

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF KONDOA DISTRICT COUNCIL
FOR THE YEAR ENDED 30TH JUNE, 2005**

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Office of the Controller and Auditor General

The National Audit Office,
United Republic of Tanzania

(Established under Article 143 of the Constitution of the URT).

The statutory duties and responsibilities of the Controller and Auditor General are given in the Public Finance Act No. 6 of 2001.

Our Vision

We aspire to be an organization that fosters a culture of financial discipline, transparency and accountability within the Government of Tanzania.

Our Mission

We are the Supreme Audit Institution in Tanzania, which strives to provide timely and high quality audit services to all our clients in order to enhance public sector financial performance by educating key stakeholders on the effective management of public finances; providing value added services and functioning independently and impartially in auditing and reporting on public accounts.

Therefore, our Core Values are:-

- ✓ We strive to achieve and maintain objectivity in providing impartial audit services so as to promote our independence
- ✓ We pursue excellence in the provision of our audit services
- ✓ We exercise professional integrity by demonstrating high ethical standards
- ✓ We focus on people and have great respect to our stakeholders
- ✓ We encourage and promote innovation amongst our members of staff; and
- ✓ We ensure best resource utilization at national as well as individual public entity level.

We do this by:-

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

	Page
1.0 Background information to the audit	5
1.1 Introduction	5
1.2 Brief history of the client establishment	5
1.3 Operational objectives	5
1.4 Financing	5-6
1.5 Management structure	6
1.6 Brief description of internal control system	6
1.7 Financial performance issues	6-7
1.8 Audit mandate	7
1.9 Audit objectives	7
1.10 Audit scope	8
1.11 Audit methodology	8
1.12 Presentation of audit findings	9
2.0 Audit report on the financial statements	10-11
3.0 Audit findings and recommendations	12
3.1 Follow up of previous year's Audit findings	12
3.2 Current year's findings	12-25
4.0 Conclusion	25
5.0 Annexures	26
I. Financial Statements and Notes to the Financial statements	
II. Organisation Structure of Kondoa District Council	

ABBREVIATIONS AND DEFINITION OF TERMS

CAG	Controller and Auditor General
CD	Council Director
DED	District Executive Director
DPs	Development Partners
LAAM	Local Authority Accounting Manual
GDP	Gross Domestic Product
LAFM	Local Authority Financial Memorandum
GOT	Government of Tanzania
GAAS	Generally Accepted accounting Standards
IFMS	Integrated Financial Management System
IG	Investment Grant
LGA	Local Government Authorities
LGRP	Local Government Reform Programme
M&E	Monitoring and Evaluation
NGO	Non-governmental Organisation
MoF	Ministry of Finance
OCAG	Office of the Controller and Auditor General
PER	Public Expenditure Review
ISA	International Standards on Auditing
PMO-RALG	Prime Minister's Office - Regional Administration and Local Government
PRSP	Poverty Reduction Strategy Paper
PS	Permanent Secretary
PSRP	Public Service Reform Programme
RAS	Regional Administrative Secretary
RS	Regional Secretariat

Financial Statements means:

The Consolidated Balance Sheet, Consolidated Income and expenditure Statement, Consolidated Cash-flow Statement, Notes and related schedules of Kondoa District Council for the year ended 30th June 2005.

Council means - Kondoa District Council, both as Councilors as well as an operating entity.

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction:

I have completed the audit of Kondoa District Council for the year ended 30th June 2005. Audit findings arising from examination of accounting records appraisal of activities and evaluation of the internal control system which require Management attention and action are set out under part three of this report.

1.2 Brief history of client establishment

The Kondoa District Council was established in accordance with the provisions of Sections 8 and 9 of the Local Government Act (District Authorities) 1982. Besides the Act, the Council operates within the framework of the following instruments.

- Local Authority Financial Memorandum 1997.
- Public Procurement Act No.21 of 2004.
- Local Government Finances Act No 9 of 1982.

1.3 Operational objectives

According to section III (1) of the Local Government (District Authorities) Act and the Local Authority financial Memorandum, the District Council of Kondoa has the following objectives:

- (a) To maintain and facilitate maintenance of peace, order and good governance within its area of jurisdiction.
- (b) To promote the social welfare and economic well being of all persons within its area of jurisdiction.
- (c) Subject to the national policy and plans for Rural and Urban Development, to further the social and economic development of its area of jurisdiction.
- (d) Collection of Public funds through taxes, licenses, fees and charges.
- (e) To convince the public that the use of funds have achieved the maximum benefits through sound financial management.

In addition to these objectives, the Council has short-term objectives geared towards alleviation of severe malnutrition, food security and poverty alleviation. Other short-term objectives include; improvement of health facilities, clean water supply, improving road sector and reduction of HIV/AIDS prevalence.

1.4 Financing

The Council has two sources of funds; which are own source and external source. The internal source includes collection of Public funds through taxes, fees, licenses and charges. On the other hand, external source includes subsidies from central government as well as grants and loans from donor community. From these sources, total Income during the

year was Shs.7,777,267,975.63 made up of Shs.50,460,841.82 from own sources and Shs.7,726,807,133.81 from government grants and donors funds.

1.5 Management

The Kondo District Council operates under directives of the Full Council, which is a supreme body for legislative responsibilities. Under the Full Council there are three Committees, which are directly answerable to it. The Chief Executive for the District Council is the District Executive Director (DED) who is responsible for the day-to-day activities. The structure has positions of Internal Auditor and Legal Officer with responsibilities of advising the Director on matters falling under their jurisdiction.

In addition the structure provides for functional departments namely: Administration, Finance and Trade, Health, Education, Works, Town Planning and Environment and Agriculture, Livestock and Co-operatives as well as Social Welfare and Community Development.

The pictorial management structure of the District Council is shown as annexure II to this report.

1.6 Brief description of Internal Control System

A system of internal control that should be adopted by councils is given under order 9 through 11 of the Local Authority Financial Memorandum; 1997. The Order requires the finance committee to adopt written procedures for proper control of finances. In addition, the Director and the Treasurer should ensure there is assignment of specific responsibilities to individual officers, an organization chart of the Finance Department, division of responsibilities and periodic rotation of duties. Accountability of all areas of operations by the Director or his designated representative to check effectiveness of the control system is also mandatory. The Council is further required to employ its own Internal Auditor who reports directly to the Director. Similarly, the Public Procurement Act No.21 of 2004, Section 28 (1) requires the Council to establish a Tender Board and Sect.34 (1) provides for Establishment of Procurement Management Unit.

The Internal Control set up of Kondo District Council complies with this order and Procurement Act. Weaknesses arising from review of internal control system are included under part 3 of this report.

1.7 Financial Performance Issues

Revenue

The District Council collected an amount of Shs.50,460,841.82 from own sources against the internal revenue budget of Shs.78,240,000 reflecting a collection shortfall of Shs.27,779,158.18 or 35.5% of the revenue

budget. The large difference between the actual revenue collection and estimates was not explained but would appear to be a result of unrealistic revenue budget. In addition the Council received grants amounting to Shs.7,726,807,133.81 making total revenue of Shs.7,777,267,975.65 during the year.

Expenditure

The Council spent Shs.6,159,699,606 during the year against total income of Shs.7,777,267,975.63 or 79.2% of total revenue, resulting into unspent amount of Shs1,617,568,369.63. However, performance against budget could not be assessed since budget figures in the financial statements were not summarized to a single budget amount.

A comparison of the internal revenue of Shs.50,460,841 against expenditure of Shs.6,159,699,606 (net of depreciation) is only 0.8% implying that the District Council cannot sustain either its recurrent or development expenditure without depending on grants.

1.8 Audit Mandate

By virtue of the provisions of Article 143 of the Constitution of the United Republic of Tanzania, and Section 45 of the Local Government Finances Act No.9 of 1982, (revised, 2000); the Controller and Auditor General is the auditor of all government revenues and expenditures, including the revenues and expenditures of this District Council.

1.9 Audit objectives

The main objective of carrying out the audit is to enable me to express an independent opinion on the financial statements of the District Council for the year ended 30th June, 2005 and in particular:-

- To determine whether transactions were executed in accordance with the financial regulations, and recorded properly in the books of account for easy preparation of the financial statements.
- To determine whether the revenues due have been collected and used to meet expenses as per approved budget and governing regulations.
- To ascertain whether all supporting documents, records and accounts have been properly kept in respect of all Town Council activities.
- To verify whether goods and services bought were acquired through laid down procedures.
- To perform compliance tests to confirm whether management complied in all material respects with regulations.
- To evaluate whether the internal control procedures instituted are effective to provide relevant and reasonable information to the management, for implementing and monitoring activities and that the assets of the authority are adequately safeguarded against losses from unauthorized use or disposition.
- To verify whether the Council has implemented audit recommendations made in previous audits.

1.10 Audit Scope

The audit was carried out in accordance with the International Standards on Auditing. The audit covered the evaluation of effectiveness of the financial accounting system and Internal Control over the activities of the District Council, examination and verification of the accompanying financial statements and other auditing procedures as was considered necessary for the purpose of forming an opinion on the financial statements. The audit was conducted on a test check basis; therefore the findings are confined to the extent that records and information requested for the purpose of the audit were made available to us.

As an auditor I am not required to search specifically for fraud; therefore my audit cannot be relied upon to disclose all such matters. However, my audit was planned so that we would have a reasonable expectation of detecting material misstatement in the financial statements resulting from irregularities or fraud. The responsibility for detection and prevention of irregularities and fraud, rests with the Council management who are responsible for setting up and maintaining an adequate and effective system of internal control.

1.11 Audit Methodology

In examining the financial statements together with the underlying records the following audit steps were followed;

- A review of the council's regulations, guidelines and other Authority's documents as was deemed necessary under the circumstances.
- Examination of receipts and payments to confirm compliance with existing legislation, financial regulations and other instructions or directives.
- A review of the internal control structure by assessing significant policies and procedures and establish its adequacy.
- Review of financial statements, progress reports, various implementation reports and other associated information.
- Conduct compliance tests on the system of awarding contracts and their execution.
- Interview and discussion with some of the staff and other key stakeholders in the implementation of various activities.
- Conduct local inspection to verify physical implementation of planned activities as well as assessing the progress made.
- Hold entrance and exit meetings with the auditee to discuss the audit objectives and results of the audit, respectively.

1.12 Presentation of audit findings

The audit was carried out according to the mandate stated above, applying professional standards and audit procedures that were considered appropriate in each situation.

The audit findings are divided into two parts. The first part comprises the opinion on the critical examination of the financial statements submitted for audit and the circumstances surrounding their preparation and presentation.

The second part comprises the detailed findings on the gaps and shortfalls in the internal control system and compliance, which if rectified on time, will greatly improve the effectiveness of the internal control system applied.

2.0 AUDIT REPORT ON THE FINANCIAL STATEMENTS

To: The Regional Commissioner,
Dodoma Region.

District Executive Director and Accounting Officer,
Kondoa District Council.

RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF KONDOA DISTRICT COUNCIL FOR THE YEAR ENDED ON 30TH JUNE 2005

I have audited the Consolidated Balance Sheet, Consolidated Statement of Income and Expenditure, Consolidated Cash-flow Statement and the related notes and schedules of the Kondoa District Council shown on annexure 2 of this report for the financial year ended on 30th June 2005.

Responsibility of Council Management on the financial statements

These financial statements are the responsibility of the management of Kondoa District Council.

Order Nos. 9 through 16 of the LAFM requires the Council to establish and support a sound system of Internal Control within the Council. Order No. 53 places responsibility on the Council Management to prepare the financial statements based on Generally Accepted Accounting Standards. Further, section 40 of the Act requires the Accounting Officer to keep and maintain accounts and prepare financial statements in respect of the Council operations in a manner that promotes transparency, accountability and comparability.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion based on the audit. I am also required to satisfy myself whether the funds contributed to the Council were used exclusively and judiciously to meet eligible expenditures with due regard to economy and efficiency, whether the accounts have been kept in accordance with Generally Accepted Accounting Standards, and whether they do comply with the requirements of the Local Government Finances Act No. 9 of 1982 and the Local Authorities Financial Memorandum of 1997.

Basis of opinion

The audit was conducted in accordance with International Standards on Auditing and included such other audit procedures I considered necessary in the circumstances. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the significant estimates and judgments made in the preparation of the financial statements, assessing whether the internal control system and the accounting policies are appropriate to the circumstances of the Kondo District Council, consistently applied and adequately disclosed, evaluating the overall financial statement presentation, and assessing the extent of compliance with the statutory requirements. I believe the audit provides a reasonable basis for my opinion.

Qualification

Except for the material matters pointed out below, in my opinion the financial statements fairly reflect, in all material respects, the financial position of Kondo District Council as at 30th June 2005 and the results of the operations and cash-flows for the year then ended, in accordance with Part IV of the Local Government Finances Act No.9 of 1982.

1. Payment vouchers and supporting documents were not available to support payments totalling Shs.342,640,563.
2. A total of 67 revenue earning receipt books were not produced for audit.
3. Goods and services worth Shs.22,551,523 were procured without following procurement procedures as required by the Public Procurement Act and Regulations of 2004.
4. Revenue of Shs.71,429,000 and expenditure of Shs.189,571,285 were omitted from the financial statements.
5. There was a difference of Shs.337,369,667 between the total of bank balances shown in the balance sheet of Shs.160,326,791.94 and the total of bank balances certified by the bank of Shs.690,309,271.70.
6. Cash books closed with deficit balances amounting to Shs.71,051,416 as at 30th June 2005.

Dr. Frank Mosses Hiza Mhilu
Ag. CONTROLLER AND AUDITOR GENERAL

Office of the Controller and Auditor General
The National Audit Office
DAR ES SALAAM.

31 March 2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow up of previous year's audit findings.

Replies to previous year's audit findings have not been received.

3.2 Current year's Audit findings

3.2.1 Revenue Collecting Agent registers not maintained

Registered in respect of Agents collecting revenue on behalf of the Council is not maintained, despite the matter being reported in my report for the year ended 30th June 2004.

Implication

Non-maintenance of the register result in difficulties in control over the revenue collected by the revenue collection agents.

Recommendation

The Council management should ensure that the register is maintained for control purposes.

3.2.2 Revenue collection suspected not accounted for Shs.2,034,500

Receipts issued by the main cashier were not produced to account for revenue amounting to Shs.2,034,500 remitted by revenue collectors.

Implication

In the absence of the acknowledgment receipts it could not be ascertained whether the revenue collected was really remitted to the Head Office and banked.

Recommendation

The Council management should investigate the anomaly and take appropriate action. In addition the management should confirm that the revenue collected was accounted for and submit acknowledgement receipts for verification.

3.2.3 Earning receipt books not produced for audit inspection

A total of 67 revenue earning receipt books (not quantified) were not produced when required for audit.

Implication

Revenue collected using these books could not be verified as brought to account. In addition, it is obvious that controls exerted on receipt books issued for revenue collections is not adequate.

Recommendation

The management should trace and submit the books for audit verification.

For the control purpose, reduce the number of books issued, to each revenue collector, and ensure that monthly returns of used and unused receipts are received and scrutinized.

3.2.4 Unvouched and improperly vouched expenditure Shs.342,640,563

Payments totaling Shs.342,640,563 were disclosed during the audit as improperly vouched due to missing supporting documents and original payment vouchers.

Implication

Propriety of the expenditure could not be ascertained.

Recommendation

The missing payment vouchers and supporting documents should be traced and submitted for audit verification. In addition, the Council management should improve the keeping of accounting document to prevent them from being misplaced.

3.2.5 Procurement without quotations or tenders

A total amount of Shs.22,551,524 was paid to various suppliers, shown below in respect of motor vehicles maintenance and related services and procurement of pharmaceutical products.

PV	CHQ	AMOUNT	CODE	PAYEE	A/C No.
42/5/2005	002775823	6,194,624	126403	Ntuzu store	6
91/6/2005	002778189	4,137,600	127503	M/s K.N Motors	6
95/6/2005	002770194	10,219,300	127302	M/s Ileme General Supplies	6
68/6/2005	002778166	2,000,000	126605	M/s Minja General Enterprises	6
Total		22,551,524			

The procurement was done without obtaining quotations or inviting Tenders, contrary to the procurement procedures.

Implication

The goods and services might not have been procured at economical prices.

Recommendation

Procurement of goods and services should follow the procedures required by the Public Procurement Act and regulations, 2004.

3.2.6 Payments of Arrears of Salaries Shs.41,591,795.25

A total of Shs.102,849,553.75 was transferred from miscellaneous deposit account to the general fund account for payment of salary arrears to the Village Executive Officers.

PV	CHQ	AMOUNT(Shs)	PAYEE	A/C
3/12/2004	0020804	43,000,000	DED-Kondoa	3
3/6/2005	002774375	8,549,936.25	DED-Kondoa	3
2/6/2005	002774373	51,299,617.50	DED-Kondoa	3
Total		102,849,553.75		

However, it was noted that a total amount Shs.61,257,757.75 only was paid as follows:

PV	A/C No.	CHQ	AMOUNT	PAYEE	REMARKS
105/9/2004	1	019826	1,408,204	DED-Kondoa	Salary areas for July to August 2004.
13/6/2005	1	0027776320	8,549,936.25		Salary arrears for June 2005
7/6/2005	1	0022776314	51,299,617.50		Salary arrears for December 2004 up to May 2005.
Total			61,257,757.75		

Accountability of the balance of Shs.41,591,795.25 was not made available during the audit.

Implication

Proper utilization of the amount of Shs.41,591,795.25 could not be ascertained.

Recommendation

Management should investigate the matter and take appropriate action.

3.2.7 Outstanding salary advances Shs.554,117

A Council Official, was paid salary advances amounting to Shs.554,116.98 as follows:

PV	CHQ	AMOUNT (SHS)	DR.
38/7/2004	013963	415,587.71	180101
8/1/2005	022212	138,529.27	
	total	554,116.98	

Recovery of the amount of Shs.554,116.98 could not be confirmed since the salary advance register was not maintained and therefore the salary advances were not recorded in the salary advances register.

Implication

The salary advances could be still outstanding.

Recommendation

Management should confirm that the salary advances have been recovered and quote recovery particulars for audit verification. In addition the salary advances register should be opened and maintained.

3.2.8 Unrecorded payments Shs.14,683,500 - Health Account

The following payments totaling to Shs.14,683,500 were not recorded in the main system analysis cash book.

PV	CHQ	AMOUNT (SHS)	DR.
11/9/2004	023318	1,022,500	250312
46/6/2005	02277889	720,000	501030
111/6/2005	002778660	12,941,000	501030
TOTAL		14,683,500	

Implication

The total expenditure was understated by Shs.14,685,500 and the cash book balance as well as the surplus/deposit account were all overstated by the same amount.

Recommendation

The financial statements should be adjusted to include the omitted transactions.

3.2.9 Apparent double payment of allowances/Education Account (Ac No.6)

A sum of Shs.13,940,000 was paid to DED Kondoia vide PV 50/1/2005, Chq 022253 being monthly living allowances for the month of March 2005 in respect of newly appointed teachers. However, it was observed that another payment of Shs.13,999,000 was made vide Pv.84/3/2005, cheque 014009 in respect of allowances for the same month. In all cases the payments were not supported by the relevant receipted paylists.

Implication

There is an apparent double payment of the living allowances for the month of March 2005.

Recommendation

Management should investigate the anomaly and inform audit of your findings and action taken.

3.2.10 Consolidated Income and Expenditure Statement

The consolidated statement of income and expenditure was found to be incorrect due to the following:

- (i) An amount of Shs.71,429,000 being revenue pertaining to Health and Water activities (code 170120) was omitted in the statement.

- (ii) Expenditure amounting to Shs.189,571,285 as detailed below was omitted in the statement.

Code	Details	Amount
250313	Overtime allowance	41,344,700
270503	Diesel	140,910,345
270502	Petrol	912,740
270504	Kerosene	3,200,000
280802	Training allowance	3,203,500
Total		189,571,285

Implication

- (i) The total income of Shs.7,777,267,975.63 reported in the statement was understated by Shs.71,429,000.
- (ii) The amount of total expenditure of Shs.6,159,699,606.52 was understated by Shs.189,571,285. The correct totals of income and expenditure during the year would have been Shs.7,848,696,975.63 and Shs.6,349,270,891.53 respectively.

Recommendation

The financial statements should be adjusted accordingly.

3.2.11 Schedule of fixed assets as at 30th June 2005

The schedule of fixed assets submitted along with other financial statements could not be verified because of the following:

- Description of the assets was not shown individually
- Costs of individual assets were not shown
- Years of acquisition of individual assets were not reported
- Registration numbers of plants, motor vehicles and motor cycles were not shown
- Location of the assets was not indicated.

Implication

- (i) Depreciation and books value of each asset could not be verified in the absence of the year of acquisition and original cost.
- (ii) Physical verification of the assets was impossible due to the fact that registration numbers of motor vehicles, motor cycle and plants and location of the assets were not shown in the schedule.

Recommendation

The schedule of the fixed assets should be revised to show description of the assets, their location, original cost and year of acquisition of each asset.

3.2.12 Anomalies in the schedule of fixed asset as presented

Additional Buildings Shs.97,798,296

Additional Motor Vehicles Shs.44,425,915

The schedule of fixed assets reflected that building and motor vehicle worth Shs.97,798,296 and Shs.44,425,915, respectively, as additions during the year 2004/2005. Scrutiny of the schedule of fixed assets for the period ended June 2004 disclosed that these assets were acquired during the accounting period of January to June 2004, however, they were not reflected in the respective column for additional assets in that schedule.

Implication

The assets were wrongly shown as additional during the financial year 2004/2005.

Recommendation

Management should revise the schedule of fixed for the year 2004/2005.

3.2.13 Incorrect Depreciation Values

Taking the schedule as presented the following anomalies resulting from wrong calculations in depreciation values were detected during the audit.

Names of Assets	Depreciation reported (Shs)	Depreciation per Audit (Shs)	Differences
Primary school furniture and equipment	16,143,301	14,414,244.12	1,729,056.88
Motor vehicles	40,388,504	30,944,986.40	9,443,517.60
Additional building required during the year	4,999,385	2,444,957.00	2,554,428
Motor vehicles and plants	0	31,703,319.80	(31,703,319.80)
Total	61,531,190	79,507,507.32	(17,976,317.32)

Implication

The total net book values for the assets was overstated by Shs.17,976,317.32

Recommendation

The schedule of fixed assets should be adjusted to reflect correct book value of assets and accumulated amount of depreciation as at 30th June 2005.

3.2.14 Total Depreciation Amount

Due to the anomalies already detected, the depreciation values would read as follows:

- Depreciation at 30th June 2004 would read Shs.926,993,272 (Shs.929,438,229 - Shs.2,444,957) instead of Shs.929,438,229 reported.
- Total depreciation value as at 30th June 2005 would read Shs.190,591,382.32 (Shs.172,615,065 + Shs.17,976,317.32) instead of Shs.172,615,065 reported.
- Accumulated depreciation value as at 30th June 2005 would read Shs.1,117,584,654.32 (Shs.926,993,272 + Shs.190,591,382.32) instead of Shs.1,102,053,294 reported.

Implication

- (i) Total depreciation amount as at 30th June 2004 overstated by Shs.2,444,957
- (ii) The depreciation amount as at 30th June 2005 was understated by Shs.17,976,317.32
- (iii) Accumulated depreciation amount as at 30th June 2005 was understated by Shs.15,531,360.32

Recommendation

Management should revise the schedule of fixed assets after effecting the necessary adjustments.

3.2.15 Total Book Value of Fixed Assets

Taking into account the anomalies in the schedule of fixed assets the total book value of the assets would read Shs.8,542,970,720, (Shs.9,660,555,374 - Shs.1,117,584,654.32) and not Shs.8,524,419,684 as reported.

Implication

Total book value was understated by Shs.18,551,035.68.

Recommendation

Revise the schedule of fixed assets after effecting the necessary adjustments.

3.2.16 Consolidated cash flow statement as at 30th June 2005 as presented

The consolidated cash flow statement would appear to include incorrect figures as shown below:

No.	ITEM	AMOUNTS REPORTED	AMOUNTS AS PER AUDIT FINDINGS
1	Surplus	1,617,568,369.10	1,498,426,084
2	Depreciation	165,100,883.90	190,591,382.32
3	Furniture and fittings	(15,376,125.72)	(15,375,246)
4	Increase in other Debtors	(3,237,600)	0

5	Increase/Decrease in Creditors	(368,013,096)	447,790,558.65
6	Increase/Decrease in other Creditors	(78,773,898.16)	79,777,462.51
7	Increase/Decrease in other assets	326,091,040	0

In addition, the depreciation figure reported in the cash flow statement was Shs.165,700,883.90 instead of Shs.172,615(Shs.190,591,382.32 audit figure) reported in the schedule of fixed assets.

Implication

The cash flow statement was rendered incorrect.

Recommendation

The statement should be revised after effecting the necessary adjustments.

3.2.17 Fixed assets and accumulated depreciation values

Examination of the consolidated balance sheet disclosed the following anomalies in relation to the fixed assets and accumulated depreciation amounts:

- (i) Total cost of fixed assets was reported in the balance sheet as Shs.5,577,114,089.83 while the total cost for the same assets was reported in the schedule of fixed assets as Shs.9,660,555,374 a difference of Shs.4,083,441,284.17
- (ii) Total accumulated depreciation value was reported in the balance sheet as Shs.559,573,269.65 while the value for the same in the schedule of depreciation was reported as Shs.1,102,053,294 (Shs.1,117,584,654,.32 audit figure), a difference of Shs.542,480,024.35 (Shs.558,011,384.67 audit figure).
- (iii) The balance sheet included assets relating to water pipes and Dore Holes worth Shs.149,018,774.60 and Roads and Bridges worth Shs.177,007,160.51. These assets were neither included in the schedule of fixed assets nor separately listed in a separate schedule.
- (iv) The net total book value of assets disclosed in the balance sheet amounted to Shs.5,017,540,820.18 while the book value for the same assets was reported as Shs.8,524,419,684 (Shs.8,542,970,719.68 audit figure), then a difference of Shs.3,506,878,863.62 (Shs.3,525,429,899.50 audit figure).

Implication

The financial position shown in the balance sheet is incorrect.

Recommendation

The consolidated balance sheet should be adjusted to reflect the correct balances of the accounts.

3.2.18 Investments

The consolidated balance sheet reflect an amount of Shs.326,091,040.30 being value of other investments. However, the investments have not been analysed in a schedule showing value of individual investments.

Implication

The correctness of the value of the investments could not be ascertained.

Recommendation

The schedule showing analysis of the investments should be prepared and submitted for audit verification.

3.2.19 Current assets**(i) Outstanding Debtors**

The value of outstanding debtors was reported in the schedule of debtors at Shs.100,955,227 as detailed below:

Name of Account	Depreciation	Amount outstanding
General fund account	Imprest	5,413,200
Agriculture and livestock		1,726,000
Beekeeping		1,923,230
NAEP II		1,300,000
Road Toll Fund		3,133,000
Car pool Account		291,000
Water Account		16,436,600
Education		15,610,500
Urban water		655,000
ASPS II		778,000
Youth Development Fund		2,817,500
Fund		-
RESP		5,790,000
Health Account		40,452,097
Women and Youth Development Account		4,629,100
Total		100,955,227

However, the value reflected in the consolidated balance sheet amounted to Shs.129,885,693.75 as analysed below:

Debtors	Shs. 126,648,093.75
Other debtors control	Shs. <u>3,237,600.00</u>
Total	<u>129,885,693.75</u>

Implication

The balance of debtors was overstated by Shs.28,931,466.75 in the balance sheet, as well as total current assets.

Recommendation

The value of debtors should be corrected and the statements be adjusted accordingly.

(ii) Incorrect bank balance shown in balance sheet.

According to the consolidated balance sheet the total bank balances was Shs.160,326,791.94. however, individual bank accounts showed balances amounting to Shs.690,309,271.30 as below:-

Accounts Names	Balances	Account Nos
RFSP	772.95	6502000039
Munguri Crossing	301,194.98	6502000034
Youth Development Account	2,160,056.00	6502000033
ASPS II	855,282.81	6502000023
District Council Development Fund	2,971,663.79	6502000002
DMPP	19,842.00	6502000025
Agriculture and Livestock	5,238.47	6502000022
Beekeeping Fund	558,712.00	6502000015
NAEP II	15,700.00	6502000014
Livestock Development Fund	5,755.00	6502000012
Local Government Development Fund	14,242,352.67	6502000010
Mwenge/Maafa/Uuguzi	331,486.50	6502000009
Transport pool	781,665.90	6502000008
Sector Cash Account (Water)	5,394,945.37	6502000007
Sector Cash Account (Health)	412,209,056.64	6502000006
Sector Cash Account (Education)	1,936,742.54	6502000005
Sector Cash Account (Ujenzi)	9,725.84	6502000004
Miscellaneous deposit Account	242,888,262.91	6502000003
General Fund Account	5,620,815.33	6502000001
Total	690,309,271.70	

The two amounts of bank balances differ by Shs.529,982,480

Implication

The total of bank balances shown in the consolidated balance sheet of Shs.160,326,791.94 is incorrect.

Recommendation

Management should investigate on the anomaly and reconcile the difference.

3.2.20 Deficit balances in cash books

Cash books in respect of the following accounts closed with deficit balances amounting to Shs.71,051,416.37 as follows:-

Details of Accounts	Overdrawn Balances
RFSP Account	328,577.05
Beekiiping Account	23,288.00
NAEP II Account	8,832,100.00
Mwenge/Maafa/Uchaguzi	2,918,013.50
Ujenzi (works) Account	1,103,405.77
General Fund Account	<u>57,846,032.05</u>
Total	<u>71,051,416.37</u>

Implication

More payments were made than amounts of funds available in the accounts.

Recommendation

The deficit balances should be cleared.

3.2.21 Outstanding Creditors

The amount of outstanding Creditors reported in the balance sheet was Shs.130,364,462.37 as detailed below:

Details	Value (Shs)
Creditors	51,590,564.21
Other creditors	78,773,898.16
Total	130,364,462.37

However, the outstanding creditors were not supported by the relevant schedules showing names of creditors and the amounts due to each creditor.

Implication

The correctness of the amount of the outstanding creditors could not be ascertained without the schedule.

Recommendation

Management should prepare and submit the relevant schedule to audit for verification

3.2.22 Creditors Balance Wrongly Reported

Creditors for the period ended on 30th June 2004 were wrongly reported in the accounting period ended 30th June 2005 as follows:

Balance Reported on 30/6/2004 on the Balance Sheet	Balance As At 30/6/2004 As Reported on 30/6/2005 in the Balance Sheet
Creditors 1,182,406.00	499,381,122.86
Other Creditors 443,452,916.11	(1,003,564.35)

For the purpose of calculating decrease or increase in creditors to be reported in the consolidated cash flow statement the balance reported as at 30th June 2004 should similarly be reported at the end of the accounting period ended 30th June 2005.

Implication

- (i) Financial regulations and the Local Authority Accounting Manual requirements were breached.
- (ii) The correct decrease or increase in creditors to be reflected in the cash flow statement could not be confirmed to be correct.

Recommendation

The statement should be revised after effecting the necessary adjustments.

3.2.23 Statements not submitted

The following statements were not submitted with the other financial statements.

- Individual trial balances emanating from each account maintained by the Council
- A summary statement of capital expenditure with its financing.

Implication

- (i) Requirements of the Local Authority Financial Memorandum and of the Local Authority Accounting Manual were violated.
- (ii) The financial statements submitted for audit were incomplete.

Recommendation

Management should prepare and submit for audit the missing statements. In future, the requirements of the Financial Memorandum and of the Accounting Manual should be adhered to.

3.2.24 Outstanding matters in bank reconciliation statements

The following items had not been cleared with the bank as at 30/6/2005

Description of Items	Name of Account	Amount (Shs)
Outstanding cheques	RFSP Cash Account	329,350
Outstanding cheques	Youth and Development	424,000
Outstanding cheques	ASPS II	225,000
Outstanding cheques	District Council Development Fund	2,855,860
Outstanding cheques	Agriculture and Livestock Fund	(1,749,600)
Outstanding cheques	Beekeeping Funs	612,000
Outstanding cheques	NAEP II	8,847,800
Outstanding cheques	Local Government Road Fund	13,728,535.05
Outstanding cheques	Mwenge/Maafa/Uchaguzi	3,249,500.00
Outstanding cheques	Transport pool cash Account	2,306,200.00
Outstanding cheques	Sector cash Account (water)	2,693,864.69
Outstanding cheques	Sector Account (Health)	107,367,403.16
Outstanding cheques	Sector Account (Education)	210,137,528.18
Outstanding cheques	Sector Account (Works)	1,113,131.61
Outstanding cheques	Miscellaneous deposit account	253,846,927.37
Outstanding cheques	General Fund	63,774,047.38
Sub total		669,761,547.44
Deposit on transit	Local Government Road Fund	30,094,967.50
	Agriculture and Livestock Fund	8,847,800
	General Fund Account	307,200
Sub total		39,249,967.50

Implication

- (i) Financial transactions not related to the Council's accounts could be included by bank in the Council's Accounts.
- (ii) Losses of cash through the bank may not be easily detected if the outstanding matters are not cleared with the bank.

Recommendations

The outstanding balances should be cleared soon.

3.2.25 Bank reconciliation statements not submitted

Bank reconciliation statements in respect of the following accounts were not submitted along with the other financial statements:-

Special Education Fund Account	6502000011
Women Development Fund Account	6502000013
RWSSP Cash Account	6502000032
Tarangire Cash Account	6502000029
Car Reserve cash Account	5020000031
Loenen Kondoia Cash Account	6502000020

Implication

- (i) Financial instructions on the preparation of the bank reconciliation statements were breached.
- (ii) Differences between the cash book and bank balances were not reconciled.
- (iii) Any losses of cash through the bank cannot be detected without reconciliation of cash book and bank balances.

Recommendation

Management should prepare and submit for audit the required bank reconciliation statements.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Kondo District Council during exit meeting. The Management of Kondo District Council has promised to take appropriate action with a view to rectify the situation. I shall appreciate to receive formally the action taken in this respect.

Lastly, I would like to express my appreciation for the co-operation given to the audit team. It is my hope that such good working relationship will be extended during future audits.

Dr. Frank Mosses Hiza Mhilu
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5.0 ANNEXURES

- Financial Statements and notes to the financial statements - annexure I
- Organization structure of Kondo District Council - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF KONDOA DISTRICT COUNCIL

