Excellency, the President of the United Republic of Tanzania, Dr. John Pombe Joseph Magufuli and through him to Parliament of the United Republic of Tanzania, the Performance Audit Report on the Implementation of the National Initiatives to Combat Money Laundering in Tanzania as implemented by the Ministry of Finance and Planning, Financial Intelligence Unit and the National Multi-disciplinary Committee on Money Laundering.

The report contains findings, conclusions and recommendations that directly concern the Ministry of Finance and Planning, Financial Intelligence Unit and the National Multi-disciplinary Committee on Money Laundering.

The Ministry of Finance and Planning, Financial Intelligence Unit and the National Multi-disciplinary Committee on Money Laundering were given the opportunity to scrutinize the factual contents of the report and come up with comments on it. I wish to acknowledge that the discussions with the audited entities have been very useful and constructive in achieving the objectives of the audit.

My office intends to carry-out a follow-up at an appropriate time regarding actions taken by the Ministry of Finance and Planning, Financial Intelligence Unit and the National Multi-disciplinary Committee on Money Laundering in relation to the recommendations in this report.

In completion of the assignment, the office subjected the draft report to a critical reviews of experts namely, Dr. Eugene Mniwasa - Lecturer, Institute of Finance Management and Mr. Adolf Boyo - Audit Manager, KPMG.

This report has been prepared by Mr. Deusdedit Sise Muhono (Team Leader), Mr. Nyanda L. Mabuga and Mr. Gerald A. Nduye (Team Members) under the supervision and guidance of Ms. Esnath H. Nicodem - Ag. Chief External Auditor, Mr. George C. Haule - Assistant Auditor General and Mr. Benjamin M. Mashauri - Deputy Auditor General.

I would like to thank my staff for their devotion and commitment in the preparation of this report. My thanks should also be extended to the Ministry of Finance and Planning, Financial Intelligence Unit and the National Multi-disciplinary Committee on Money Laundering for their cooperation with my office which has enhanced timely completion of this report.

Charles E. Kichere
Controller and Auditor General
United Republic of Tanzania
March, 2020

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LIST OF ABBREVIATIONS AND ACRONYMS

AML	-	Anti-Money Laundering
BoT	-	Bank of Tanzania
BRELA	-	Business Registration and Licensing Agency
CDD	-	Customer Due Diligence
CFT	-	Combating the Financing of Financing of Terrorism
CMSA	-	Capital Markets and Securities Authority
CSOs	-	Civil Society Organizations
DCI	-	Director of Criminal Investigation
DPP	-	Director of Public Prosecutions
DNFBPs	-	Designated Non-Financial Businesses and Professions
ESAAMLG	-	Eastern and Southern Africa Anti-Money Laundering Group
FATF	-	Financial Action Task Force
FIU	-	Financial Intelligence Unit
GDP	-	Gross Domestic Product
GIZ	-	Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
IFFs	-	Illicit Financial Flows
LEAs	-	Law Enforcement Agencies
ML	-	Money Laundering
MoFP	-	Ministry of Finance and Planning
NAMLC	-	National Anti-Money Laundering Committee (National Multi-Disciplinary Committee on Anti-Money Laundering)
NRA	-	National Risk Assessment
OECD	-	Organization for Economic Co-operation and Development
PCCB	-	Prevention and Combating of Corruption Bureau
RBA	-	Risk-based Approach
SACCOs	-	Savings and Credit Cooperative Societies
STR	-	Suspicious Transactions Report
TIC	-	Tanzania Investment Centre

TRA - Tanzania Revenue Authority
USD - United States Dollar

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EXECUTIVE SUMMARY

Background

Money laundering is the process of disguising illegal proceeds so that they appear to be legitimate. Money laundering is a secondary process after committing other crimes which are known as predicate offences. Predicate offences include corruption, misappropriation and theft of public and donor funds, the smuggling of minerals and precious stones and poaching. When left to thrive, money laundering has very grave consequences for the economy of a country. It fuels criminal activities. Where there is money laundering, it pays to commit crime. Terrorist financing is funding terrorists or terrorist groups.

Money laundering knows no national borders. It is therefore transnational in nature. Money laundering has a domestic and a transnational dimension. The domestic dimension involves committing crimes within the country to generate illicit/illegal proceeds, which are then invested locally in the economy. The transnational dimension involves investing criminal proceeds from abroad into the local economy, or vice versa. Criminal, illicit or illegal proceeds, whether generated locally or abroad, should not be left to revolve in an economy. They have very devastating consequences.

The objective of the audit was to determine whether the Ministry of Finance and Planning (MoFP) through the Financial Intelligence Unit (FIU) has appropriately designed and implemented a management framework for combating money laundering in the country, so as to promote the detection and deterrence of money laundering.

The audit addressed the adequacy of the anti-money laundering policy, regulatory and institutional framework. It also covers implementing agencies in ensuring compliance with requirements and the coordination of anti-money laundering activities in the country.

Main Audit Findings

(a) Deficiencies in the Anti-Money Laundering Policy, Regulatory and Institutional Framework

The Absence of an Anti-Money Laundering Policy

The audit team noted the lack of an anti-money laundering policy to guide national initiatives to combat Money Laundering in the country. However, the government through the Ministry of Finance and Planning (MOFP), under advice of the National Multi-Disciplinary Committee on Anti-Money Laundering (NAMLC), managed to conduct a National Money Laundering and Terrorist Financing Risk Assessment, from September 2015 to December 2016. The assessment was coordinated by the Financial Intelligence Unit (FIU). The assessment revealed that 19 sectors of the economy were vulnerable to money laundering abuse and 33 different criminal activities posed threat to money laundering. Despite these findings, no national policy has been developed to guide efforts to combat money laundering.

The Absence of an Anti-Money Laundering Strategy

There is no Anti-Money Laundering Strategy. The Anti-Money Laundering Strategy of 2010-2013, which has expired, defined roles and responsibilities for all actors identified in the country. The actors include Policy Makers, the Financial Intelligence Unit, Law Enforcement Agencies (LEAs), the National Multi-Disciplinary Committee for Anti-Money Laundering (NAMLC) and other implementing agencies. The audit team noted however that, the NAMLC was reviewing the 2010-2013 Strategy and that there is an updated draft strategy in existence. The absence of an AML Policy and Strategy limit the coordination between actors during the implementation of measures for combating money laundering in the country.

The Presence of Unregulated and High Money Laundering Risk Sectors in the Economy

The National Risk Assessment of 2016 identified nine (9) sectors of the economy with high to medium high Money Laundering (ML) risk. Out of these sectors, four (4) had high ML risk and five (5) had medium high ML risk. The four (4) sectors with high ML risk are real estate, informal value transfer (Hawala) services, dealers in precious metals and stones and motor vehicle dealers. Three of the four sectors are

not regulated despite being of high risk and hawala services are illegal in Tanzania.

The five (5) sectors that were identified as having medium high ML risk are banking, Bureaux de Change, casinos and other gaming activities, electronic money issuers and lawyers, notaries and other independent legal professionals in the country. Out of these five (5) sectors, the lawyers, notaries and other independent legal professionals sector do not have a designated regulator for AML/CFT purposes.

Inadequate Money Laundering Risk Identification and Assessment in the Country

Since 2016 there has not been a review of the national risk assessment despite the technological changes that are taking place worldwide, including in Tanzania, especially online currency business. The last National Risk Assessment was conducted in 2016.

The Financial Action Task Force (FATF) recommendations require financial institutions and non-financial business and professionals (DNFBPs) to conduct institutional risk assessments. However, it was observed that only the National Board of Accountants and Auditors (NBAA) issued guidelines with respect to proper conduct of Accountants and Auditors in relation to complying with the requirements of the anti-money laundering legislation in the country.

(b) Non-Compliance with Anti-Money Laundering Requirements by Implementing Agencies

Non Submission of Suspicious Transactions Reports by some Sectors

The audit team noted that the number of Suspicious Transactions Reports submitted to FIU by reporting persons was insignificant, when compared to the size of the economy of Tanzania.

Declining Trend of Disseminated Intelligence Packages

Despite an increase in the number of submitted and analysed Suspicious Transactions Reports there was a decline in disseminated intelligence packages. From 2015/16 to 2018/19 the number of analysed suspicious transaction reports decreased from 20% to 4% in 2018/19.

Delay in Submission of the Cross-Border Currency Reports to FIU

The audit team noted that TRA customs officials did not take timely actions to submit Cross-Border Declaration of Currency Reports (CBDCRs) to FIU. This was attributed to customs officials from Tanzania Revenue Authority who submitted CBDCRs to the FIU on a monthly basis, rather than on a weekly basis, as stipulated in the Anti-Money Laundering (Cross-Border Declaration of Currency) Regulations 2016.

Limited Issuance of Guidelines to Reporting Persons

The National Risk Assessment of 2016 identified 19 sectors of the economy at risk for money laundering abuse. Only four out of the 19 identified sectors (equivalent to 21%) were issued with guidelines related to compliance with anti-money laundering requirements. This means that the remaining 15 sectors are operating without anti-money laundering guidelines. *FIU in collaboration with regulators are supposed to issue those guidelines.* It was further noted that many of the sectors with no guidelines do not have regulators. Having unregulated sectors hampered the issuance of guidelines for the sector.

Low Number of Inspections of Reporting Persons

There was a low number of inspections conducted on reporting persons to ensure compliance with anti-money laundering requirements, especially submission of the STRs. Inspections were mostly planned and conducted on banks and electronic money issuers for the period from 2016/17 to 2018/19.

Low number of inspections was due to lack of regulators for many sectors. Only financial institutions such as banks have well-structured mechanisms for ensuring compliance with anti-money laundering requirements. This is due to the presence of a regulator (Bank of Tanzania) which can sanction financial institutions that do not comply with the anti-money laundering requirements.

(c) Deficiencies of the Anti-Money Laundering Coordination Framework

NAMLC as coordinator is required to have a coordination mechanism for AML activities. However, the audit team noted the lack of an anti-money laundering coordination framework in the country. The coordination framework is needed to integrate the reporting structure for the implementation of initiatives related to policy objectives.

There was inadequate reporting and feedback mechanisms between actors involved in combating money laundering in the country. This was caused by lack of policy and strategy to guide coordination between actors.

Overall Audit Conclusion

The Ministry of Finance and Planning, the National Multi-Disciplinary Committee on Anti-Money Laundering and the Financial Intelligence Unit (FIU) are operating under an institutional framework which is not functioning optimally for combating money laundering in the country, to promote the detection and deterrence of money laundering activities. This is due to inadequate functioning of the institutional framework, non-compliance by implementing agencies, and absence of strong coordination mechanisms by the National Anti-Money Laundering Committee during the planning and implementation of initiatives to combat money laundering in the country.

Audit Recommendations

Recommendation to the Ministry of Finance and Planning

The Ministry of Finance and Planning to:

1. Ensure that FIU and other implementing agencies have the required capacity and resources to effectively implement the anti-money laundering strategies and plans.

Recommendations to the National Multi-Disciplinary Committee on Anti-Money Laundering

The National Multi-Disciplinary Committee on Anti-Money Laundering to:

1. Develop an Anti-money Laundering Policy and Strategy to facilitate prompt implementation of initiatives to combat money laundering in the country;
2. Devise a mechanism for AML stakeholders that will enable wide sharing of information on the implementation of the AML initiatives amongst implementing agencies;
3. Formulate an institutional and policy framework of regulators to all unregulated sectors; and
4. Adhere to a reporting mechanism, guidelines, agreements, and defined procedures for reporting AML information.

Recommendations to the Financial Intelligence Unit

The Financial Intelligence Unit to:

1. Effectively enforce AML/CFT mechanism requirements to ensure that all identified reporting persons produce and submit Suspicious Transaction Reports from the sector on time and in an intelligible manner for timely analysis. This will add value to the received intelligence reports;
2. Harmonize inspections conducted with those carried out by regulatory bodies in order to avoid duplication of efforts and enhance ability to take corrective actions on compliance shortfalls promptly;
3. Enhance awareness raising and training to reporting persons and other stakeholders such as law enforcement agencies and Regulators. This will increase voluntary compliance on anti-money laundering requirements;
4. Devise a mechanism that will ensure that all AML statistics are readily available and maintained at FIU; and

5. Devise a clear working and coordinated feedback mechanism that will ensure that feedback is given for all information disseminated and shared among implementing agencies within the AML framework.
6. Ensure that all implementing agencies develop mechanisms to implement laws, strategies and activities, that include developing the AML coordination framework to combat money laundering;
7. Ensure that FIU and Regulators regularly issue and use anti-money laundering guidelines to ensure compliance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Audit

Money laundering has been defined as the conversion or transfer of property, knowing that such property is derived from an offence for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such and offence to evade the legal consequences of his actions¹. It involves the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from an offence.

Money laundering in Tanzania has both domestic and transnational dimensions. The domestic dimension includes activities from which illicit proceeds are generated within the country and ultimately invested in the Tanzanian economy. These activities include public sector corruption, misappropriation and theft of public and donor funds, the smuggling of minerals and poaching. The transnational dimension encompasses illicit activities that use the country as a transition or investment location, as well as illegal activities that generate proceeds within the country that are invested beyond its borders. Illegal profits and proceeds of transnational organised crimes move from other countries to Tanzania and vice versa. Such crimes include drug trafficking and transnational corruption and foreign investment originating from illegal sources, for instance, the drugs trade².

Money laundering impairs the development of legitimate private sector through the supply of products priced below production cost, therefore making it difficult for legitimate activities to compete. Criminals may intentionally turn productive enterprises, unproductive in order to launder their funds leading ultimately to a decrease in the overall productivity of the economy. Furthermore, the laundering of money can also cause unpredictable changes in

¹ Article 6 (1) (a) and (b) of the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988.

² Eugene E Mniwasa (2004), "Detection and Suppression of Money Laundering in Tanzania" in Charles Goredema (ed), Tackling Money Laundering in East and Southern Africa. An Overview of Capacity, Volume Two, Institute of Security Studies Monograph No.108, <<https://issafrica.s3.amazonaws.com/site/uploads/Mono108.pdf>>

currency demand as well as great volatility in international capital flows and exchange rates. Therefore, inactions in combating money laundering can cause grave effects in the country's economy³.

The economic and political influence of criminal organizations can weaken the social stability, collective ethical standards and ultimately the democratic institutions of the country. Organized crimes can infiltrate institutions, seize control of large sectors of the economy through significant investments or bribes to public officials and hence have effects on economic, political and social stability. This may lead to control of the Government by criminals. Money laundering can create economic instability and distort Government's ability to make appropriate economic and fiscal decisions⁴.

1.2 Motivation for the Audit

The essence of conducting the audit on implementation of the national initiative to combat money laundering was a result of various weaknesses highlighted through various sources. These sources have indicated that illicit financial flows and money laundering activities are prevalent within the political and socio-economic undertakings in Tanzania.

The following are the factors which motivated the Controller and Auditor General to carry-out performance audit on money laundering:

- i) ***Prevalence of Money Laundering Activities:*** The National Risk Assessment Report conducted in 2016 by Tanzanian authorities including the FIU used NRA tool that was developed and provided by the World Bank (the World Bank Tool). The report assessed the risk of money laundering at the national level to be MEDIUM HIGH. Money laundering threat was rated MEDIUM while ML vulnerability was MEDIUM HIGH. Apart from assigning ratings, the assessment revealed that, the most prevalent crimes that led to money laundering (crimes with high ML threat) were: (a) corruption or bribery; (b) tax evasion; (c) illicit drug trafficking; (d) counterfeiting of goods; (e) illegal mining and illegal trading in precious minerals and

³ https://www.researchgate.net/publication/330630840_Money_Laundering_Effects

⁴ GoT (2010), *Strategy For Anti-Money Laundering and Combating Terrorist Financing*, July 2010 - June 2013, <<https://www.fiu.go.tz/TanzaniaNationalAML-CFTstrategy.pdf>>

stones; (f) poaching and unlawful possession and unlawful dealing in government trophies⁵.

- ii) ***Lack of Adequate Regulatory Frameworks:*** Some of the prominent causes of these problems at national and regional levels are due to lack of adequate regulatory frameworks; lack of information technology; lack of adequate funding; shortage of technical and human capacity to deal with crime perpetuated by sophisticated companies and individuals; and involvement in corruption of key government officials operating at different levels of governance.
- iii) ***Inadequate Training and Awareness:*** According to FIU's annual reports of 2015 to 2017, money laundering and terrorist financing are fairly new concepts not only in Tanzania but in most countries; and these crimes evolve rapidly with global and technological changes. This makes the war against the two vices complex and challenging. This means that FIU has a huge task of raising anti-money laundering awareness among stakeholders and the public in general.
- iv) ***Supporting Sustainable Development Goals:*** Addressing illicit financial flows is now a part of the SDGs Sustainable Development Goal No. 16, target 16.4 which illustrated that by 2030, steps must be taken to significantly reduce money laundering and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime. Tanzania as a member of United Nations intend to combat money laundering to support this United Nations agenda.
- v) ***Supporting Global Efforts on Combating Illicit Flows from Developing Countries:*** The Organisation for Economic Cooperation and Development (OECD) efforts to combat illicit flows entails that, members of OECD must focus on improving governance at the source. This can be done through building a sound business environment and increasing opportunities for citizens, giving them incentives to engage in legal economic activities, pay their taxes and dues, and reinvest their profits at home. As highlighted in the report entitled *Illicit Financial*

⁵ GoT (2016), *National Money Laundering and Terrorist Financing Risk Assessment Report*, 2016 <[https://www.fiu.go.tz/TanzaniaNRA\(Main\)ReportDec2016.pdf](https://www.fiu.go.tz/TanzaniaNRA(Main)ReportDec2016.pdf)>

*Flows from Developing Countries: Measuring OECD Responses*⁶, donor agencies can support this goal through their central role in linking the OECD countries and developing countries, and using their aid to support governments' warring to tackle these issues.

vi) Reducing Loss of Revenue Contributed by Money Laundering: According to GIZ paper by the Global Programme in the GIZ Governance Section, Human Rights of 2015, it is estimated that developing countries lose up to USD 1 billion every year through money laundering. This is six times more than they receive in official development assistance.

The impact on developing countries and emerging economies is devastating because the illegal outflow deprives these countries of important revenue, such as income from taxes or customs duties. These are funds urgently needed for investments in health, education and other public services. Criminal activities associated with money laundering such as human trafficking and illegal trade in drugs, destabilises countries and regions. Bribery and corruption also weaken public confidence in government and law enforcement institutions.

Based on the above reasons and consequences associated with money laundering, the Controller and Auditor General (CAG) decided to carry out a performance audit to assess the efficiency of the responsible institutions in implementing the available anti-money laundering initiatives in the country.

1.3 Design of the Audit

1.3.1 Audit Objective

The objective of the audit was to determine whether the Ministry of Finance and Planning through the Financial Intelligence Unit has appropriately designed and implemented a management framework for combating money laundering in the country, in order to promote the detection and deterrence of money laundering.

⁶ OECD (2014), *Financial Flows from Developing Countries: Measuring OECD Response*, <https://www.oecd.org/corruption/Illicit_Financial_Flows_from_Developing_Countries.pdf>

Specific Audit Objectives

Specific objectives of the audit were to assess whether the:

- a) Anti-money laundering institutional framework was adequate in combating money laundering in the country;
- b) Implementing agencies ensure compliance with anti-money laundering requirements; and
- c) National Multi-Disciplinary Committee on Anti-Money Laundering was efficiently coordinating anti-money laundering activities in the country.

1.3.2 Audit Scope

The main audited entity was the Ministry of Finance and Planning (MoFP), Financial Intelligence Unit (FIU) and National Multi-Disciplinary Committee on Anti-Money Laundering (NAMLC). MoFP is responsible for coordinating the implementation of anti-money laundering policies and strategies; mobilization and management of resources; and management of government property and public investments. FIU on the other hand is responsible for administering the anti-money laundering legislation and other functions in order to combat money laundering in the country.

The audit focused mainly on the adequacy of the available institutional framework for combating money laundering, performance of the implementing agencies in meeting the anti-money laundering requirements and coordination of anti-money laundering activities among such agencies in the country.

Data and information were gathered from the Ministry of Finance and Planning; Financial Intelligence Unit; the National Multi-Disciplinary Committee on Money Laundering (NAMLC) and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). The NAMLC was selected as it advise the government and is the central organ for coordinating the fight against money laundering in the country, while the ESAAMLG is the regional body with the role of ensuring member countries implement anti-money laundering measures.

Other key players in the institutional framework for combating money laundering such as the Bank of Tanzania (BoT), the Tanzania Revenue Authority (TRA) and Prevention and the Combating of Corruption Bureau (PCCB) were also visited. These entities were selected because they are vital institutions responsible for implementing and enforcing controls over money laundering in the country.

The audit covered a period of four (4) financial years from 2015/16 to 2018/19. This period provided a trend on the implementation of the available initiatives to combat money laundering made by implementing agencies. Furthermore, the period was selected due to the fact that, substantial number of enactments and amendments of legislations relating to combating corruption, money laundering and proceeds of crimes were made. Such enactments included amendments of the Anti-Money Laundering Act, 2016, the Anti-Money Laundering (Cross-Border Declaration of Currency and Negotiable Instruments) Regulations, 2016 (Government Notice No. 268 of 2016) and the Anti-Money Laundering (Electronic Funds Transfer and Cash Transaction Reporting) Regulations of 2019 (Government Notice No. 420 of 2019).

This also provided a picture on how effective the enacted legislations provide controls and regulatory frameworks.

1.3.3 Sampling Techniques, Methods for Data Collection and Analysis

a) Sampling Techniques Used

The purposive sampling method was used to select different actors involved in combating money laundering to be covered during the audit. The following factors were considered during the sampling:

- (i) Type of money laundering activities involved; and
- (ii) Anti-money laundering institutional roles played.

The National Multi-Disciplinary Committee on Anti-money Laundering Committee was selected because it is advising the Government on formulating and assessing the effectiveness of anti-money laundering policies being implemented in the country. FIU was selected as it is the overall implementer of anti-money laundering policies, legislations and requirements such as, collecting, analyzing and disseminating information regarding Suspicious Transactions Reports (STRs) as well as inspection of reporting persons.

In addition, there were various regulatory bodies that are significant in combating money laundering in the country. Bank of Tanzania was purposely selected because it supervises key financial institutions in the country.

Prevention and Combating of Corruption Bureau (PCCB) was also purposely selected because it deals with investigations and prosecution of corruption offences in the country. Corruption was among the high threat crimes that are committed in the country in relation to money laundering.

Another crime that was ranked high was tax evasion. TRA was selected in order to assess implementations of required measures to combat tax evasion as one of high threat crimes in relation to money laundering in the country **Table 1.1** shows the offences with high money laundering threat.

Table 1.1: Offences with High Money Laundering Threat in the Country

Offence	Money Laundering Threat	Selected Offences
Tax evasion	High	Yes
Corruption or bribery	High	Yes
Poaching and unlawful possession and unlawful dealing in government trophy	High	No
Illegal mining and illegal trading in precious minerals	High	No
Illicit drugs trafficking	High	No
Counterfeiting of goods	High	No
Misappropriation of funds	High	No

Source: National ML/TF Risk Assessment Report of 2016 and Auditors' Analysis

b) Methods Used for Data Collection

Two main methods for data collection namely, interviews and documents review were used during the audit as described below:

Documents Review

Various documents were reviewed from the Ministry of Finance and Planning; Financial Intelligence Unit (FIU), National Multi-Disciplinary

Committee on Anti-Money Laundering, ESAAMLG; Bank of Tanzania (BoT); Tanzania Revenue Authority (TRA); and the Prevention and Combating of Corruption Bureau (PCCB). Documents reviewed included policies, institutional frameworks, strategic plans, annual action plans and budgets, annual implementation plans, anti-money laundering guidelines and international conventions. For more details of reviewed documents see **Appendix 2**.

Interviews

Interviews were conducted to obtain information regarding available implementing strategies for combating money laundering, extent of their enforcement and coordination on the implementation.

The audit team conducted interviews and discussions with officials from the Ministry of Finance and Planning (MoFP), Tanzania Revenue Authority (TRA), Financial Intelligence Unit (FIU), National Multi-Disciplinary Committee on Anti-Money Laundering, ESAAMLG, Bank of Tanzania (BoT) and the Prevention and Combating of Corruption Bureau (PCCB).

The interviews included officials at all levels of operation i.e. Senior and middle levels, managers and operational officers in order to get their views on the implementation of the national initiatives to combat money laundering in the country. Details of Officers interviewed are as indicated in **Appendix 3**.

c) Methods for Data Analysis

The audit used both quantitative and qualitative data analysis methods. For quantitative analysis, trends, ratios, graphs, cross tabulations and averages were used, and in some cases, quantitative analysis through the computation of means, modes and standard deviations was applied. For qualitative data analysis, context and thematic methods were used.

1.4 Assessment Criteria

In order to assess whether the management framework for combating money laundering is designed appropriately, the assessment criteria were drawn from different sources such as legislations, guidelines and international protocols ratified by the government. The assessment criteria for each of the specific audit objectives are provided below:

The Anti-Money Laundering Institutional Framework

Countries should have national anti-money laundering laws and policies, informed by the risks identified, which should be regularly reviewed. In addition, countries should designate an authority or other mechanism that is responsible for such policies.

Countries should ensure that policy-makers, FIUs, law enforcement authorities, supervisors and other relevant competent authorities, at the policymaking and operational levels, have effective mechanisms in place which enable them to cooperate, and, where appropriate, coordinate domestically with each other in the development and implementation of policies and activities to combat money laundering⁷;

Each state party should institute a comprehensive domestic regulatory and supervisory regime for banks and non-bank financial institutions, including natural or legal persons that provide formal or informal services for the transmission of money or value and, where appropriate, other bodies particularly susceptible to money laundering, within its competence, in order to deter and detect all forms of money-laundering, which the regime shall emphasize requirements for customer and, where appropriate, beneficial owner identification, record-keeping and the reporting of suspicious transactions⁸;

Countries should establish a Financial Intelligence Unit (FIU) that serves as a national center for the receipt and analysis of: (a) suspicious transaction reports; and (b) other information relevant to money laundering and for the dissemination of the results of that analysis. The FIU should be able to obtain additional information from reporting entities and should have access on a timely basis to the financial, administrative and law enforcement information that it requires to undertake its functions properly⁹.

⁷ FATF Recommendation No.2 of 2012; the National Risk Assessment Report of 2016.

⁸ Article 14: Measures to prevent money-laundering of the UN Convention against Corruption, 2004

⁹The FATF Recommendation Number 29 of 2012; the National Risk Assessment Report of 2016; and the Anti-Money Laundering Act of 2006; and the Money Laundering Regulations of 2012.

Compliance to the Requirements of Anti-Money Laundering Laws

Countries should apply a risk-based planning approach (RBA) to ensure that measures to prevent or mitigate money laundering are commensurate with the risks identified. Where countries identify higher risks, they should ensure that their AML regime adequately addresses such risks¹⁰.

FIU is required to: receive and analyze reports of suspicious transactions submitted by the reporting persons; disseminate any such reports to the appropriate law enforcement organs as it suspects such transaction involves money laundering; disseminate to the appropriate law enforcement agencies any information derived from an inspection; compile statistics and records, disseminate information within the United Republic or elsewhere, make recommendations arising out of any information received and advise the NAMLC issue guidelines to banks, financial institutions persons in respect of suspicious transactions, record-keeping and reporting obligations; create training requirements and provide such training for reporting persons¹¹.

BoT is required to ensure compliance with anti-money laundering legislation and Guidelines; ensure compliances with policies, procedures and controls; conduct on-site inspections to banks and financial Institutions and ensure trainings to its staff and Institutions under its supervision; ensure reporting of suspicious transaction reports to the FIU¹².

MoFP through its agencies should apply resources (e.g. Budget, Human resources, Equipment and Skills), aimed at ensuring that the risks are mitigated effectively; should efficiently allocate resources across the anti-money laundering in the implementation of risk-based measures throughout the FATF Recommendations¹³.

¹⁰The FATF Recommendation 1.1.1 to 1.1.4

¹¹The Anti-Money Laundering Act, 2006 and its Regulations of 2012

¹²The Anti-Money Laundering Guideline for Bank of Tanzania, 2012; Anti-Money Laundering Regulations of 2012.

¹³ The Anti-Money Laundering Guideline for Bank of Tanzania, 2012; Anti-Money Laundering Regulations of 2012);

The FIU and Regulators should evaluate the effectiveness of the anti-money laundering compliances and determine whether financial institutions have developed, administered and maintained an effective program for compliance with anti-money laundering laws, regulations and guidelines¹⁴.

Countries should ensure that reporting persons are subjected to the adequate regulation and supervision and are effectively implementing the FATF Recommendations. Competent authorities or financial supervisors should take the necessary legal or regulatory measures to prevent criminals or their associates from holding, or being the beneficial owners of, a significant or controlling interest, or holding a management functions in financial institutions¹⁵.

The FIU should assess appropriateness and comprehensiveness of the bank's customer due diligence, policies, procedures and processes for obtaining customers information and assess the value of such information in detecting and monitoring and reporting suspicious activity¹⁶.

Supervisory bodies should have adequate powers to supervise or monitor, and ensure compliance by, financial institutions with requirements to combat money laundering; should also have powers to impose a range of disciplinary and financial sanctions, including the power to withdraw, restrict or suspend the financial institution's license, where applicable¹⁷.

Supervisory bodies should ensure that financial institutions are required by law to maintain records on transactions and information obtained through the customer due diligence measures are maintained, for at least five years, all necessary records on transactions, both domestic and international, to enable them to comply swiftly with information requests from the competent authorities; Such records must be sufficient to permit reconstruction of individual transactions so as to provide evidence for prosecution of criminal activity¹⁸.

¹⁴ FATF Recommendations 1.3.1; Objective 2.6 of the FIU manual for offsite and onsite anti-money laundering inspections);

¹⁵ FATF Recommendations 2.1.1);

¹⁶ (FIU manual for offsite and onsite anti-money laundering inspections; FATF Recommendation Criterion 2.2.1

¹⁷ FATF Recommendations No. 2.2.2 and 2.2.3 of 2012

¹⁸ FATF Recommendations No. 2.4.1 to 2.4.4); of 2012

Countries should ensure that there is a range of effective, proportionate and dissuasive sanctions, whether criminal, civil or administrative, available to deal with natural or legal persons¹⁹.

Coordination of Anti-Money Laundering Activities

Countries should ensure policy-makers, the Financial Intelligence Unit (FIU), law enforcement authorities, supervisors and other relevant competent authorities, at the policy-making and operational levels, have effective mechanisms in place which enable them to cooperate, coordinate and exchange information domestically with each other concerning the development and implementation of policies and activities to combat money laundering²⁰.

In the formulation and implementation of monetary policy, the Minister for Finance and Planning and the Governor of the Bank of Tanzania shall, where circumstances require, consult each other with a view to exchanging information and seeking coordination on economic and financial matters²¹.

The FIU is responsible for coordinating with the regulatory authorities of the relevant reporting persons, in collaboration with Regulators, issue guidelines to banks, financial institutions and other reporting persons in respect of suspicious transactions, record-keeping and reporting obligations; consult with any relevant person, institution or organization for the purpose of discharging its duties; and liaise with the relevant investment and business registration and licensing authorities in assessing genuine investors²².

Countries should maintain comprehensive statistics on matters relevant to the effectiveness and efficiency of their anti-money laundering systems. This should include statistics on the STRs received and disseminated; on money laundering and terrorist financing investigations, prosecutions and convictions; on property frozen, seized and confiscated; and on mutual legal assistance or other international requests for cooperation²³; *and*

¹⁹ FATF Recommendation No. 35 of 2012

²⁰ FATF Recommendation No. 2 of 2012

²¹ Section 7 of the Bank of Tanzania Act 2006

²² Section 6 (f), (h) and (j) of the Anti-Money Laundering Act, 2006.

²³ FATF Recommendation 33

FIU is required to compile statistics and records, disseminate information within the United Republic or elsewhere, make recommendations arising out of any information received and advise the NAMLC as appropriate.²⁴

1.5 Data Validation

The Financial Intelligence Unit was given the opportunity to go through the draft report and comment on the figures and information presented.

They confirmed on the accuracy of the figures used and information being presented in the audit report. Furthermore, the information was cross-checked and discussed with experts on the field of money laundering to ensure validation of the information obtained.

1.6 Standard for the Audit

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs) on performance auditing. The standards require the Supreme Audit Institution (SAI) to plan and perform the audit so as to obtain sufficient and appropriate audit evidence as well as provide a reasonable basis for findings and conclusions based on audit objective(s).²⁵

The National Audit Office of Tanzania believes the evidences obtained provide a reasonable basis for the findings and conclusions based on the audit objectives.

1.7 Structure of the Report

Following this introductory chapter, the remaining part of the audit report is organized as follows:

²⁴ AMLA, 2006, Section 6 (e); Regulation 36 of AML Regulations of 2012.

²⁵ The International Standards of Supreme Audit Institutions (ISSAI) are benchmarks for auditing public entities. They are developed by the International Organization of Supreme Audit Institutions (INTOSAI) is a worldwide affiliation of governmental entities. The INTOSAI's members are the Chief Financial Controllers, comptrollers, or Auditor General Offices of nations.

- Chapter Two presents the description of the system for implementation of the national initiatives to combat money laundering in Tanzania. It also covers legal framework, processes, key players and stakeholders together with their responsibilities in combating money laundering;
- Chapter Three presents the findings of the audit covering the anti-money laundering institutional framework; compliance to the requirements of anti-money laundering and coordination of anti-money laundering activities;
- Chapter Four provides overall conclusion and specific conclusions for the audit; and
- Chapter Five outlines the audit recommendations that can be implemented by the Ministry of Finance and Planning (MoFP), the National Multi-Disciplinary Committee on Money Laundering and the Financial Intelligence Unit (FIU).

CHAPTER TWO

POLICY, REGULATORY AND INSTITUTIONAL FRAMEWORK FOR COMBATING MONEY LAUNDERING IN TANZANIA

2.1 Introduction

This chapter describes the system for combating money laundering in Tanzania. It covers statutory mandates and roles of key players, responsibilities and the relationship between key stakeholders.

2.2 Robust Anti-Money Laundering Regime

According to FATF recommendations, countries are advised to have in place robust national systems that identify risks, and develop policies and domestic coordination; pursue money laundering and apply preventive measures for the financial sector and other designated sectors; establish powers and responsibilities for the competent authorities and other institutional measures; enhance the transparency and availability of beneficial ownership information of legal persons and arrangements; and facilitate international cooperation.

2.3 Governing Policies, Laws and Regulations

This section explains policies, laws and regulations that govern the framework for combating money laundering in the country.

2.3.1 Policy

Generally, Tanzania has not established a specific policy which is directly linked to anti-money laundering despite having enacted several legislations for deterrence and combating money laundering.

2.3.2 Legislations Governing Anti-Money Laundering

The Anti-Money Laundering Act, 2006

The Anti-Money Laundering Act, Chapter 423 (AMLA) was enacted in 2006. The Act establishes the Anti-money Laundering Advisory Board, referred to as the National Multi-Disciplinary Committee on Anti-Money Laundering (NAMLC) and outlines its powers and functions.

The NAMLC is responsible for the formulation, assessment and improvement of the effective policies and measures to combat money laundering. It also advises the government on legislative, regulatory and policy reforms in respect of measures to combat money laundering and predicate offences.

AMLA establishes the FIU whose role is to oversee and monitor the implementation of anti-money laundering initiatives in the country. AMLA sets out the obligations of reporting persons which include submission of STRs to the FIU, establishes requirements to verify customer identities and to maintain customers records. AMLA also sets out sanctions for non-compliance with anti-money laundering requirements and sets penalties for acts of anti-money laundering.

The Anti-Money Laundering Regulations of 2012

The regulations provide for the roles of reporting persons to report suspicious transactions to FIU. It stipulates how STRs should be reported; and provides for administrative sanctions for AML non-compliance.

The Anti-Money Laundering and Proceeds of Crime (AMLPOCR) Regulations of 2015

The regulations provide for reporting of suspicious transactions, currency transactions, cross border transportation of currency and electronic fund transfers. The regulations also confer responsibility on the identification of customers to establish business relationship that enable to determine money laundering risks associated to customers.

The Anti-Money Laundering (Electronic Funds Transfer and Cash Transaction Reporting) Regulations of 2019

The regulations provide obligations to reporting persons to report electronic funds transfer and currency transactions; circumstances where attorneys, notaries and independent legal professionals shall report currency transactions; and circumstances where Accountants shall report currency transactions.

They also provide for circumstances where an operator of gaming activity shall report cash transactions; requirements for an ordering

institution to maintain currency information; format and period of reporting; and imposition of administrative sanctions in case of non-compliance.

The Anti-Money Laundering (Cross-Border Declaration of Currency) Regulations of 2016

The regulations set threshold for the amount to be declared and also provides for compounding of offences in some cases of non-compliance. They provide obligations to custom officers to submit the declared amounts to FIU. The regulations also provide for FIU to open bank accounts for the seized undeclared or falsely declared amounts.

FIU is primarily responsible for the administration of the above legislations on combating money laundering in the country.

Other legislations governing anti-money laundering in the country are shown in ***Appendix 6***.

2.3.3 Strategies

Currently, Tanzania has no up-to-date anti-money laundering strategy for implementation of the national initiatives to combat money laundering. However, between 2010 and 2013 Tanzania had the AML strategy for anti-money laundering and combating terrorism financing. The strategy, among other things, highlighted national commitment towards a coordinated and effective fight against money laundering.

This strategy also elaborated the AML institutional framework by considering legal framework, laws enforcement mechanisms including sanctions and penalties, coordination and overseeing of AML activities during the implementation towards achieving strategic goals within the agreed timeframe of execution.

There are several sector strategies aimed at combating money laundering predicate crimes including drug trafficking, tax evasion, corruption, smuggling of minerals and precious stones, product counterfeiting, and trafficking of persons. These sector policies are aimed at reinforcing the AML Strategy.

2.4 Key Players and their Roles in Combating Money Laundering in the Country

2.4.1 The Ministry of Finance and Planning

According to Section 5 of the Public Finance Act of 2004, the Ministry of Finance and Planning is responsible for:-

- (i) Supervising and monitoring the finances of the country;
- (ii) Coordinating international and inter-governmental financial and fiscal relations; and
- (iii) Managing the consolidated funds, supervising, controlling and directing all matters relating to the financial affairs of the government.

The Ministry of Finance and Planning is responsible for overseeing the implementation of national initiatives for combating money laundering in the country by receiving annual implementation reports on money laundering from NAMLC and FIU.

Institutions under the Ministry of Finance and Planning which are Responsible for Anti-Money Laundering

There are two main institutions under the Ministry of Finance and Planning which are responsible for anti-money laundering. These institutions are the National Multi-Disciplinary Committee on Anti-Money Laundering and the Financial Intelligence Unit (FIU). Their roles are as explained below:

(a) The National Multi-Disciplinary Committee on Anti-Money Laundering

According to Section 9 of the Anti-Money Laundering Act of 2006 (AMLA) the functions of the National Multi-Disciplinary Committee on Anti-Money Laundering are to:-

- (i) Formulate, assess and improve the effectiveness of the policies of and measures to combat money laundering;
- (ii) Advise the Government on legislative, regulatory and policy reforms in respect of anti-money laundering and combating predicate offences; and

- (iii) Report to the Ministry of Finance and Planning the progress of the implemented activities gathered through quarterly meetings by its stipulated institutions responsible for combating money laundering in the country.

NAMLC reports annually to the Ministry of Finance and Planning on the implementation status of the anti-money laundering initiatives and related activities.

(b) The Financial Intelligence Unit (FIU)

According to Section 4 of Anti-Money Laundering Act of 2006, the Financial Intelligence Unit has the following roles:-

- (i) Receive and analyse reports of suspicious transactions submitted by the reporting persons;
- (ii) Disseminate to the appropriate law enforcement agencies any information derived from an inspection carried out and, if it gives FIU reasonable grounds to suspect that a transaction involves the proceeds of crime, it shall instruct any reporting person to take such steps as may be appropriate to facilitate any inspection anticipated by FIU;
- (iii) Compile statistics and records, disseminate information within the United Republic of Tanzania or elsewhere, make recommendations arising out of any information received and advise NAMLC as appropriate;
- (iv) In consultation with the regulatory authorities of the relevant reporting persons, issue guidelines to banks, financial institutions and other reporting persons in respect of suspicious transactions, record-keeping and reporting obligations;
- (v) Create training requirements and provide such training for reporting persons, judicial officers and law enforcement officers; and
- (vi) Exchange information with overseas financial Intelligence Units and comparable bodies.

FIU reports administratively to the Ministry of Finance and Planning on the annual implementation of Anti-Money Laundering initiatives to combat money laundering which includes the status of human and financial resources.

2.4.2 Other Stakeholders

(a) Tanzania Revenue Authority (TRA)

In discharging its responsibility of collecting revenues, TRA has the following obligations to taxpayers/stakeholders:

- (i) Provide feedback for tax evasion information provided by taxpayers and the public, and in case of tax recovery²⁶; and
- (ii) Conduct tax related investigations and action against those who evade tax in the country.

Specifically, on anti-money laundering efforts, Customs Officers from TRA have a role to submit to FIU cross-border currency declaration reports and suspicious transactions that it considers to be money laundering related.

(b) Bank of Tanzania (BoT)

According to the Banking and Financial Institutions Act of 2006, and the Bank of Tanzania Act 2006, the main responsibilities of BoT are:

- (i) Issuing licenses to banks and financial institutions²⁷; and
- (ii) Supervising of banks and financial institutions: this activity involves ensuring that commercial banks and other financial institutions conduct their business on a sound and prudential basis and according to the various laws and regulations in force.

Specifically, on anti-money laundering efforts, the BoT is responsible for regulating financial operations in the country through issuance of operational guidelines and regular supervision to ensure banks' compliance with anti-money laundering requirements as established in the country.

²⁶ <https://www.tra.go.tz/index.php/80-taxpayer-s-charter/85-tra-obligations>

²⁷ <https://www.bot.go.tz/AboutBOT/BOTFunction.asp>

(c) The Prevention and Combating of Corruption Bureau (PCCB)

According to Section 7 of the Prevention and Combating of Corruption Act, the functions of the PCCB are to:

- (i) Examine and advise the practices and procedures of public, parastatals, and private organizations, in order to facilitate the detection of corruption or prevent corruption and secure the revision of methods of work or procedure which appear to add to the efficiency and transparency of the institution concerned; and
- (ii) Cooperate and collaborate with international institutions, agencies or organizations in the fight against corruption.

Specifically, on anti-money laundering efforts, PCCB has a role to receive intelligence packages from FIU on money laundering as a law enforcement agent and accordingly, investigate and, subject to the directions of the Director of Public Prosecutions, prosecute offences under the Prevention and Combating of Corruption Act and other offences involving corruption. It also investigates any alleged or suspected corrupt conducts by public officials.

(d) The Business Registrations and Licensing Agency (BRELA)

The Business Registrations and Licensing Agency is established under the Government Executive Agencies Act No. 30 of 1997 under the Ministry of Industry and Trade. It is responsible for business administration and regulation of the laws; namely Companies Registration, Business Names Registration, Trade and Service Marks Registration, Granting of Patents and Issuing of Industrial Licenses.

(e) Tanzania Insurance Regulatory Authority (TIRA)

The Tanzania Insurance Regulatory Authority is established under the Insurance Act No.10 of 2009. Its core functions include but not limited to registration of insurance agents, insurance assessors and loss surveyors, insurance brokers, insurance companies, reinsurance companies, inspection of all insurance players, handling insurance complaints from the public, and creation of insurance awareness to the public.

(f) Capital Markets and Securities Authority (CMSA)

The Capital Markets and Securities Authority was established in 1995 by the Capital Markets and Securities Act, Chapter 79 R.E. 2002. According to the provision of Section 10 (1) of the Capital Market and Securities Act; the CMSA has the duty and powers to promote and develop efficient and sustainable capital markets and securities business in Tanzania while ensuring fair and equitable dealings including licensing and regulating stock exchanges, dealers, brokers and their representatives and investment advisors.

(g) The Tanzania Investment Centre (TIC)

The Tanzania Investment Centre was established in 1997 by the Tanzania Investment Act to be the primary agency of the Government to coordinate, encourage, promote and facilitate investment in Tanzania and to advise the Government on investment policy and related matters. According to Section 6 (d) of Tanzania Investment Act its function include to assist all investors to obtain all necessary permits, licenses, approval consents, authorisation, registration and other matters required by law for a person to set up and operate an investment; and to enable certificates issued by the centre to have full effect.

(h) The Tanzania Communications Regulatory Authority (TCRA)

The Tanzania Communications Regulatory Authority is a quasi-independent Government body responsible for regulating the communications and broadcasting sectors in Tanzania. It was established under the Tanzania Communications Regulatory Act No.12 of 2003 to regulate the electronic communications, and postal services, and management of the national frequency spectrum.

2.4.3 Reporting Persons

Section 3 of Anti-Money Laundering Act of 2006 defines a Reporting Person as a bank and a financial institution, cash dealer, an accountant, real estate agent, dealer in precious stones work of arts or metals, a regulator, customs officer, attorneys, notaries and other independent legal professionals, auctioneers, and any other person who the Minister may, by notice published in the *Gazette* appoint. The reporting person has responsibility to:

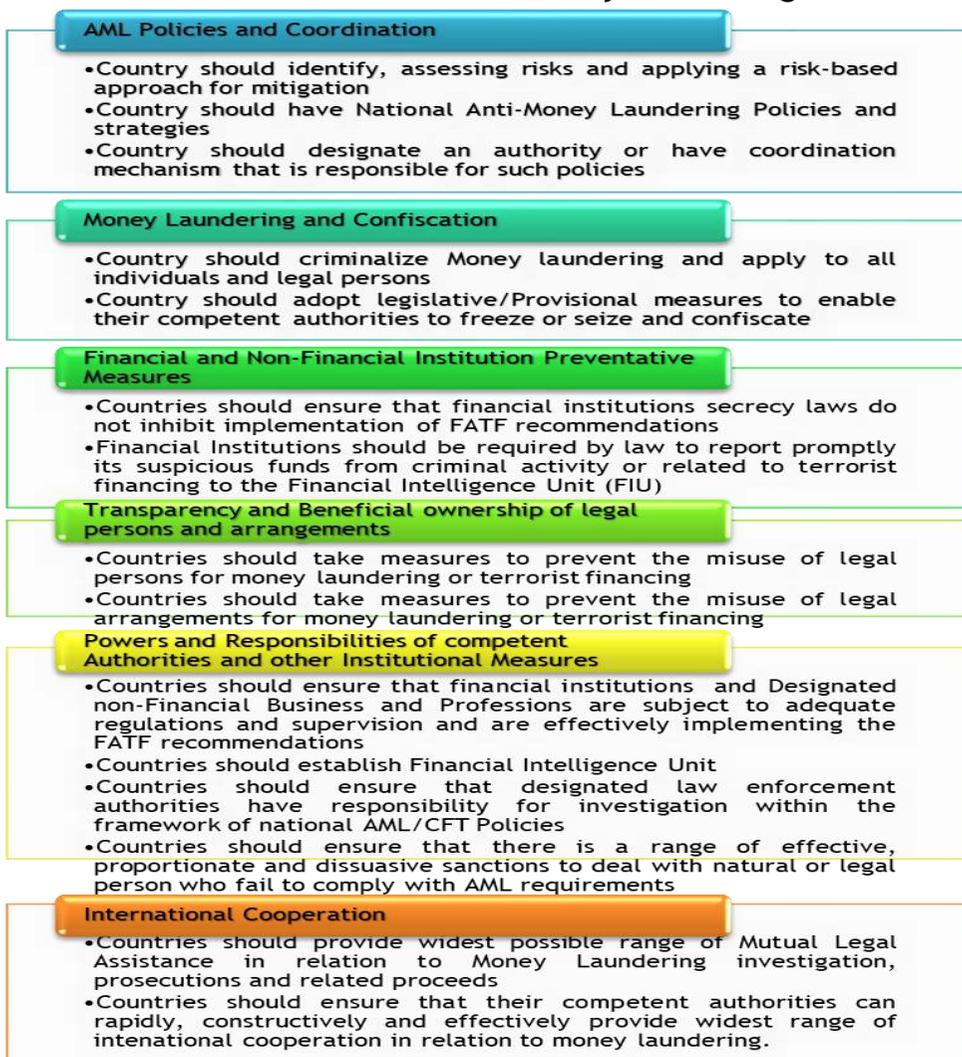
- (i) Report to FIU suspicious transactions;
- (ii) Establish and maintain customers' records;
- (iii) Establish and maintain internal reporting procedures and risk assessments; and
- (iv) Verify customers' identity.

2.5. The Anti-Money Laundering Framework in Tanzania

In order to combat money laundering in the country, there are applicable national laws, regulations, guidelines and procedures and international instruments such as Resolutions, Conventions and Protocols to shape the proper conduct and implementation of anti-money laundering activities.

The AML International framework is highly influenced by the Financial Action Task Force (FATF) 40 Recommendations (Requirements) which are applicable globally. Countries, including Tanzania aspire to comply with the FATF 40 Recommendations because they are universally accepted as good practices for combating money laundering.

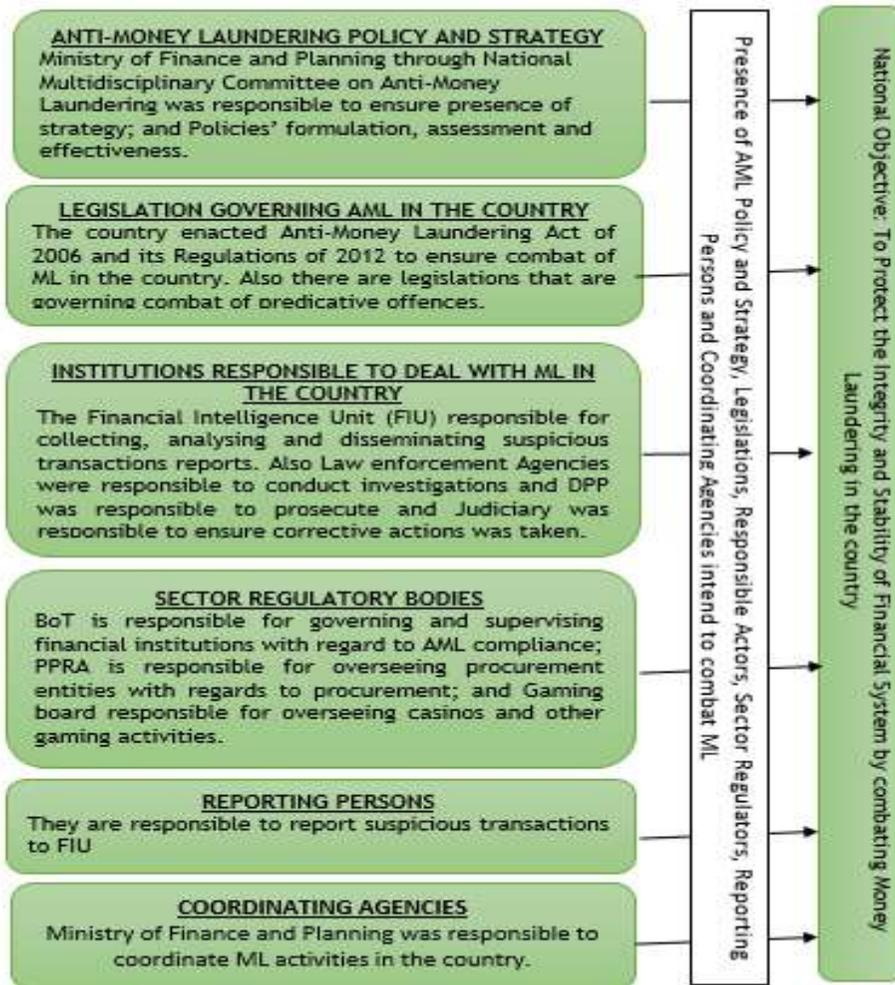
Figure 2.1: FATF Requirements for a Robust Institutional Framework to Combat Money Laundering



Source: The Financial Action Task Force Recommendations on Money Laundering

Tanzania signed an MoU to apply the FATF recommendations in combating money laundering in the country. In addition, Tanzania established the institutional arrangements shown below;

Figure 2.2: Tanzania Institutional Arrangement for Combating Money Maundering



Source: Auditors' Analysis of 2019

Following is detailed description of the policies, laws and institutions put in place to combat money laundering in Tanzania:

(a) Anti-Money Laundering Policy

There should be in place an anti-money laundering policy that guides initiatives to combat money laundering in the country. The policy should be regularly reviewed to reflect prevailing conditions in the country. The NAMLC is responsible for advising the Government on formulating, assessing and improving the policy to effectively combat money laundering.

(b) Legislations Governing AML Measures in the Country

Tanzania has enacted several principal legislations, together with subsidiary legislations for combating money laundering and its predicate offences. These legislations, some of which have been amended several times, include the Anti-Money Laundering Act of 2006; the Proceeds of Crime Act of 1991; the Banking and Financial Institutions Act of 2006; the Prevention and Combating of Corruption Act of 2007; the Evidence Act of 1967; the Mutual Assistance in Criminal Matters Act of 1991; Drugs and Prevention of Illicit Trafficking in Drugs Act of 1995; the Economic and Organized Crime Control Act of 1984; the Prevention of Terrorism Act of 2002; and the Gaming Act of 2003.

In enhancing national initiatives for combating money laundering, the Government of Tanzania has ratified various and acceded to several conventions and protocols as presented in **Appendix 5**.

(c) Institutions Responsible for AML Measures in the country

The following are institutions in Tanzania tasked with combating money laundering:

The Financial Intelligence Unit (FIU)

The Anti-Money Laundering Act 2006 established FIU, which is responsible for receiving, analyzing suspicious transactions reports and disseminating intelligence to Law Enforcement Agencies for investigation and possible prosecution. It is also responsible for implementing other matters related to combating money laundering in the country.

The National Multi-Disciplinary Committee on Anti-Money Laundering (NAMLC)

NAMLC, established under the Anti-Money Laundering Act 2006, is responsible for advising the Government on anti-money laundering policies, strategies and for assessing their effectiveness in combating money laundering in the country. It is also a national anti-money laundering coordinating entity in Tanzania.

Law Enforcement Agencies

These are institutions which are responsible for conducting investigations of offences related to money laundering. They include: T Tanzania Police Force, The Prevention and Combating of Corruption Bureau (PCCB), Tanzania Revenue Authority (TRA) and the Immigration Services Department.

The National Prosecution Service (NPS)

The National Prosecution Service under the Director of Public Prosecutions is responsible for prosecuting money laundering and related offences. Available legislations provide sanction measures such as confiscations, imprisonment and imposition of fines to natural and legal persons in relations to ML crimes and AML/CFT non-compliance.

Sector Regulatory Bodies

Sector regulatory bodies are responsible for ensuring sector compliance to anti-money laundering requirements. According to the National Risk Assessment Report of 2016, 19 sectors of the economy are at risk of money laundering abuse in the country. In combating money laundering, Tanzania designated sector regulatory bodies including BoT, which is responsible for regulating banks and other financial institutions; the Tanzania Insurance Regulatory Authority (TIRA) responsible for the insurance sector, the Capital Market and Securities Authority (CMSA) responsible for capital markets, and the Gaming Board of Tanzania (GBT) responsible for casinos and gaming activities in the country. In total, 14 regulatory bodies are designated by AMLA.

(d) Reporting Persons

Reporting Persons are required by AMLA to report suspicious transactions and other reports to FIU. Where a reporting person suspects or has grounds to suspect that, funds or property are proceeds of crime, or are related or linked to or are to be used for commission or continuation of a predicate offence or has knowledge of a fact or an activity that may be an indication of money laundering or predicate offence, he shall within 24 hours report that suspicion to FIU.

CHAPTER THREE

AUDIT FINDINGS

3.1 Introduction

This chapter presents findings on the extent to which the implementing institutions have efficiently implemented the national initiatives to combat money laundering in the country. The performance was measured based on the adequacy of the anti-money laundering framework, performance of the implementing agencies in implementing the policy, regulatory and institutional framework, and coordination amongst implementing agencies.

3.2 The Extent of Money Laundering Activities in the Country

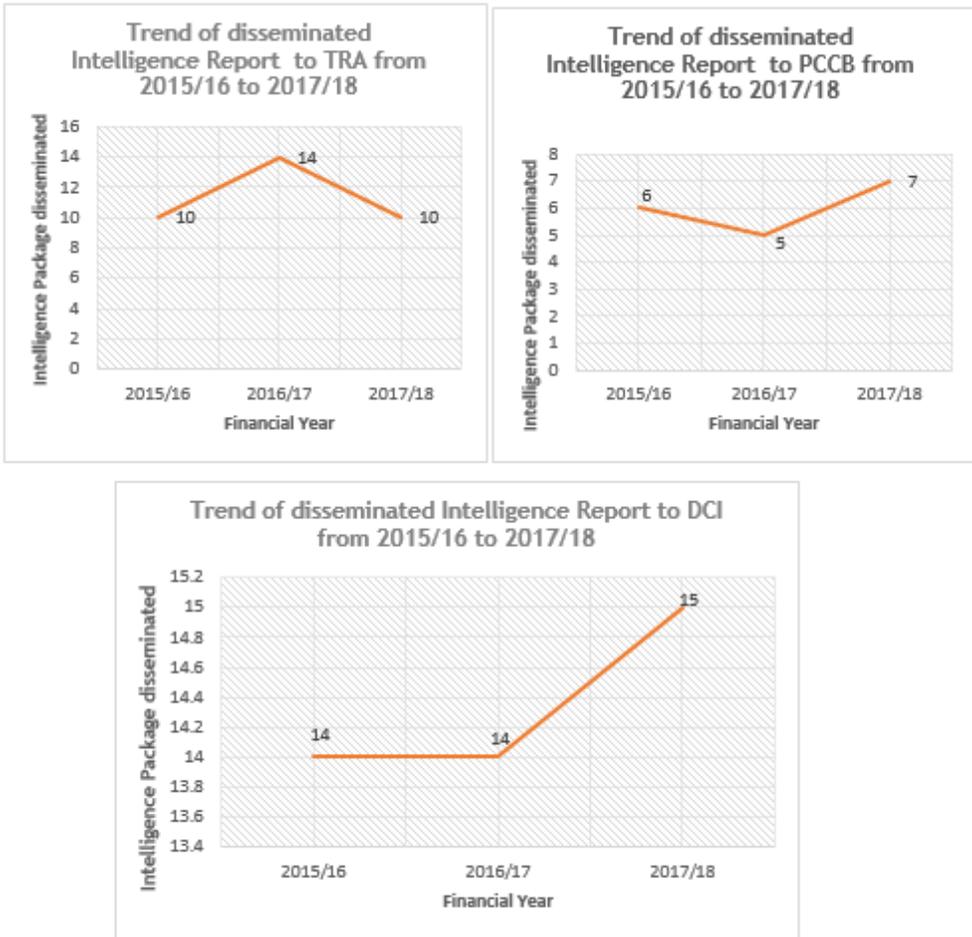
Money laundering takes place throughout the world. In Tanzania, the following situation characterizes the existence of money laundering in the country:

3.2.1 The Prevalence of Predicate Offences

According to the National ML/TF Risk Assessment of 2016, the level of money laundering risk in the country is estimated to be Medium High. The high threat predicate offences are corruption and misappropriation of funds, tax evasion, poaching, illegal mining and illegal trading in precious minerals and stones, illicit drug trafficking and counterfeiting of goods. The report identified a total of 33 crimes (predicate offences) at various levels of money laundering threat, from low to high.

In the period from 2015/16 to 2018/19, the Financial Intelligence Unit received Suspicious Transaction Reports (STRs) and disseminated intelligence reports to Law Enforcement Agencies (LEA) such as the Prevention and Combating of Corruption Bureau (PCCB), Tanzania Revenue Authority (TRA) and the office of the Director of Criminal Investigations (DCI) for investigation and possible prosecution. Following are the trends of Intelligence reports that were disseminated by FIU to the LEAs:

Figure 3.1: Trends of Dissemination of Intelligence Reports in Relation to Tax Evasion, Corruption, Fraud and Misappropriation of Funds, from 2015/16 to 2017/18



Source: Summary of disseminated Intelligence Packages from Financial Intelligence Unit 2015/16 to 2017/18

From **Figure 3.1**, it can be noted that there was an increase in the number of disseminations to law enforcement agencies. The number of disseminations increased from 41 to 59 in the financial years 2015/16 and 2018/19 respectively. Through conducting of inspections and training to reporting persons, the Financial Intelligence Unit managed to increase the detection and reporting of suspicious transactions.

With regards to the overall number of STRs, there was an increase in the number of STRs submitted to the FIU from 148 in 2015/16 to 1,533 in 2018/19.

3.2.2 Sectors Facing High ML Risk and Sectors without Designated Regulators for AML Purposes

Supervisory or regulatory bodies (Regulators) are responsible for overseeing whether reporting entities under their supervision comply with AML requirements as per the law. The National ML/TF Risk Assessment Report of 2016 (NRA Report) highlighted a number of sectors which were vulnerable to high money laundering risk. However, the audit team noted that some of the sectors had no regulators and thus they were not regulated for AML purposes. **Table 3.1** provides for sectors of the economy as categorized by the NRA Report and the designated regulators.

Table 3.1: Regulated and Un-regulated Sectors with Assessed Money Laundering Risk

Sector	Money Laundering Risk Rating	Designated Regulator
Banking	Medium High	Bank of Tanzania
Real Estate	High	None
Informal Value Transfer (Hawala) Services	High	Not Applicable (Hawala services are illegal in Tanzania)
Dealers in Precious Metals and Stones	High	None
Motor Vehicle Dealers	High	None
Bureau de change	Medium High	Bank of Tanzania
Casinos and other Gaming Activities	Medium High	Gaming Board of Tanzania
Lawyers, Notaries and other Independent Legal Professionals	Medium High	None
Electronic Money Issuers	Medium High	Tanzania Communications Regulatory Authority

Source: National ML/TF Risk Assessment Report, 2016 and Auditors' Analysis (2019)

The analysis from **Table 3.1** shows that out of the nine (9) sectors rated medium high to high in terms of money laundering risk, only four (4), equivalent to 44%, have designated regulators. This means that 5 sectors are not regulated for AML purposes even though money laundering risk in the sectors is high. There is high possibility of

perpetrating money laundering activities in sectors without designated Regulator.

Lack of policies and legislations to govern the real estate, informal value transfer, dealers in precious metal, motor vehicles and other independent legal profession sectors are the main reasons for the non-compliance to AML requirements.

This absence of policies, strategy and legislations has resulted to:

- (a) Lack of a regulatory body for the respective sectors hence most of the providers of the services in these sectors remained unregulated; and
- (b) Lack of a well-defined reporting mechanism in case of any suspicion of money laundering or related event which would provide information relating to AML practices.

These unregulated sectors may therefore launder money without being detected. Such dealings could lead to loss of income that could have been detected had the transactions passed through proper channels.

3.2.3 Financial Losses and Reputational Damage to the Country

According to the Report of the high-level panel on Illicit Financial Flows (IFFs), African countries were losing more than USD 50 Billion annually due to illicit financial flows. On average, each African state (including Tanzania) is losing up to USD 1 Billion annually due to money laundering. The high threat offences related to money laundering in Tanzania are corruption and misappropriation of funds, tax evasions, poaching, drug trafficking, illegal mining and illegal trading in precious metals and stones and counterfeiting of goods.

The potential negative effects of unchecked money laundering on the macro-economy includes increased volatility in international capital flows and exchange rates due to unanticipated cross-border assets transfers. Similarly, as it rewards corruption and other crimes,

successful money laundering damages the integrity of the entire society and it undermines democracy and the rule of law²⁸.

According to interviews held with officials from the Financial Intelligence Unit and the National Multi-Disciplinary Committee on Anti-Money Laundering, unchecked money laundering can erode the integrity of financial institutions, destruct legitimate economic activities, pose threat to social and political stability and it can negatively impact the development of the global economy.

Due to inadequate record keeping on AML matters, the audit team was unable to estimate the money with the predicate offences for the period from 2015/16 to 2018/19.

3.2.3 Factors that Hinder Efforts to Combat Money Laundering

Factors that limited the government's ability to combat money laundering can be categorized to three areas namely: deficiencies in the country's AML policy, regulatory and institutional framework; non-adherence to AML requirements by implementing agencies and deficiencies in the AML coordination framework.

Detailed analyses of the stated factors are described in the subsequent sections of this chapter.

3.3. Deficiencies in the Anti-Money Laundering Policy, Regulatory and Institutional Framework

FATF identified eleven (11) immediate outcomes that an effective AML framework should achieve in implementing national initiatives to combat money laundering, (*See Appendix 4*). Each country must put in place formidable legal, regulatory and institutional frameworks to achieve the stated immediate outcomes. The audit noted various weaknesses with regards to implementation of the existing anti-money laundering framework in the country in attainment of the stated immediate outcomes:

3.3.1 The Absence of an Anti-Money Laundering Policy

According to Section 9 of the Anti-Money Laundering Act, 2006 the National Multi-Disciplinary Committee on Money Laundering (NAMLC) is required to advise the Government through the Ministry of Finance and Planning to formulate, assess and improve the effectiveness of the policies and measures to combat money laundering. The policies

²⁸ <https://www.fatf-gafi.org/faq/moneylaundering/>

should consider all sectors of the economy which are risky and vulnerable to money laundering in the country.

Interviews held with officials from MoFP and NAMLC revealed that, even though the Anti-Money Laundering Act was enacted in 2006 followed by Regulations in 2012, the country does not have anti-money laundering policy in place.

However, an interview with the Deputy Chairperson of the NAMLC indicated that, the country complied with FATF recommendations by conducting the National ML/TF Risk Assessment in 2016. Despite having conducted the assessment which also recommended the formulation of an AML policy, still the policy has not been developed.

The audit noted that, anti-money laundering initiatives were carried out without having a policy document in place. This was caused by lack of prioritization on the part of the NAMLC and the FIU whose efforts were directed to the preparation of the National Risk Assessment on Money Laundering in 2016.

Consequently, lack of policy in the country affected the policy makers, FIU, NAMLC and regulators on operational level. It also affects coordination between actors who are responsible for implementing the anti-money laundering initiatives.

3.3.2 The Absence of an Anti-Money Laundering Strategy

According to the AMLA, the National Multi-Disciplinary Committee is required to advise the Government to formulate an anti-money laundering strategy. The audit noted that, there was no anti-money laundering strategy as the last strategy expired in 2013. AML stakeholders including the FIU and NAMLC have been operating without a strategy since then.

It was further noted that, FIU and NAMLC had started preparing a new anti-money laundering strategy in 2016. However, to date there has not been notable progress on finalizing the strategy. Interviews held with FIU and NAMLC officials indicated that up to 2019, FIU was still operating using the outdated strategy that expired in 2013. **Table 3.2** provides the status of compliance related to availability of an AML strategy in the country.

Table 3.2: Status of Compliance Related to Availability of Anti-Money Laundering Policy and Strategy from 2015/16 to 2018/19

FATF Recommendation No.2	Status of Implementation	Extent of Compliance
Countries should have national anti-money laundering laws and policies, informed by the risks identified which should be regularly reviewed, and should designate an authority or have coordination or other mechanism that is responsible for such policies.	<ul style="list-style-type: none"> • Tanzania did not develop Anti-Money Laundering Policies despite the establishment of institutions such as FIU in 2007 • Lack of strategy since 2013. The country had an Anti-Money Laundering strategy from 2010 to 2013. • For the period covered by the audit (July 2015 to June 2019) it was revealed the country has no AML strategy 	Non-compliance with FATF recommendation 2

Source: FATF Recommendations, 2012, Interviews and Auditors' analysis of 2019

From, **Table 3.2**, it can be noted that, though the FATF Recommendation 2 which was issued in 2012 insists on the availability of having well-informed AML strategies, NAMLC and FIU have not complied with such requirements.

Reasons given by officials from FIU for not having an AML strategy was that, the process of developing new strategy was deferred in 2013 to give way for the formulation of the National ML/TF Risk Assessment which was completed in 2016. However, since 2016, the strategy is still under draft stage. The audit further noted that the absence of the AML strategy was an outcome of lack of prioritization on the part of NAMLC and FIU who are responsible to ensure that the strategy is in place and it is operationalized.

Absence of Policies and Strategies in the country limited the implementation capacity among AML stakeholders involved in combating money laundering in the country. Lack of an up-to-date strategy has also led to un-harmonized systems among implementing agencies in implementing the national AML initiatives.

3.3.3 The Absence of Mechanisms to Determine Beneficial Ownership of Legal Persons

The FATF Recommendation 24 requires countries to establish a framework for taking measures to deter criminals from using legal persons to obscure beneficial ownership of illicit assets. Countries should ensure that there is adequate, accurate and timely information on the beneficial ownership and control of legal persons that can be obtained or accessed timely by competent authorities.

The audit team noted that NAMLC and FIU have not established a mechanism that would ensure that measures to control and prevent legal persons from benefiting or misuse of legal persons for criminal matters is in place. NAMLC which is responsible for formulation and assessing measures for anti-money laundering in the country did not take any initiative to establish a policy, strategy or guidelines for identification of beneficial ownership of legal persons.

Furthermore, it was noted that, despite the fact that the country has ratified all United Nations Conventions and Protocols on money laundering and enacted several legislations, yet NAMLC and FIU were unsuccessful in taking necessary measures to ensure that the identification of beneficial ownership of legal persons is integrated in the country's AML framework. The only phrase on beneficial ownership of legal persons was noted in the AML Regulations under Schedule 2 where it required the insurers, the Capital Market and Securities Authority and the Collective Investment Schemes to verify beneficial ownership of legal persons before licensing the same. However, there were no specific procedures or guidance to that effect, and other sectors were left out of this requirement.

The country's national risk assessment conducted in 2016 and the progress report for years 2017-2019 both highlighted the need for the country to integrate the requirement in the AML legal and institutional framework. Since 2016, there were no notable improvements made towards addressing this requirement, and accordingly the country has remained non-compliant. Non-identification of beneficial legal ownership of legal persons was indicated as a weakness to the financial system of the country due to the absence of specific legal provisions and requirements in the AML legal framework. MoFP through NAMLC and FIU has not taken initiatives to ensure that specific provisions on the identification of beneficial ownership of legal persons are established.

The noted reasons for non-inclusion of the provisions on the identification of beneficial owners of legal persons were: lack of AML policy and strategy, inadequate risk assessment concerning the possible misuse of legal persons for money laundering; not all types of legal persons were covered according to the National Risk Assessment Report of 2016; Registries such as Business Registrations and Licensing Agency (BRELA), Registrations Insolvency and Trustee Agencies (RITA), Capital Market and Securities Authority (CMSA) and Tanzania Investment Centre (TIC), companies, financial institutions, DNFBPs and competent authorities might not possess a good understanding and knowledge of risks involved in legal persons.

As a result, the company registry plays a passive role, acting as a repository of information or documents, rather than undertaking verification, monitoring or other measures to ensure that the information they receive is accurate; the provision of information on beneficial ownership to the company registry may not necessarily be made a condition for incorporation. There may be a lack of mechanisms for ensuring that the information provided to the company registry is accurate and up-to-date.

3.4 Non Adherence to Anti-Money Laundering Requirements by Implementing Agencies

There was non-adherence in various areas including non-submission of suspicious transactions reports by reporting persons, limited issuance of the sector AML guidelines, inadequate inspection of reporting persons, insufficient training on AML and non-application of sanctions by FIU. These noted non-adherences are as explained below;

3.4.1 Non- Submission of Suspicious Transaction Reports and Low Dissemination of Intelligence Reports

According to the FATF Recommendation No. 29, FIU serves as a national centre for the receipt and analysis of: (a) suspicious transaction reports; and (b) other information relevant to money laundering, associated predicate offences and terrorist financing, and for the dissemination of the results of that analysis.

FIU should be able to obtain additional information from reporting entities, and have timely access to the financial, administrative and

law enforcement information that it requires to undertake its functions properly. This function was also endorsed by Section 6 of AMLA. The section provides for functions of FIU which, among others, is to receive, analyse and disseminate STRs. The audit noted shortfalls during the receipt, analysis of STRs and dissemination of intelligence reports as explained below:

(a) Non-Submission of Suspicious Transaction Reports by some Categories of Reporting Persons

The audit noted that, there was a challenge in receiving STRs at the FIU from reporting persons. In addition, STRs received came predominantly from the financial sector especially banks. However, there was a limited number of STRs from Designated Non-Financial Businesses and Professions (DNFBPs) and other actors. The poor submission of STRs to the FIU could be attributed to the lack of regulators in some sectors thus limiting inspections from regulators as well as the FIU to ensure compliance in reporting suspicious transactions. **Table 3.3** shows the summary of Suspicious Transactions Reports (STRs) received by the FIU from the reporting persons.

Table 3.3: Number of Received STRs

Financial Year (FY)	STRs Received			Total
	Financial	DNFBPs	Others	
2015/16	196	1	9	206
2016/17	384	0	6	390
2017/18	557	0	10	567
2018/19	1,509	0	24	1,533

Source: Annual Implementation Reports from 2015/16 to 2018/19 and Auditors' Analysis of 2019

As indicated in **Table 3.3**, most STRs were received from the financial sector especially banks. Banking sector highly complied with suspicious transaction reporting requirements compared to other categories of reporting persons. This was due to, among others, availability of guidelines, a designated regulator and regular inspection of reporting persons conducted by both BoT and FIU.

Non-compliance with the submission of STRs by reporting persons was due to lack of a well-defined reporting mechanisms that would ensure easy access and filling of information that is required by FIU. The audit further noted that the FIU has developed STRs reporting template, but it has not been disseminated to all reporting persons

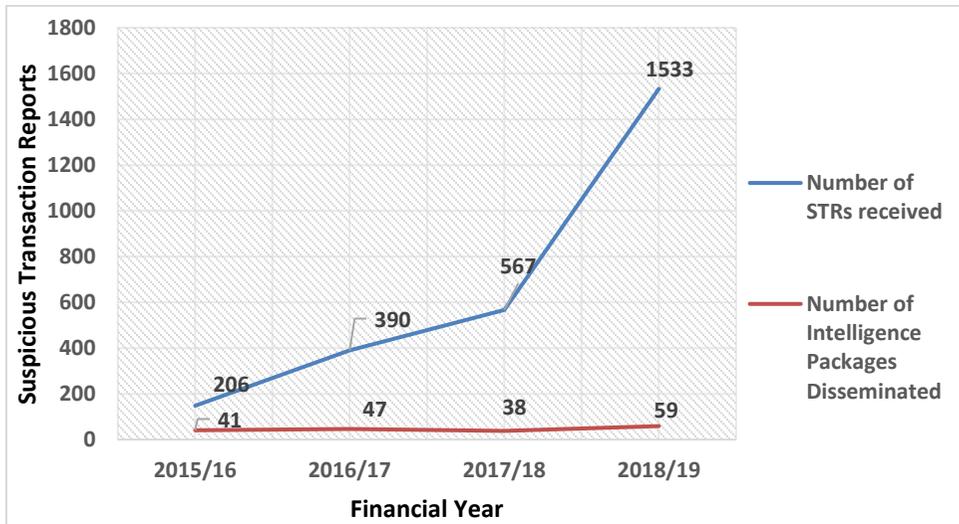
other than Banks. This has led to FIU not receiving any STRs from other reporting persons especially from the unregulated sectors, even though they pose a huge money laundering threat.

(b) Inadequate Analysis of Suspicious Transaction Reports (STRs) and Declining trend of Intelligence Package Disseminated to LEAs

FIU is required to receive and analyze reports of suspicious transactions submitted by the reporting persons and disseminate intelligence to the appropriate law enforcement agencies.

Review of statistics on the received and analysed STRs indicated that FIU does not review all the STRs submitted. The analysis made indicated an increase in the number of submitted STRs and a corresponding decrease in the number of intelligence reports as indicated in **Figure 3.2**.

Figure 3.2: The Number of Suspicious Transaction Reports Received and Intelligence Packages Disseminated Between 2015/16 to 2018/19



Source: FIU's Annual Implementation Reports of 2015/16 to 2018/19

Figure 3.2 indicates that there was an increasing trend in the number of STRs submitted to the FIU but a more or less constant trend of intelligence reports that are submitted to LEAs for investigation and prosecution. For the past 4 years, FIU has analysed less than 10% of entire STRs submitted by reporting persons.

There is a declining trend of intelligence packages that were submitted to Law Enforcement Agencies (LEAs) for investigations. Through the interviews, it was indicated that sometimes not all STRs are valid or qualify for the next level scrutiny i.e. can be forwarded to investigative organs such as PCCB, DCI and TRA. However, there were no records indicating reasons for all un-processed disseminated STRs.

The reasons stated by FIU for declining trend of disseminating STRs were;

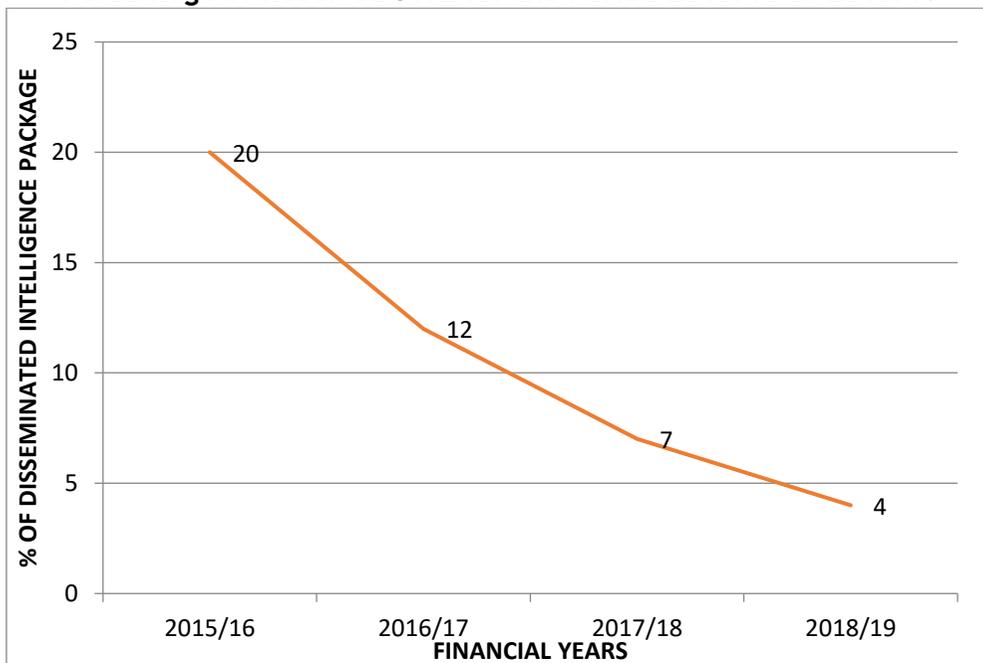
- a) Delayed response to requests for clarification/additional information locally and internationally;
- b) Assigning low priority and weaknesses in monitoring of reporting persons to ensure compliance to AML requirements and lack of enough material to substantiate suspicions and enable important links; and
- c) Other high priority issues internally and outside FIU requiring more attention and resources dispensation.

On the other hand, FIU argued that, some of the STRs received from different reporting persons were not analysed due to lack of human resources and funds. FIU did not set any priorities on the type and nature of STRs to analyse, consequently resulting in many STRs accumulating year after year as indicated in **Figure 3.2**.

With regards to dissemination of intelligence packages²⁹ to Law Enforcement Agencies (LEAs), the FIU percentage of disseminated Intelligence packages declined compared to increase in number of STRs which were received. **Figure 3.3** shows percentage of intelligence packages disseminated to the LEAs between 2015/16 to 2018/19.

²⁹A report developed detailing the results of the analysis conducted from the received STRs from reporting persons.

Figure 3.3: The Trend of Disseminated Intelligence Packages as a Percentage of Received STRs for the Period 2015/16 to 2018/19



Source: FIU statistics on Received and Analysed STRs for FY 2014/15 to 2018/19 and Auditors Analysis

Figure 3.3 indicates that there was a rapid decline in dissemination of intelligence packages to Law Enforcement Agencies from 20% to 4% from 2015/16 to 2018/19. This was due to un-proportionate increase in disseminated Intelligence Packages compared to the increased Suspicious Transaction Reports (STRs).

Other reason provided for these weaknesses were the lack of resources especially staff.

In addition, reporting persons tend to submit suspicious transaction reports which were not properly filled limiting timely processing of STRs by FIU due to prolonged clarifications and the need for securing additional information.

Similarly, untimely processing of STRs was caused by reporting persons who kept information in hard copies, hence it became hard to timely respond to the requested additional information needed by FIU³⁰.

³⁰According to review of the annual Implementations reports between 2015/16 to 2018/19

Consequences for not analyzing STRs and disseminating intelligence packages to relevant LEAs resulted in weakening the whole AML institutional framework and discouraging reporting persons and implementing agencies. This means that money laundering risks will increase due to weaknesses in the implementation of AML initiatives.

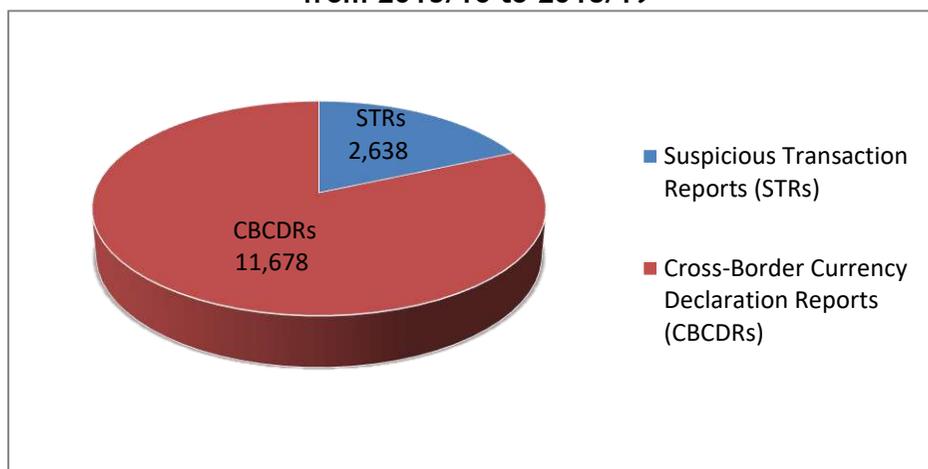
(c) Late Submission of Cross Border Currency Reports to FIU

The anti-money laundering of the cross border declaration of currency and bearer negotiable regulations stipulate that, for purposes of declaration of currency or bearer negotiable instruments, the prescribed amounts should be United States dollars 10,000 or its equivalent in Tanzanian shillings, or any foreign currency based on the official conversion rate of the Bank of Tanzania, which is in effect at the time of transportation of the currency or bearer negotiable instrument across the border. Likewise, Customs Officers in charge are required to submit to FIU every declaration made and should be submitted to FIU within seven working days from the date of receipt of declaration.

According to the interviews held with FIU officials, it was noted that currently, Customs Officers from TRA submit reports on a monthly basis and not on a weekly basis as required by the law. Also, it was noted that due to the presence of porous borders, there were inflows/outflows of currency through those borders.

In analyzing CBDCRs, FIU did not have a mechanism used to track the actual value of amounts spent on the declared amount at the Ports of entry especially for those who declare for business purposes. **Figure 3.4** shows the extent of intelligence packages received in the country.

Figure 3.4: Intelligence Reports Received by Financial Intelligence Unit from 2015/16 to 2018/19



Source: Annual Implementation reports from 2015/16 to 2018/19

Figure 3.4 reveal the number intelligence reports received from entry points that were submitted late for analysis for the period between 2016 and 2019. The process of analyzing them was also limited due to late receipt of information from actors who kept individual/companies information in hard copies. Late reporting of intelligence reports limited timely analysis and taking corrective actions such as cash seizure to those who act against the established AML standards.

3.4.2 Limited Issuance of AML Guidelines to Reporting Persons

According to Section 6 and Regulation 34 of the AML Regulations 2012, FIU in collaboration with Regulators is required to issue AML guidelines to all reporting persons. In addition, those guidelines should relate to various AML aspects including the verification of customer identities; reporting of suspicious transactions; reporting currency transactions; reporting electronic fund transfers; reporting cross border currency transportation; and any other obligations imposed on reporting persons under AMLA.

The review of availed guidelines and the FIU's annual progress reports for the financial years 2014/15 to 2018/19 revealed that only 4 out of the 19 sectors (as per the NRA Report), equivalent to 21% were guided with sector-wise anti-money laundering guidelines from FIU and Regulators. **Table 3.4** indicates sectors which have AML guidelines issued by FIU in collaboration with Regulators.

Table 3.4: Guidelines Issued Based on Sectors Operating in the Country

Sector	Money Laundering Risk Rating	Issued Guidelines
Banking	Medium High	1. AML Guidelines to Banking Institutions 2. AML Guidelines for Bank of Tanzania
Real Estate	High	No Guidelines Issued
Informal Value Transfer (Hawala) services	High	Not applicable. Hawala Services are illegal in Tanzania
Dealers in Precious Metals	High	No Guidelines Issued
Motor Vehicle dealers	High	No Guidelines Issued
Bureau de change	Medium High	No Guidelines Issued
Casinos and other Gaming activities	Medium High	No Guidelines Issued
Lawyers, Notaries and other Legal Independent Legal Professionals	Medium High	No Guidelines Issued
Micro-Credit Institutions	Medium	No Guidelines Issued
Accountants and Auditors	Medium	AML Guidelines for Accountant and Auditors
Money or value Transfer Services	Medium	No Guidelines Issued
Electronic Money Issuers	Medium	No Guidelines Issued
Pension Fund Managers	Medium Low	No Guidelines Issued
Insurance	Medium Low	AML and CTF Guidelines to Insurers
Securities	Medium Low	1. AML Guidelines to CMSA Licensees 2. AML Guidelines to Collective Investment Schemes
SACCOS	Medium Low	No Guidelines Issued
Dealers in works of Art	Medium Low	No Guidelines Issued
Auctioneers	Medium Low	No Guidelines Issued
Informal Financial Groups	Medium Low	No Guidelines Issued

Source: Review of Issued AML Guidelines per Sector, 2014/ 15 to 2018/ 19

As detailed in **Table 3.4**, only 4 out of 19 sectors were issued with AML guidelines to guide sector operations. (This is equivalent to 21% of all sectors). In case of high and medium high ML risky sectors, only 1 has AML guidelines. This is equivalent to 11% for High and Medium High sectors collectively as identified in NRA report.

The failure of the FIU to prepare and issue guidelines was attributed to several reasons including:

- (a) The existence of unregulated sectors, as some sectors had no designated regulators to govern their operations. There were also sectors that are not designated as reporting persons. These are car dealers, informal financial groups and hawala services. Guidelines cannot be issued to these sectors if they are not required to report to FIU in the first place. Hawala services are illegal and hence will never be issued guidelines; and
- (b) FIU had limited resources in terms of staffing and this prevented the preparation of AML guidelines for other remaining sectors.

However, the audit noted that the last guidelines were issued in 2012. Since then FIU has been unable to produce guidelines for other Sectors which have regulators such as Savings and Credit Co-Operative Societies (SACCOS), Auctioneers, Bureau de changes etc.

Unavailability of guidelines hampers the compliance to measures to combat money laundering in the country.

3.4.3 Inadequate Inspections of Reporting Persons

According to Section 6 Anti-Money Laundering (Amendment) Act of 2012 requires FIU in collaboration with the regulator or on its own, to conduct inspection on the reporting person for the purpose of detection of any money laundering so as to ensure compliance to the reporting requirements of anti-money laundering initiatives.

Review of the annual progress reports at the FIU indicated that FIU was carrying-out inspections to various reporting persons. However, the audit noted that inspections conducted did not cover all sectors as indicated in the National Risk Assessment Report of 2016 as detailed in **Table 3.5**.

Table 3.5: Number of Inspections Conducted 2016/17 to 2018/19

Financial Year	Planned Institutions and Number to be inspected		Actual Inspection Conducted		Percentage not inspection
2016/17	Banks	4	Banks	2	50
	Insurance	3	Insurance	0	100
	Accountant and Auditors	4	Accountant and Auditors	0	100
	Casinos	4	Casinos	0	100
	Electronic Money issuers	5	Electronic Money issuers	0	100
2017/18	Banks	5	Bank	1	80
	Electronic Money issuers	6	Electronic Money issuers	0	100
2018/19	Banks	4	Banks	4	0
	Electronic Money issuers	6	Electronic Money issuers	3	50

Source: Annual Plans and Inspection Reports by Inspection Department, 2016/17 to 2018/19

As shown in **Table 3.5**, there was inadequate number of inspections conducted based on the plans prepared by the FIU. For the financial years 2016/17 and 2017/18 no inspection was conducted to electronic money issuers despite being planned for. However, half of the planned inspections were conducted in 2018/19. Banks inspections conducted were above 50%. None of the planned inspections were conducted to casinos, insurance and professional bodies.

The reasons for failure to cover all sectors are explained hereunder:

(a) Inadequate Prioritization during Planning Stage for the Inspections

The audit noted that there was lack of priority in terms of inspection activities. It was noted that FIU did not set sufficient funds for inspection activities. The amount of money allocated for inspections is as shown in **Table 3.6**.

Table 3.6: Budget, Allocated and Spent Funds for Inspection Activities for Financial Years 2015/16 to 2018/19

Financial Year	Total FIU's Budget (TZS in Billion)	Budgeted Amount for Inspection (TZS in Million)	Released Amount for Inspection (TZS in Million)	% allocated to Percentage Amount for Inspection
2015/16	0.746	17.580	0.800	0
2016/17	1.554	297.657	293.860	19
2017/18	1.470	181.450	180.190	12
2018/19	2.122	124.100	124.100	6

Source: FIU Annual Plans and Budgets, 2015/16 to 2018/19

Table 3.6 indicates that inspection activities were allocated less funds. The funds allocated for inspections ranged between 0 and 19% of the total FIU's budget for the past four financial years. This to a large extent impaired the coverage of inspection activities within FIU leaving a number of Reporting Persons not inspected.

(b) Inconsistencies between the Amounts Released and Inspections Conducted

The audit also noted that there was an undefined relationship between the amounts released and number of inspection activities conducted by FIU. For the period covered by the audit, there was a variation of inspection activities despite increased funding to FIU. Table 3.7 provides details for actual amounts released and corresponding inspections covered as per sector.

Table 3.7: Correlation between Amounts Budgeted for Inspection and Inspections Conducted per Sector

Financial Year	Amount Released (Million TZS)	Number of Sectors (as per the National Risk Assessment Report, 2016)	Number and Sector covered by Inspection	Number of sectors not covered by inspection
2015/16	0.800	19	-	-
2016/17	293.660	19	1 sector (2 inspections)	18
2017/18	180.190	19	1 sector (1 inspections)	18
2018/19	123.899	19	2 sectors (7 Inspections)	17

Source: Annual Implementation Reports of FIU from 2015/16 to 2018/19 and Auditors analysis of 2019

From **Table 3.7**, it can be noted that during the financial year 2018/19, seven (7) inspections were conducted which covered 2 sectors, and the amount released for inspection was 123.8 million. For the financial years 2016/17 and 2017/18 the amounts budgeted were 293.6 million and 180.1 million respectively. However, the inspection covered only one (1) sector, and only 2 inspections were conducted annually.

The implication of this situation is that, despite allocation of funds for inspection activities, FIU was not efficient in conducting inspections.

(c) Unavailability of Anti-Money Laundering Inspection Manuals

The review of the inspection manuals at the FIU revealed that, FIU was able to prepare the manuals for offsite and onsite anti money laundering inspections in 2014 for Financial Institutions only.

The audit noted that the reason for not preparing AML inspection manuals was priority setting. It was noted that FIU did not prioritize the implementation of inspection manuals since 2015/16 to 2018/19, despite planning to produce other sectors' inspection manuals such as those for the insurance sector.

As a result, only the financial sector had manuals for conducting inspections. This shortcoming led to inconsistencies in reporting and an increase in non-compliance to anti-money laundering requirements. This also limited the operations of FIU as they had no specific tools to operationalize the available anti-money laundering initiatives.

(d) Lack of a Risk-Based Approach During Inspections

Recommendation No. 26 of the FATF insists on the application of risk-based approach when conducting inspections, supervisory or monitoring activities. Adopting a risk-based approach to inspecting reporting persons and implementing agencies, AML systems and controls allows supervisory authorities to allocate resources according to the perceived risk. As a result, supervisory authorities can use their resources more effectively. The recommendation requires also that risk-based approach should be integrated within AML implementation plans and strategies.

The audit noted that FIU did not adequately plan based on risky factors as highlighted in the National Risk Assessment report of 2016. Review of annual plans for the financial years 2015/16 to 2018/19 and MTEF at FIU did not provide for risk-based approach by highlighting sectors that were most risky which required adequate monitoring and inspections as compared to those which needed less monitoring and inspections. This could have enabled FIU to strategically plan based on key AML performance indicators in the country.

The audit noted also that, FIU did not apply risk-based approach during inspections. This was evidenced by the fact that for the past four years, FIU has been inspecting only financial sectors especially banks whilst neglecting other sectors. This is notwithstanding the fact that Bank of Tanzania as a regulator of Banks was doing similar inspections.

The reason for not adopting risk-based planning for inspection was due to the fact the FIU depended mostly on the NRA report inputs while discharging their AML functions. However, these inputs were not integrated within their own strategic and annual plans for budgeting and resources allocation purposes.

As a result, FIU has been carrying-out almost the same AML activities to the same entities (for this matter Banks) year after year omitting other risky sectors such as real estate agents, dealers in precious minerals and stones and dealers in works of art as shown in the National Risk Assessment report of 2016.

Table 3.8 shows that the NRA report ratings for sectors and inspections conducted in the sectors for the past five years i.e. 2015/16 to 2018/19.

Table 3.8: Inadequate Risk Based Planning during the Implementation of Inspection Activities by the FIU

Rating of Money Laundering threats	Number of sectors involved	Name of Sectors	Number of Sector inspected at least once	Name of inspected sector	%age uninspected sectors at least once
		1.Real Estate, 2.Informal Value Transfer			

Rating of Money Laundering threats	Number of sectors involved	Name of Sectors	Number of Sector inspected at least once	Name of inspected sector	%age uninspected sectors at least once
High risk sectors	4	3. Dealers in Precious Metals, 4. Motor Vehicle dealers	0	0	100
Medium High	5	1. Banking sector 2. Bureau de change 3. Casinos and other Gaming activities 4. Lawyers, Notaries and other Legal Independent Legal Professionals 5. Electronic Money Issuers	3	1. Casinos and other Gaming activities 2. Banking 3. Electronic Money Issuers	40
Medium	3	1. Accountants and Auditors 2. Money or value Transfer Services 3. Micro-Credit Institutions	1	Money or value Transfer Services,	67
Medium Low	7	1. Insurance 2. Securities 3. SACCOS 4. Dealers in work of Art 5. Auctioneers 6. Informal Financial Groups 7. Pension Fund Managers	2	1. Insurance 2. Securities	71

Source: National Risk Assessment of 2016, Auditors' analysis of 2019

As shown in **Table 3.8**, none of the high risk sectors were inspected even once in the last four years. In addition, 40% of Medium High risk sectors were not inspected. FIU also inspected medium low rated sectors such as insurance and securities.

According to Anti-Money Laundering Guidelines for Bank of Tanzania, 2012, BoT is required to ensure its own compliance with anti-money laundering guidelines, comply with AML policies, procedures and controls, conduct on-site inspections to banks and financial institutions and ensure trainings to its staff and institutions under its

supervision as well reporting of suspicious transaction reports to FIU. With this requirement, FIU would have been receiving inspection results inputs from BoT and could have alternatively concentrated on other sectors which have no regulators or have never been inspected.

(e) Insufficient Number of Staff for Conducting Inspections

The audit found out that FIU was facing shortages of staff for carrying out inspection activities. The review of request of human resources from FIU revealed that the total number of required Compliance Officers was 22 while at the time of the audit FIU had only two (2) active Compliance Officers, who were supposed to deal with inspections of all reporting persons under 19 sectors established during the National ML/TF Risk Assessment. This could not be achieved. FIU failed not only to conduct adequate inspections, but also failed to plan proper prioritization of inspections.

Table 3.9 revealed the workload in term of 19 risk sectors with the available number of staff;

Table 3.9: The Ratio of Compliance Officers to the Number of Sectors under Inspection

Number of sectors	Required Number of staff	Available number of staff	Ratio of required number of staff to the risk sectors identified	Ratio of available number of staff to the risk sectors identified
19	22	2	1:1.2	1:0.1

Source: Auditors' Analysis of 2019

As indicated in Table 3.9, if there was enough staff, FIU would have been able to reach all the 19 sectors identified under National ML/TF Risk Assessment. The current ratio of 1:0.1 revealed the available number of staff cannot match the annual requirements of the 19 sectors.

3.4.4 Inadequate Training on Anti-Money Laundering by the FIU

According to Section 6(g) of AMLA, FIU is required to create training needs and provide such trainings to reporting persons. The following were noted by the audit team in relation to the trainings conducted by the FIU;

(a) Training did not cover all reporting persons

Review of FIU’s strategic plans, annual progress reports, training reports and interviews held with officials from FIU indicated that trainings were conducted to stakeholders in the area of money laundering. Training records indicated that trainings were conducted to the Police, Insurance companies and Banks.

However based on the nature and risk of money laundering, FIU officials acknowledged that the scope of training was not enough to cover different sectors as indicated in the risk assessment. This was also indicated and reported in their annual progress reports for a period of five consecutive years. **Table 3.10** provides the number of trainings conducted per year.

Table 3.10: Number of Planned Training and Actual Training Conducted

Financial Year	Planned Categories of Training	Actual Trainings Conducted	Implementation status
2016/17	Conduct workshop on raising awareness on NRA 2016	Conduct workshop on raising awareness on NRA	Conducted
	Conduct awareness to 100 Customs Officers on Country-by-Country-Reporting (CBCR)	Conduct awareness to 100 Customs Officers on CBCR	Conducted
	Conduct awareness workshop on AML to real estate stakeholders	-	Not conducted
2017/18	Conduct awareness workshop on AML to real estate stakeholders	Conduct awareness workshop on AML to real estate stakeholders	Conducted
	Workshop to 60 Money Laundering Reporting Officials (MLRO)	Workshop to 60 Money Laundering Reporting Officials (MLRO)	Conducted
	Conduct workshop raise awareness on NRA	-	Not conducted
	Conduct awareness to 100 Customs Officers on CBCR	Conduct awareness to 100 Customs Officers on CBCR	Conducted
	Conduct awareness workshop to regulatory and licensing authorities such as NGO’s, Casino, Insurance, CMSA, Bureau de change	Conduct awareness workshop to regulatory and licensing authorities such as NGO’s Casino,	Conducted

Financial Year	Planned Categories of Training	Actual Trainings Conducted	Implementation status
		Insurance, CMSA, Bureau de change	
	Awareness workshop with real estate stakeholders on AML	Awareness workshop with real estate stakeholders on AML	Conducted
	Conduct of goAML web training to MLRO	Conduct of goAML web training to MLRO	Conducted
2018/19	Workshop to 60 Money Laundering Reporting Officials (MLRO)	Workshop to 60 Money Laundering Reporting Officials (MLRO)	Conducted
	Conduct workshop raise awareness on NRA	-	Not conducted
	Conduct awareness workshop to regulatory and licensing authorities such as NGO's Casino, Insurance, CMSA, Bureau de change	-	Not conducted
	AML&CFT Workshop to Judiciary	AML&CFT Workshop to Judiciary	Conducted
	AML&CFT workshop to	AML&CFT workshop to	Conducted

Source: Training and Workshop statistics from 2016/17 to 2018/19

Table 3.10 shows that about 27% of the trainings planned by FIU to stakeholders were not implemented. There was inadequate conduct of training related to regulatory bodies, raising awareness on the National Risk Assessment and to real estate stakeholders.

However, for the financial years 2017/18 and 2018/19 FIU was unable to meet its training targets. This poses a risk of not providing adequate trainings to stakeholders and reporting persons as required by the AMLA, 2006 hence risking non-compliance to money laundering requirements as well as public willingness to implement the available AML initiatives.

The reason for not reaching its training target was due to insufficient funds. It was noted that the FIU did not set aside funds specifically for providing training as required. The reported training were co-hosted by FIU and BoT.

(b) Not All Sectors Received Trainings on AML

The audit conducted further review of trainings conducted to reporting persons based on sectors. It was noted that not all sectors were covered by the trainings for all five years under audit as indicated in Table 3.11.

Table 3.11: Training and Awareness Campaigns to Reporting Persons by the FIU

Sector	Money Laundering Risk Rating	Training Provided to various actors from 2015/16 to 2018/19
Banking	Medium High	Training conducted
Real Estate	High	Training conducted
Informal Value Transfer (Hawala) services	High	Not Applicable
Dealers in Precious Metals	High	No Training conducted
Motor Vehicle dealers	High	No Training conducted
Bureau de change	Medium High	Training conducted
Casinos and other Gaming activities	Medium High	Training conducted
Lawyers, Notaries and other Legal Independent Legal Professionals	Medium High	Training conducted
Micro-Credit Institutions	Medium	Training conducted
Accountants and Auditors	Medium	No Training conducted
Money or value Transfer Services	Medium	No Training conducted
Electronic Money Issuers	Medium High	No Training conducted
Pension Fund Managers	Medium Low	No Training conducted
Insurance	Medium Low	Trainings conducted
Securities	Medium Low	Trainings conducted
SACCOS	Medium Low	No Training conducted
Dealers in Works of Art	Medium Low	No Training conducted
Auctioneers	Medium Low	No Training conducted
Informal Financial Groups	Medium Low	No Training conducted

Source: National Risk Assessment, 2016 and Training and Workshop statistics from 2015/16 to 2018/19

Table 3.11 indicates that out of 19 sectors identified under the National Risk Assessment report, FIU managed to conduct awareness creation to 8 sectors only, which is equivalent to 42% of identified sectors. 58% of sectors were not facilitated with training and they were also not planned for training. On the other hand, it was further noted that trainings were provided mostly to regulators or law enforcement agencies.

3.4.5 Sanctions not applied for Non-Compliance

FATF Recommendation 35 requires countries to ensure that there is a range of effective, proportionate and dissuasive sanctions, whether criminal, civil or administrative, available to deal with natural or legal persons that fail to comply with AML requirements. In addition, Section 23(3) of the AMLA provides that when a person fails to comply with reporting obligations, administrative sanctions may be imposed. This position is also supported by Regulation 37 of the AML.

Failure to Impose Administrative Sanctions to Reporting Persons

The review of FIU’s progress reports indicated non-compliance to reporting obligations. However, review of the reports indicated that lenient administrative sanctions or few penalties that were imposed against those persons. **Table 3.12** shows the number of non-compliance vis-à-vis administrative actions taken.

Table 3.12: Number and Nature of Administrative Sanctions Imposed on Reporting Persons for AML/CFT Non-Compliance

Financial Year	Number of Non-Compliance Incidents	Nature of Non-Compliance	Type of Administrative Actions Taken
2015/16	3	Record keeping	Directives to take remedial measures
2016/17	3	KYC/AML Procedures	Directives to take remedial measures
2017/18	5	Non-reporting	Directives to take remedial action
2018/19	2	Non-reporting	Directives to take remedial measures

Source: Inspection Reports and Annual Progress Report, 2015/16 to 2018/19

Table 3.12 shows that for the past four years, the FIU rarely took administrative actions for non-compliance by reporting persons. This was due to the fact that the FIU has left those functions to regulators such as the BoT due to lack of resources. However, other reasons

were due to FIU concentrating more on financial institutions such as banks without taking into account the fact that there are other sectors which were not regulated and had not been inspected or sanctioned.

As a result, administrative sanctions were being taken by regulators instead of FIU, who have the primary responsibility of ensuring that controls for money laundering are effectively implemented in the country. This shortcoming poses a risk for unregulated sectors to commit money laundering without any consequences.

Inadequate Sanction Measures for Financial Institutions to Comply with Anti-Money Laundering Requirements

For the period covered by the audit from July 2015 to June 2019, BoT did not impose administrative sanctions to financial institutions for AML non-compliance.

It was further noted that in September 2019, the Bank of Tanzania (BoT) imposed monetary penalties to five banks for breach of Regulations 17, 22 and 28 of the Anti-Money Laundering Regulations, 2012, for failure to conduct proper customer due diligence and file Suspicious Transaction Reports (STRs) to the Financial Intelligence Unit (FIU). **Table 3.13** shows the amount of penalties imposed to banks that were non-compliant with the requirements.

Table 3.13: Penalties Imposed on Banks in 2019

Bank	Amount (TZS Million)
African Banking Corporation (T) Limited	145
Equity Bank (Tanzania) Limited	580
I&M Bank (T) Limited	655
UBL Bank (T) Limited	325
Habib African Bank Limited	175
Total	1,880

Source: BOT Notice to the Public on breach of AML regulations of 2012

Tanzanian Shillings 1.880 Billion, equivalent to USD 800,000, was imposed as fines to 5 Banks which did not comply with requirement to submit STRs and for improper conduct of customer due diligence. Such banks were required to comply with the noted weaknesses within 3 months from the date the penalties were imposed.

The following were causes for weaknesses in the sanctioning mechanisms:

(i) Investigation Conducted did not Ensure Prompt Asset Recovery Mechanisms

According to the Proceeds of Crime Act, 1991 as amended, Section 9 and the Prevention and Combating of Corruption Act, 2007, Section 40, DPP and PCCB are responsible for the recovery of assets or proceeds which are illicitly obtained e.g. corruption or tainted property in respect of the offence. Review of the availed information on received STRs and interviews held with officials from NAMLC and FIU, noted that PCCB and the DPP were responsible for asset recovery where there was reasonable cause to believe that such assets were proceeds of crimes of offences related to money laundering.

However, the asset recovery is conviction based; one cannot recover any asset from a non-convict person unless there is legitimate conviction. This implies that unless the accused is found guilty as charged neither DPP nor PCCB can recover any asset from the accused person.

This has resulted in failure of such institutions to realize assets which are proceeds of crimes related to money laundering before or in absence of conviction.

(ii) The Prosecution Burden of Proof Challenge

According to Section 110 of the Evidence Act, 1966, the burden of proof for any crimes lies with the individual who alleges. A general evidence principle therefore is that “he who alleges must prove”. The Evidence Act is a parent legislation governing evidence procedures in all criminal proceedings.

The audit found that there is a well-structured institutional framework which comprises of FIU, NAMLC, and implementing agencies. In implementing, investigating and prosecuting money laundering related issues and offences, the burden of proof must be beyond reasonable doubt which is technically hard to prove.

Section 28 of the Prevention and Combating of Corruption Act tried to shift the burden of proof to the accused. However, this is limited to public officials only, leaving other non-public officials unaccounted for. The Evidence Act, Chapter 6 and the Criminal Procedure Act, Chapter 20 did not address the need to shift the burden of proof even

for matters related to asset recovery. This has resulted to a continued challenge to prove money laundering cases in the country.

3.4.6 Inadequate Identification and Assessment of Risks to Money Laundering in the Country

FATF Recommendation No. 1 requires countries to assess risks “on an on-going basis”, and keep assessments up-to-date. The authority or mechanism designated to assess money laundering risks in the country will likely be responsible for ensuring that this obligation is met. Recommendation No. 1, however, does not specify a particular period of time.

(a) Inadequate Review of Money Laundering Risk Assessments

The frequency of updating risk assessment is determined by the country, based on several factors, including how fast the risks may change. One of the recommendations in the National Risk Assessment report of 2016 was to ensure that the report is regularly reviewed. On the contrary, FATF Guidance on Risk Assessment requires the country to regularly review the risks assessment by considering changes in the international standards or guidance, change in political, economic or legal framework, development in other countries or the cycle of mutual self-evaluation.

It was noted that since 2016, the National Risk Assessment report has not been reviewed or updated to take on board the changing economic conditions such as government priorities and changes in financial sector legislations.

The audit noted that the country was unable to update the risks that were identified three years ago when the final report of risks identified was issued.

The reasons for non-review of the National Risk Assessment report was the fact that both FIU and NAMLC were undertaking money laundering evaluation, and thus they could not review and update the report to reflect the current money laundering status. However, review of FIU’s annual plans and budgets indicated that FIU did not set budget provision for the reviews.

The consequences for not having updated money laundering risk assessment may deter the implementation initiatives by affecting

prioritization at sector level. This may result in addressing wrong threats which may have been overtaken by changing economy and threats.

(b) Inadequate Conducting of Risks Identification for Designated Non-Financial Businesses and Professions

The audit team only noted the presence of National Risk Assessment and inadequate risks assessment and identification in Designated Non-Financial Businesses and Professions (DNFBPs) in the country. Financial institutions are generally compliant to money laundering requirements such as reporting of STRs, categorization of customers, customer due diligence and Know-Your-Customer standards.

The FATF Recommendation 2 and Guidance on risk assessment requires individual entities such as reporting persons, regulators and implementing agencies to conduct identification of beneficial ownership of legal persons. However, it was noted that only financial institutions had risk assessment mechanisms whilst other sectors did not conduct individual risk assessments. Only the NBAA had managed to issue guidance to accounting and auditing professionals on how they should conduct their operations. Other DNFBPs did not do so.

The reasons for not having a risk assessment mechanism in place was that, FIU has never inspected or issued guidelines on how to conduct risk assessment on money laundering.

3.5 Deficiencies in the Anti-Money Laundering Coordination Framework

FATF Recommendation numbers 1 and 2 require countries to have national anti-money laundering policies, informed by the risks identified which should be regularly reviewed. In addition, countries are required to designate an authority or have coordination or other mechanism that is responsible for such policies. Countries should ensure that policymakers, the FIU law enforcement authorities, supervisors and other relevant competent authorities, at the policymaking and operational levels, have effective anti-money laundering policy and strategy which would provide for a requirement of the framework.

Further review of the minutes of the NAMLC meeting and talking notes provided to the audit team showed that there were no rules of

procedures to guide the conduct of the operations of the NAMLC since it was established in 2006. This was critical as for the past five years under review the audit was able to get only the minutes of the meeting for the financial year 2018/19.

As a result, due to lack of well-defined coordination framework, Implementing Agencies needed systematic integration of a National Initiatives Implementation process that create accountability within their organizations as agencies operate independently. The audit noted also that lack of a well-designed coordination framework for AML hindered inter-agency coordination throughout, thus limiting recognition of early signs and symptoms of AML non-compliance practices. In addition, other priority areas such as the unregulated sectors do not get the attention and thorough AML monitoring coverage they deserve.

Consequently, there was duplication of efforts to combat money laundering. In this regard the audit team noted that FIU conducted inspections on money laundering compliance to financial institutions which were also inspected by BoT, the regulator of the financial sector. As a result, efficient and effective use of resources to achieve desired outcomes could not be attained.

The components and checklist items inspected by FIU and BoT were similar. The absence of AML coordination framework was evidenced through lack of a mechanism in place which could have enabled both BoT and FIU to cooperate, and, where appropriate, coordinate domestically with each other in relation to the development and implementation of policies and activities to combat money laundering.

However, regarding coordination on AML activities the audit noted the following weaknesses:

Through the interviews held with NAMLC Officers and review of the NAMLC minutes for a meeting held on 17th April 2019, it was revealed that, implementing agencies worked separately in implementing the available AML initiatives in the country. Interviews held with officials from FIU also revealed that there were weaknesses when implementing AML National Initiatives in the country due to lack of coordination. This was due to unavailability of coordination plans for the implementation of AML initiatives.

3.5.1 Inadequate Coordination Plans for Assessment of Implementation of AML Initiatives

The FATF Recommendation No. 2 requires countries to designate an authority or have a coordination or other mechanism that is responsible for such policies. For Tanzania, Section 8 of AMLA established NAMLC whose roles among others are to assess the implementation of the AML policies and measures to combat money laundering. Following the interviews held with the NAMLC officials, the audit noted that NAMLC was assuming those roles in the country as it was composed of various³¹ implementing agencies within the country.

The Coordination Plan defines processes and methods through which NAMLC, in collaboration with MoFP and the Implementing Agencies, intend to communicate information on AML initiatives. The Plans would also provide for prioritized assessment of implementing agencies by facilitating ongoing consultation and collaboration between them and other stakeholders and by allocating the available resources more efficiently based on comparative advantage.

Interviews held with NAMLC officials and review of the minutes of the NAMLC meetings for 2019 indicated that, NAMLC did not have coordinated plans to ensure implementation of the national initiatives to combat money laundering. The plans would help NAMLC to efficiently assess, as one of its roles, the performance of the agencies in implementing available initiatives.

In addition, based on review of the minutes of NAMLC's meeting of 17th April 2019 and interviews held with NAMLC officials f, it was noted that the Committee did not plan for coordination of activities. The interviewed officials confirmed that they did not have any plans to coordinate money laundering activities among the implementing agencies.

³¹one representative of the Bank of Tanzania, who shall be the Chairman; one representative of the Ministry of Finance; one representative of the Ministry of Finance of the Revolutionary Government of Zanzibar; one representative of the Attorney-General's Chambers; one representative of the Attorney-General's Chambers of the Revolutionary Government of Zanzibar; two representative of the Directorate of Criminal investigation, one of whom shall come from its office in Tanzania Zanzibar; one representative of the Ministry responsible for foreign affairs; the Commissioner of the FIU; one representative of the Capital Markets and Securities Authority; and one representative of the Tanzania Intelligence and Security Service.

The reasons noted for lack of AML coordination plan were that: (a) Up to 2019, there was no National AML Policy to guide planning for the assessment of the implementation of the available initiatives; (b) NAMLC did not have a Secretariat in place to make follow-up on deliberations during its meetings; and (c) Irregular NAMLC meetings contributed to late completion of the anti-money laundering strategy.

Consequently, for the past five years, NAMLC was unable to prepare any AML coordination plans to assess the performance of the implementing agencies. Also, NAMLC as a core AML coordinating entity did not have budget to run its legislative mandates. This limits its overarching roles to coordinate and assess the implementation of the available AML initiatives in the country.

3.5.2 Inadequate Reporting of AML Initiatives Implementation Status

According to FIU's Strategic Plans³² it has an overall responsibility of reporting on the implementation of AML initiatives in the country. This is done through annual performance and progress reporting, reports received from the reporting persons on suspicious transactions and other information that it may receive or seek as mandated by Section 6 of the AMLA, 2006. On the other hand, NAMLC as the main coordinator of policy and strategic issues is responsible for overall coordination of AML reporting so as to assess the implementation of the available AML initiatives in the country as per Section 8 of AMLA. In doing so, both NAMLC and FIU were required to establish an internal and external reporting framework on issues relating to implementation of AML initiatives. The audit noted the following weaknesses:

(a) Absence of AML Reporting Mechanism

It was noted that the reporting framework is not comprehensive enough to ensure that, all matters relating to money laundering from all reporting persons in all sectors are reported and captured by relevant authorities on money laundering. The audit team reviewed the FIU's annual progress reports for the period under audit and noted that, reports were entirely on compliance to annual reporting requirements. We noted further that the reports were on operational

³² 2014/15 - 2016/17 and 2017/18-2019/2020

issues, for example number of STRs received, financial disclosures made, compliance initiatives introduced, contacts made with stakeholders or memoranda of understanding signed with foreign FIUs etc., did not report fully on the status of implementation of AML initiatives as it appeared annually throughout AML institutional framework.

There was no external reporting mechanism to enable all implementing agencies to report on suspicious transactions as well as their annual performance regarding adherence to AML legislations, guidelines and requirements. The audit could not verify any working mechanism at FIU and NAMLC. AML reporting framework was needed to integrate the reporting processes for monitoring recommendations issued during AML inspections and supervisions. This would provide clarification on the lines of responsibility and accountability in order to facilitate consistent and timely policy implementation.

The audit noted that both internal and external reporting on AML implementation status were not available as FIU received only STRs from reporting persons.

Further interviews with FIU and NAMLC officials indicated that causes for none reporting were due to:

- (i) Delays in processing information assessing the implementation of the AML initiatives needed to manage and meet accountability objectives within implementing agencies;
- (ii) Implementing Agencies did not share information because doing so may be outside their organizational cultures or due to political concerns, such as exposing potential vulnerabilities within the agency; and
- (iii) Lack of clear reporting guidelines, policies, or agreements for coordinating with other agencies. Some Agencies have diverse requirements and practices for protecting their information, and thus could not share data without clearly defined guidelines, policies, or agreements for doing so.

As a result, FIU did not have any information on implementation status of AML initiatives from implementing agencies. This poses the

risk of reporting unauthentic information due to inadequacies in inter-agency AML information within the country.

(b) Inadequate AML Records and Statistics

The FATF Recommendation No. 29 requires countries to report and maintain comprehensive statistics on matters relevant to the effectiveness and efficiency of their AML systems. This should include statistics on the STRs received and disseminated; money laundering, prosecutions and convictions; on property frozen, seized and confiscated; and on mutual legal assistance or other international requests for cooperation. This provision has also been emphasized under Reg. 36 of the AML Regulations 2012 whereas FIU is required to maintain comprehensive statistics on matters relevant for effective and efficient systems for combating money laundering and terrorist financing in the country.

Review of FIU’s Annual Implementation reports from 2015/16 to 2018/19 revealed that FIU could not maintain money laundering statistics. The audit noted that FIU only had records with respect to received, analyzed and disseminated STRs and memoranda signed with foreign FIUs.

All remaining statistics were under neither the FIU nor NAMLC custody. The analysis of such statistics is as indicated in **Table 3.14**.

Table 3.14: Statistics Kept at FIU on Matters Relating to AML

Type of AML Issue	Available/Not available (✓/×)
Suspicious transaction reports received and intelligence disseminated	✓
The reporting person or persons who made the report	✓
Breakdown of suspicious transactions on anti-money laundering and terrorist financing analyzed and disseminated by the FIU	✓
Reports on cross border transportation of currency	×
Coordinated AML recorded statistics related to STRs	×
Number of cases and the amounts of property frozen, seized or confiscated in relation to money	×

laundering	
Mutual legal assistance and extradition requests made or received in relation to money laundering	x
Formal requests for assistance made by FIU and whether granted or refused	x
Referrals made by FIU to foreign authorities	J
Formal requests for assistance made or received by reporting persons related to money laundering and terrorist financing including whether the requests was granted or refused	J

Source: FIU as at 2018/19 and Audit Analysis

Key: J = Available
x = Not available

Table 3.14 show that FIU has been maintaining limited number of AML statistics. It can be noted that 5 out of 10 (50%) of information categories that the FIU was expected to maintain were unavailable. This indicates that FIU did not have capacity to ensure that all information is collected, analyzed and maintained. According to FIU, this information would enable the assessment of the trend of money laundering events not only within implementing agencies but also within the government entities and the country at large.

Auditors noted reasons raised by information could not be found at FIU because some were compiled by other government entities. For example, information on mutual legal assistance was compiled by AG Chambers; while the number of cases and amount of property seized was compiled by PCCB and DCI. However, the audit noted that FIU had not requested for such information in the past five years.

On the other hand, there were no statistics of complete reporting persons such as those falling under Designated Non-Financial Business and Professions such as real estate agents, attorneys, independent law professionals, precious metals and stones dealers. This was since FIU had no mechanism in place to reach unregulated sectors and establish their statistics.

3.5.3 Inadequate Feedback on Implementation of Anti-Money Laundering Requirements

Regulation 35(1) of anti-money laundering requires Law Enforcement Agencies on timely basis to provide information to FIU on the acknowledgment of the receipt of the disseminated reports; updates of investigation; or results of investigations undertaken. Regulation 33 of the AML, 2012 (as amended) requires FIU to provide the reporting persons with feedback which includes: acknowledgement of the receipt of suspicious; transactions reports and results of investigation; whether criminal proceedings have been instituted in court in relation to a submitted STR; whether a report was found to relate to a legitimate transaction; and information on the decision or results. This requirement is also supported by FATF Recommendation No. 34.

Interviews held with FIU officials confirmed that FIU works closely with Regulators and Legal Enforcement Agencies such as Police through its Financial Crime Investigation Unit and PCCB. It was noted that after analyzing suspicious transactions, FIU disseminated such information for further investigation to the investigative and law enforcement agencies. However, it was revealed that there were limited feedbacks from law enforcement agencies when implementing their duties. FIU remained as an entity responsible for receiving reports and conducting analysis. The audit also noted that there were no mechanisms set out which enabled FIU to provide feedback to reporting persons.

The Interviews held with Officials from FIU and later NAMLC showed that once STRs are submitted, FIU analysed and disseminated the processed information (Intelligence Package) to Investigative and Prosecution entities such as PCCB or DCI or relevant recipients such as TRA for tax evasion. Once the information is submitted FIU do not provide any feedback to reporting persons or make follow-up of those transactions which were reported to the investigative entities. This was contrary to the provisions of FATF Recommendation number 34 which requires competent authorities, supervisors and self-regulatory bodies to establish guidelines, and provide feedback, which would assist financial institutions and designated non-financial businesses and professions in applying national measures to combat money laundering and terrorist financing, and, in particular, in detecting and reporting suspicious transactions.

Reasons for weaknesses on the provision of feedback were: (a) lack of well-defined feedback mechanisms within AML institutional framework in implementing AML initiatives; and (b) security clearance issues. Agencies, especially those dealing with investigations and law enforcement often have different ways of classifying information and different information security clearance requirements and procedures that pose challenge to effective provision of feedback across agencies. As a result there were discrepancies and inconsistencies on how each implementing agency dealt with the information received from either FIU or reporting persons.

3.5.4 Inadequate sharing of Anti-Money Laundering Information

FATF Recommendation No. 2 requires competent authorities to ensure that policy-makers, the financial intelligence unit (FIU), law enforcement authorities, supervisors and other relevant competent authorities, at the policy-making and operational levels, to have effective mechanisms in place which enable them to exchange information domestically with each other concerning the development and implementation of policies and activities to combat money laundering. Further, Section 6(i) requires FIU to exchange information with other comparable bodies domestically and outside the country. Review of reports provided did not show evidence of money laundering reports being shared with other entities other than those related with STRs, which were channeled as intelligence packages to law enforcement agencies.

Based on their three year FIU's Strategic Plans (SPs) of 2014/15-2016/17 and 2017/18 -2019/2020, there were no mechanisms in place that indicated that FIU shared any information with other domestic competent authorities including money laundering inspection reports. Further interviews held with officials from NAMLC confirmed that up to 2019 there were still challenges on issues relating to sharing of AML information starting from reporting stage, investigation, prosecution, conviction or recovery of assets within the AML circle.

Similar case was noted at BoT and TRA. Whenever they conducted supervision, inspections and tax audits to customers in the country their reports or any other report relating to money laundering was rarely shared with other entities such FIU or PCCB. This is because each entity operated independently, based on their own establishing legislations, and thus they felt not obliged to report or share any

information (even if it was a crime emanating from tax evasion in case of TRA) except that of Money Laundering only.

Legislations establishing BoT, PCCB, and TRA do not pose a fundamental requirement on those regulatory bodies to directly share information obtained whilst discharging duties under their mandate. Similarly, the AML, 2006 and its regulations do not provide for such requirements other than reporting of STRs, which is just part of the money laundering.

Review of FIU's annual progress reports for years 2015/16 to 2018/19 and interviews held with officials from FIU and NAMLC indicated that reasons for non-sharing of information included:

- (a) Lack of robust mechanisms, strategies and policies that would oblige all key players in money laundering to ultimately share the obtained information with other competent authorities. This would expedite the fight against money laundering as they would set a common goal on dealing with money laundering;
- (b) Concerns by implementing agencies on ability by the recipient of such information to protect shared information or use that information properly as some of the information is considered extremely confidential; and
- (c) Since AML information is sensitive and confidential by its nature, implementing agencies and private-sector partners are sometimes hesitant to share information because they are uncertain if that information can be protected and used properly by the recipient.

As a result, NAMLC and FIU did not have all the information they needed to analyse threats and vulnerabilities on the implementation of AML initiatives.

CHAPTER FOUR

AUDIT CONCLUSION

4.1 Introduction

Chapter four provides the conclusion of the audit based on the audit objectives and findings presented in chapter three of this report. The conclusions were formulated based on the overall and specific objectives of the audit.

4.2 Overall audit conclusion

Despite the existence of an institutional framework for combating money laundering, the framework is not functioning as effectively as expected in promoting the detection and deterrence of money laundering in the country. Non-adherence to anti-money laundering requirements by implementing agencies and the absence of a mechanism to coordinate implementing agencies at the operational level were sighted as major challenges.

4.3 Specific Audit Conclusions

4.3.1 Deficiencies in the Anti-Money Laundering Policy, Regulatory and Institutional Framework

The functioning of the policy, regulatory and institutional framework for combating money laundering in the country is not as optimal as expected. This is characterized by the lack of Anti-Money Laundering Policy and Strategy. It was noted however that there was an effort in place to ensure availability of needed AML Policy and Strategy on Anti-Money Laundering by FIU and NAMLC. The lack of the AML Policy and strategy limits, among other things, the presence of strong coordination mechanisms between implementing agencies in the country.

FIU and other implementing agencies do not effectively use the risk-based planning approach to combat money laundering. There is no risk-based planning analysis during the preparation of the annual plans as required by FATF recommendations.

This is manifested by the presence of unregulated high risk sectors in the country. The National Risk Assessment of 2016 managed to identify 9 sectors with high and medium risks to money laundering,

out of which only 4 have well-defined regulators. All four sectors with high risks have no regulators to ensure the sectors operations are complying with requirements of the anti-money laundering.

Moreover, NAMLC as a national anti-money laundering coordinating entity does not have a mechanism that will ensure that all entities involved in the implementation of anti-money laundering legislations, especially reporting persons, complied with risk-based planning during their annual planning and budgeting sessions. In addition, conducting of individual risks sector identification was not done effectively, especially to the Designated Non-Financial Business and Professionals.

4.3.2 Non-adherence to AML Requirements by Implementing Agencies

There is non-adherence by implementing agencies to anti-money laundering requirements in the country. This is attributed to, among other things, limited capacity within implementing agencies. It was noted that FIU does not timely receive STRs from reporting agencies to enhance compliance. Little efforts were expended by FIU and enhanced by NAMLC to ensure that reporting persons adequately prepared, submitted and filed STRs with the FIU. FIU also does not synchronise and disseminate the received STRs in line with those received. It also does not keep records and details of STRs submitted by Reporting Persons hence it does not maintain STRs database.

For instance, FIU does not disseminate intelligence reports in proportion to the submitted and analysed STRs and other information. Despite an increase in the number of STRs and other reports that are submitted to FIU, there was no corresponding increase in disseminated intelligence packages. FIU has acute shortage of staff to deal with receipt, analysis and dissemination of STRs to other agencies.

FIU also has limited capacity to conduct inspections of reporting persons for AML compliance. The Ministry of Finance and Planning has not been allocating sufficient resources to FIU in terms of finance and human resources. However, despite the shortage of resources in terms of money and staff, FIU does not prioritize inspections to ensure that the riskiest reporting persons such as DNFBPs are inspected. Efforts are mainly directed to financial institutions such as banks and bureau de change although these financial sectors have commendable money laundering and risk management controls in

place. The documentation of inspection results is also inadequate, and no adequate records are kept in place.

FIU as an overseer of the implementation of anti-money laundering requirements, with the primary responsibility of conducting anti-money laundering awareness and training does not efficiently conduct such training and awareness. For the past five years, FIU has conducted less than 15 training courses - all of them being targeted to sector regulators, financial institutions and LEAs, leaving out other stakeholders such as Reporting persons. This has resulted in fewer STRs and other reports being submitted to FIU. In addition, FIU does not allocate as much budget for training other stakeholders such as the BoT.

FIU does not issue administrative sanctions to reporting persons for AML non-compliance, in order to reduce or deter AML non-compliance. Although the anti-money laundering legislation provides for sanctions, FIU has not applied this measure despite having recorded incidences of non-compliance. For the past five years, FIU has not issued any sanction. This restraint by FIU has deterred voluntary compliance among reporting persons especially those in the sectors that are not regulated. FIU depends on other Regulators in the enforcement of sanctions.

4.3.3 Deficiencies of Anti-Money Laundering Coordination Framework in the country

There is no coordination mechanism at the operational level to ensure that all implementing agencies share information among themselves or carry out joint activities. This has resulted in information silos and black boxes as each implementing agency strives to protect its information and act alone. This is unfavorable in combating money laundering and it makes the work time consuming and harder. It is only criminals who benefit from this deficiency as implementing agencies are unable to detect suspicious transactions, investigate and prosecute criminal activities. There is also no formal mechanism to ensure that feedback is provided to different actors involved in the entire chain of combating money laundering in the country from reporting/detection, investigation, prosecution and asset recovery. This is a result of lack of clear reporting structure throughout the anti-money laundering chain in the country.

FIU does not have a mechanism that ensures statistics regarding AML activities are kept within the FIU in accordance with the requirements

of FATF recommendations and AML Regulations. FIU does not keep abreast of the need to maintain such statistics as there are no initiatives taken by the FIU to ensure that all implementing agencies and stakeholders submit necessary AML information and statistics timely.

There is inadequate sharing of relevant information among implementing agencies. NAMLC and FIU do not have a mechanism in place that ensures information on the implementation of AML initiatives is always shared among implementing agencies and AML stakeholders. Information is a crucial tool in addressing AML issues and its timely dissemination is absolutely critical for the assessment of the implementation of AML initiatives in the country. NAMLC and FIU do not have AML information sharing mechanism that could be used by implementing agencies and other stakeholders to channel AML information.

CHAPTER FIVE

AUDIT RECOMMENDATIONS

5.1 Introduction

The audit findings and conclusion highlighted some weaknesses on the implementation of the national initiatives to combat money laundering in Tanzania. The weaknesses were measured through three noted parameters, namely the institutional framework for combating money laundering, level of implementation of initiatives by implementing agencies, and coordination mechanism in combating money laundering in the country.

The National Audit Office believes that in order to improve the system used to combat money laundering in the country, the recommendations made in this report need to be fully implemented. Implementation of the recommendations will ensure the attainment of the 3Es (Economy, Efficiency and Effectiveness) in the use of public resources. The recommendations are specifically addressed to the Ministry of Finance and Planning through the National Multi-Disciplinary Committee on Anti-Money Laundering and the Financial Intelligence Unit.

5.2 Specific Audit Recommendations

5.2.1 Recommendation to the Ministry of Finance and Planning

The Ministry of Finance and Planning to:

1. Ensure that FIU and other implementing agencies have the required capacity and resources to effectively implement anti-money laundering strategies and plans.

5.2.2 Recommendations to the National Multi-disciplinary Committee on Anti-Money Laundering

The National Multi-Disciplinary Committee on Anti-Money Laundering to:

1. Develop an Anti-money laundering policy and strategy to facilitate prompt implementation of initiatives to combat money laundering in the country;
2. Devise a mechanism for AML stakeholders that will enable wide sharing of information on the implementation of the AML initiatives amongst implementing agencies;
3. Formulate an institutional policy framework of regulators to all unregulated sectors that are being identified as prone to money laundering; and
4. Adhere to a reporting mechanism, guidelines, agreements, and defined procedures for reporting AML information.

5.2.3 Recommendations to the Financial Intelligence Unit

The Financial Intelligence Unit to:

1. Effectively enforce AML mechanism to ensure all identified reporting persons produce and submit Suspicious Transaction reports from the sector on time and in an intelligible manner for timely analysis in order to add value on the received intelligence reports;
2. Harmonize inspections conducted with those carried out by regulatory bodies to ensure smooth inspections and avoid duplication of efforts and enhance ability to promptly take corrective actions on compliance shortfalls;
3. Enhance trainings and public awareness to reporting persons and stakeholders such as law enforcement agencies and sector regulators to enhance voluntary compliance to money laundering reporting requirements;

4. Devise a mechanism that will ensure that all AML statistics are readily available and maintained at the FIU;
5. Devise clear working and coordinated feedback mechanisms that will ensure that feedback is given for all information disseminated and shared among implementing agencies within the AML framework;
6. Ensure that all implementing agencies develop mechanisms to implement laws, strategies and activities that include developing the AML coordination framework so as to combat money laundering; and
7. Ensure that FIU and sector regulators regularly issue and use anti-money laundering guidelines to ensure compliance with anti-money laundering requirements.

REFERENCES

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2. International Standards on Combating Money Laundering, the Financing of Terrorism and the Financing of Proliferation of Weapons of Mass Destruction (The FATF Recommendations), issued by The Financial Action Task Force in 2012
3. United Nations Convention against Corruption, Published by the United Nations Office on Drugs and Crime in 2004
4. United Nations Convention against Illicit Trafficking in Narcotic Drugs and Psychotropic Substances of 1988.
5. United Republic of Tanzania , Financial Intelligence Unit Inspection Manual of 2018
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10. United Republic of Tanzania, Tax Administration Act of 2015
11. United Republic of Tanzania, The Anti-Money Laundering Act, 2006 and The Anti-Money Laundering Regulations of 2012

12. United Republic of Tanzania, The Anti-Money Laundering Guidelines for Financial Institutions, 2009
13. United Republic of Tanzania, The Bank of Tanzania Act, 1997
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APPENDICES

Appendix 1: Audit questions and Sub-questions

This part provides details of audit questions and sub-questions used for the audit in order to respond to the audit objective.

Audit Question 1:	To what extent is the problem of Money Laundering prevalent in the country?
<i>Sub-Question 1.1:</i>	<i>Are all sectors of economy adequately regulated with regard to compliance with anti-money laundering reporting requirements?</i>
<i>Sub-Question 1.2:</i>	<i>Are there initiatives to ensure all sectors are adequately regulated in order to enhance compliance with anti-money laundering requirements in the country?</i>
Audit Question 2:	Is the established institutional framework for combating money laundering in the country adequate?
<i>Sub-Question 2.1:</i>	<i>Does MoFP through Anti-money Laundering National Committee adequately monitor the implementation of anti-money laundering strategy/plan?</i>
<i>Sub-Question 2.2:</i>	<i>Is the available Anti-money Laundering Framework compliant with the internationally agreed standards?</i>
<i>Sub-Question 2.3:</i>	<i>Are implementing agencies having effective mechanisms to appropriately implement policies and activities to combat money laundering?</i>
<i>Sub-Question 2.4:</i>	<i>Does the established anti-money laundering framework provide for country's money laundering risk profiling for the identified risky areas in the country?</i>
Audit Question 3:	Are Implementing Agencies ensuring compliance with requirements of money laundering in the country?
<i>Sub-Question 3.1:</i>	<i>Is the risk-based planning approach efficiently and effectively used by implementing agencies to combat money laundering?</i>
<i>Sub-Question 3.2:</i>	<i>Does FIU timely receive, analyse and disseminate suspicious transaction reports received from reporting persons to enhance compliance?</i>
<i>Sub-Question 3.3:</i>	<i>Do implementing agencies efficiently process and issue good quality reports to reduce non-compliance?</i>
<i>Sub-Question 3.4:</i>	<i>Do implementing agencies have the required capacity and resources to adequately implement anti-money laundering strategy/plan?</i>

<i>Sub-Question 3.5:</i>	<i>Do implementing agencies regularly issue anti-money laundering guidelines to ensure sector compliance with anti-money laundering requirements?</i>
<i>Sub-Question 3.6:</i>	<i>Do implementing agencies adequately conduct inspections and monitoring of reporting persons so as to ensure compliance with anti-money laundering requirements?</i>
<i>Sub-Question 3.7:</i>	<i>Do the implementing Institutions ensure trainings and public awareness are conducted in the country to enhance reporting of anti-money laundering issues?</i>
<i>Sub-Question 3.8:</i>	<i>Are sanctions adequately applied to reporting persons who are non-compliant in order to deter non-compliance against anti-money laundering requirements?</i>
Audit Question 4:	Does Anti-Money Laundering National Committee efficiently coordinate anti-money laundering activities and actions in the country?
<i>Sub-Questions 4.1:</i>	<i>Do MoFP, FIU, Regulators and reporting persons have a well-designed and functioning anti-money laundering coordination framework among them so as to ensure compliance to money laundering requirements?</i>
<i>Sub-Question 4.2:</i>	<i>Does the National Anti-Money Laundering Committee efficiently and adequately plan for coordination of anti-money laundering activities in the country?</i>
<i>Sub-Question 4.3:</i>	<i>Does the National-Anti Money Laundering Committee ensure that implementing agencies adequately report on anti-money laundering issues in the country?</i>
<i>Sub-Question 4.4:</i>	<i>Are there mechanisms in place to ensure implementing agencies provide feedback on the status of implementation of anti-money laundering requirements?</i>
<i>Sub-Question 4.5:</i>	<i>Does MoFP effectively facilitate the flow of information through imposing measures of obtaining, maintaining and sharing information among public and private sector institutions?</i>

Appendix 2: Details of Reviewed Documents

This part provides the list of documents that were reviewed by the audit team in order to collect sufficient information to enable the audit team to come-up with collaborative evidences.

Category	Title of the Document	Reason(s)
Institutional framework documents	<ul style="list-style-type: none"> • Anti-Money Laundering Risk assessment Reports 2016; • Tanzania Mutual Evaluation Report, 2009/2019; 	<p>To underscore the level of money laundering prevalence in the country;</p> <p>To assess the extent of institutional frameworks coverage in in terms all regulated sectors of the economy;</p>
Strategic Plans	<ul style="list-style-type: none"> • FIU Strategic Plans (July 2013/14-June 2015/16 and 2016/17 to 2018/2019) • BOT Strategic Plans (July 2015/16-2016/17 and July 2017/2018-2018/19) • TRA 4th Corporate Plans (July 2013/14-June 2016/17) • TRA 5th Corporate Plan (July 2017/18-June 2021/22) • PCCB Strategic Plans (2013/2014 to 2016/17 and 2017/18 - 2021/22) • Ministry of Planning strategic Plan (2013 - 2017 and 2017-2022/); 	Gaining understanding on the planning, objectives and resource allocation of the entities responsible to combat money laundering in the country.
Annual Action Plans	<ul style="list-style-type: none"> • FIU Annual Plans (July 2015-June 2019); • BOT Annual Plans (July 2015-June 2019); • TRA Annual Plans (July 2015-June 2019); • Ministry of Planning annual Plans (July 2015-June 2019); • PCCB Annual Plans (July 2015-June 2019). 	Find-out how the MoFP, FIU, TRA and BOT planned activities and set objectives towards implementing combat of Anti-Money Laundering activities in the country
Annual Implementation Reports	<ul style="list-style-type: none"> • FIU Annual Reports (July 2015-June 2019); • BoT Annual Reports (July 2015-June 2019); • TRA Annual Reports (July 2015-June 2019); 	Evaluate the progress of implementing the planned activities and identifying areas of weakness towards attaining the plans and

Category	Title of the Document	Reason(s)
	<ul style="list-style-type: none"> • Inspections reports from BoT and FIU for the period from July 2015 to June 2019; • Monitoring reports from FIU for the period from July 2015 to June 2019; • Trainings reports from FIU and BOT from July 2015 to June 2019; • PCCB Annual Performance reports; • Inspection and Supervision Reports from FIU and BoT to reporting persons and banks; • TRA's tax investigation reports; • PCCB's Investigation Statistics and performance Reports; 	objectives set by the ministry and implementing agencies
International Conventions	<ul style="list-style-type: none"> • Financial Action Task Force (FATF); • OECD Convention on Money Laundering; • International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation; • United Nations Convention against Corruptions, 2004; 	To get acquainted with International requirements and framework on illicit financial flows and money laundering.

Source: Literature Review and Auditors' analysis, 2019

Appendix 3: Details of individuals and entities that were interviewed during the audit

This part provides the list of officials interviewed by the audit team to get a broader understanding and reasoning on the issues affecting the audit area.

Institution	Official that were interviewed	Reason(s) for the interview
Ministry of Finance and Planning	<ul style="list-style-type: none"> • Commissioner and Directors from the Division of financial sector development; and • Officials dealing with financial and economic policies. 	<p>To have clear understanding on the roles of MoFP on coordinating the implementation of the combat of Money laundering in the country; and</p> <p>To understand the operations of established the systems for combating money laundering at the ministerial level.</p>
Financial Intelligence Unit (FIU)	<ul style="list-style-type: none"> • Commissioner General; • Head of Internal Audit; • Officials from Monitoring Department; and • Officials from Inspection Department. 	<p>To understand the extent of implementation of provision of Trainings to reporting persons and actors responsible;</p> <p>To understand the extent of implementation of Inspections and Monitoring activities related to combat of Money laundering in the country;</p> <p>To understand extent of compliances with the reporting requirements and sharing of information with other actors responsible to combat money laundering in the country.</p>
Bank of Tanzania (BoT)	<ul style="list-style-type: none"> • Deputy Governor for Economic and financial Policies & Director - Economic and financial Policy; • Manager of Legal Services and Anti-Money Laundering in the country; • Manager for Supervision of Financial Institutions; and 	<p>To understand the extent of implementation of Inspections activities in the country to ensure banks compliances with combat of money laundering in the country.</p> <p>To understand extent of sharing of information as a reporting person with Financial Intelligence Unit; and</p> <p>To understand extent of Bank of Tanzania implementation of training provisions to other financial institutions related to combat of Money laundering in the country.</p>

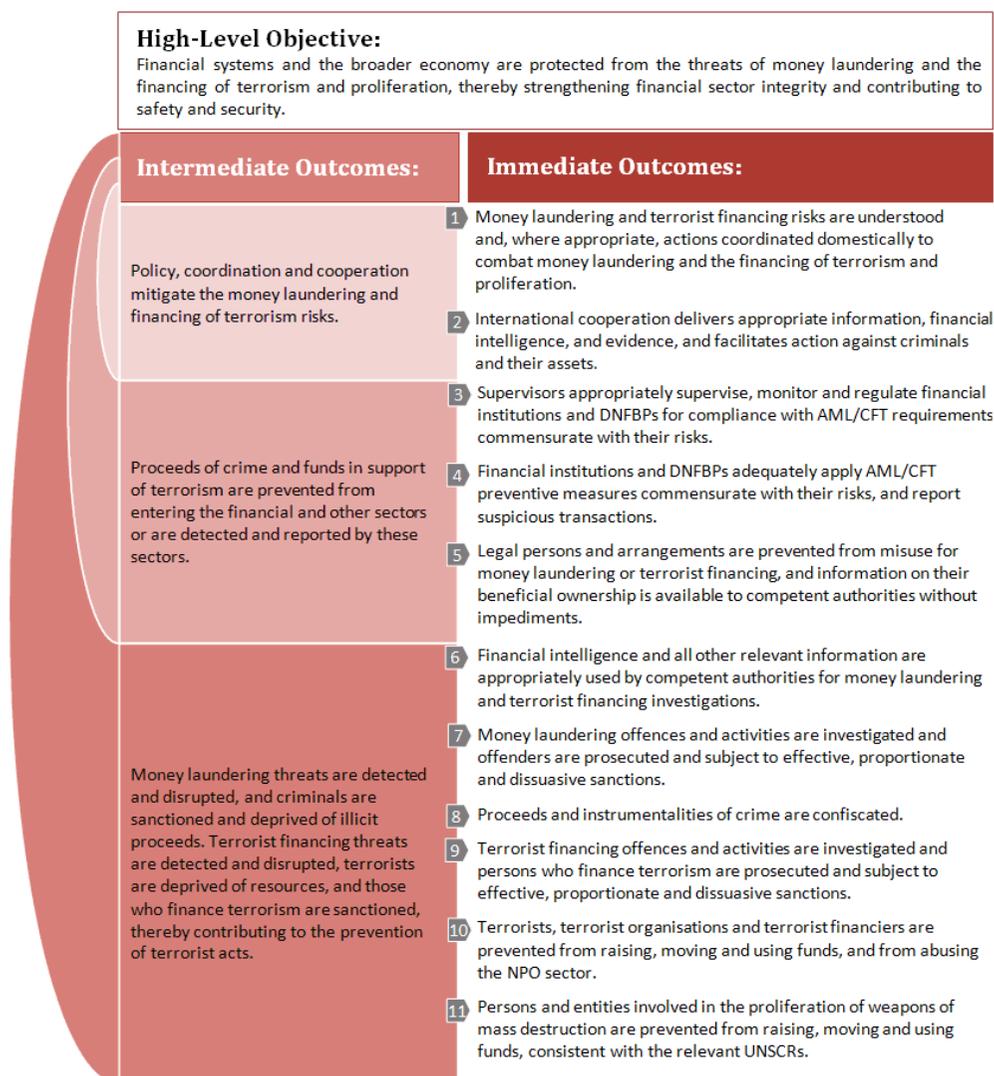
Institution	Official that were interviewed	Reason(s) for the interview
	<ul style="list-style-type: none"> • Staff/Officials dealing with financial policy and banking operations. 	
Tanzania Revenue Authority (TRA)	<ul style="list-style-type: none"> • Deputy Commissioner for Trade facilitation and Procedures; • Officials from Tax Investigation Department; and • Officials from Business Intelligence Unit. 	<p>To understand extent of how TRA have are combating of money laundering; and</p> <p>Understand the extent of sharing Tax Investigations reports with Financial Intelligence Unit to determine existence of Money Laundering problem in tax regime.</p>
PCCB	<ul style="list-style-type: none"> • Anti-Money Laundering focal person; • Officials from Investigation Department; 	To assess how PCCB through its directorate of investigation and legal coordinate anti-money laundering investigations and reporting of information produced.

Source: Auditors' analysis, 2019

Appendix 4: FATF Immediate Outcome for Combating Money Laundering

This part highlights areas that show outcome from FATF recommendations for effective measures to combat money laundering.

The intermediate outcomes below represent the thematic goals of an AML system that is effectively protecting financial sector integrity and contributing to safety and security.



Source: FATF Guidance of Institutional Framework, 2019

Appendix 5: Conventions and Protocols Ratified and Adopted by Tanzania in Relation to combating Money Laundering

The following are Conventions and Protocols that have been ratified and used for the implementations of the national initiatives to combat money laundering in the country

Name of Conventions/Protocols	Year of Ratification	Objective	Level of Implementation
Single Convention on Narcotic Drugs of 1961	1993	To make provision for the control of the production of raw materials of narcotic drugs.	Ratified and Implemented
UN Convention of psychotropic substance of 1971	2000	Protocol on control of Psychotropic Substances.	Ratified and Implemented
International Conventions against the taking of Hostages of 1979	2003	To promote international cooperation and to devise and adopt prevention and prosecution and punishment to all acts of taking hostages as manifestation of international terrorism.	Implemented
International Convention for suppression of financing Terrorist Bombing of 1997	2003	Sets out principles to suppress terrorist bombing.	Implemented
International Convention for Suppression of Financing of Terrorism of 1999	2003	To lay down Measures to Eliminate International Terrorism also encouraged States to review urgently the scope of the existing international legal provisions on the prevention, repression and elimination of terrorism in all its forms and manifestations, with the aim of ensuring that there is a comprehensive legal framework covering all aspects of the matter,	Implemented

Name of Conventions/Protocols	Year of Ratification	Objective	Level of Implementation
UN Convention against Illicit Trafficking in Narcotic Drugs and psychotropic Substances of 1988 in Vienna	1996	Controlling trafficking of illicit narcotic drugs and psychotropic substances.	Implemented
The SADC Protocol on Corruption	1996	To promote and strengthen the development, within each Member State, of mechanisms needed to prevent, detect, punish and eradicate corruption in the public and private sector.	Implemented
Protocols on Combating Illicit Drug Trafficking in East African Region, SADC Protocol on Mutual Legal Assistance in Criminal Matters and Extradition and SADC Protocol on Combating Illicit Drug Trafficking	2003	To assist in reducing and eventually eliminating drug trafficking, money laundering and abuse of drugs through cooperation among enforcement agencies	Implemented
United Nations Parlemon Convention Against Transnational Organized Crimes of 2000	2005	The purpose of this Convention is to promote cooperation to prevent and combat transnational organized crime more effectively.	Implemented
United Nations Convention against Corruption	2003	To promote and strengthen measures to prevent and combat corruption more efficiently and effectively;	Implemented

Source: National Anti-money Laundering Committee talking notes on initiatives to combat Money Laundering in Tanzania, 2020

Appendix 6: Summary of other Legislations Governing Anti- Money Laundering in the country

Legislation	Issues covered related to Money Laundering	Responsible entity
The Prevention and Combating of Corruption Act of 2007;	Establishment of institutions responsible for prevention and combating corruption in the country, functions of the Bureau, institutions of criminal proceedings, reporting of corruption activities, forfeiture of proceeds of corruption and institutional cooperation with other stakeholders	The Prevention and Combating of Corruption Bureau (PCCB)
Tax Administration Act of 2015	Provides for: tax administration system in the country; adherence to transfer pricing regulations and rules; and sanctions measures such as penalties and fines where a tax offences are committed by tax payers;	The Tanzania Revenue Authority (TRA)
The Mutual Assistance in Criminal Matters Act [CAP 254 RE. 2002]	Act to provide for mutual assistance in criminal matters between Tanzania and Commonwealth countries and other foreign countries; to facilitate the provision and obtaining by Tanzania of such assistance, and to provide for matters connected therewith or incidental thereto	The Attorney General (AG)
The Banking and Financial Institutions Act of 2006;	Act to provide for comprehensive regulation of banks and financial institutions; to provide for regulation and supervision of activities of savings and credit co-operative societies	The Bank of Tanzania and Financial Institutions
The Drugs and Prevention of Illicit Traffic of Drugs Act [CAP 95 RE. 2002]	To provide for the forfeiture of property derived from or used in illicit traffic in narcotic drugs and psychotropic substances.	Commission for Control of Illicit Drugs
The Economic and Organized Crime Control Act [CAP 200 RE. 2002]	An act to make better provision for the control and eradication of certain crimes and culpable non-criminal misconduct through the prescription of modified investigation and trial procedures.	Director of Public Prosecution (DPP)

Legislation	Issues covered related to Money Laundering	Responsible entity
The Evidence Act [CAP 6 RE. 2002]	An Act to provide for judicial proceedings in all courts, other than primary courts.	Director of Public Prosecution (DPP)
The Proceeds of Crime Act [CAP 256 RE. 2002]	An Act to make better provisions for dealing with proceeds of crime	Director of Public Prosecution (DPP)
The Gaming Act [CAP 41 RE. 2002]	An Act to provide for the regulation of gaming activities; to provide for establishment of the Gaming Board of Tanzania; to provide for the control and licensing by the Board of gaming activities; to prohibit certain transactions and to provide for related matters	The Gaming Board of Tanzania