

**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL  
ON THE FINANCIAL STATEMENTS OF MPWAPWA DISTRICT COUNCIL  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2005**

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March, 2006

AR/LG/022/2005

## 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 Current year's findings	12-21
4.0 Conclusion	22
5.0 Annexures	23
I. Financial Statements and Notes to the Financial statements	
II. Organisation Structure of Mpwapwa 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
GRR	General Revenue Receipt

Financial Statements means:

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

Council means - Mpwapwa 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 Mpwapwa District Council for the year ended 30<sup>th</sup> June 2005. Audit findings arising from examination of accounting 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**

Mpwapwa District Council was established in 1984 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 Mpwapwa 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.5,392,728,184 made up of Shs.281,070,296.47 from own sources, and grants Shs.5,111,657,887.53 from Central Government.

### **1.5 Management Structure**

The Mpwapwa 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 appendix 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 Mpwapwa District Council complies with this order and Procurement Act, but is lacking an Internal Auditor and Legal officer. 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.281,070,296.47 from own sources against the internal revenue budget of Shs.283,827,191 reflecting a collection shortfall of Shs.2,756,895 or 0.97%. The 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.5,111,657,887.53 making total revenue of Shs.5,392,728,184 during the year.

### **Expenditure**

The Council spent Shs.5,297,970,712.02 during the year against total income of Shs.5,392,728,184 or 98% of total revenue, leaving unspent amount of Shs.94,757,472. However, performance against budget could not be assessed since budget figures were not disclosed in the financial statements.

A comparison of the internal revenue of Shs.281,070,296 against expenditure of Shs.5,297,970,712.02 (net of depreciation) is only 5.3% 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 30<sup>th</sup> 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 District 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 Town 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 I 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.

Council Director and Accounting Officer,  
Mpwapwa District Council.

### **RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF MPWAPWA DISTRICT COUNCIL FOR THE YEAR ENDED ON 30<sup>TH</sup> 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 Mpwapwa District Council shown on annexure II of this report for the financial year ended on 30<sup>th</sup> June 2005.

#### **Responsibility of Council Management on the financial statements**

These financial statements are the responsibility of the management of Mpwapwa 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 Mpwapwa 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.

### **Qualified Opinion**

Except for the material matters pointed out below, in my opinion the financial statements fairly reflect, in all material respects, the financial position of Mpwapwa District Council as at 30<sup>th</sup> 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.

Further to my opinion, except for the payment of Radio Calls worth Shs.4,190,000 and absence of tender documents for supplies worth Shs.27,402,000 procurement of stationeries, office supplies and goods and services were generally done in accordance with the Public Procurement Act No.21 of 2004.

### **Limitation of scope and non-compliance with Laws**

1. Unretired Special imprest amounting to Shs.2,654,100 paid to officers for various activities.
2. Failure to prepare deposit register with total amount of Shs.1,119,073,744 contrary to para 4.20 of the Local Authorities Accounting Manual.
3. Stores worth Shs.9,079,500 not taken on ledger charge.
4. Payments totaling Shs.71,328,637 to various payee were not acknowledged by receipts.
5. Payment vouchers worth 102,842,580 were not made available for audit.
6. Four earning receipt books from 2003 to 2005 were missing.
7. Trial balance figures do not balance by 3,229,528 and bank reconciliation statement shows many items are still outstanding.

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

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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 Current year's findings**

##### **3.1.1 Special Imprests Shs.2,654,100 Health Account**

Special imprests Shs.2,654,100 was paid to various officers to meet expenses for various activities. However, retirement of the imprests could not be confirmed in the absence of the retirement particulars.

##### **Implication**

Non-retirement of imprests is contrary to financial regulations and there is a possibility of losses of cash.

##### **Recommendation**

The management should adhere to financial regulations and the retirements particular should be traced and submitted to audit for verification.

##### **3.1.2 Payments for Radio Calls Shs.4,190,000 (PV 51/12 Chq.025308 LPO.2180)**

An amount of Shs.4,190,000 was paid to NAV's ENTERPRISES for supplying 2 sets of HF SSB Radio Telephone Kenwood TK-80 (Radio Calls) to improve communication system in the district. However, scrutiny of the vouchers and the related documents revealed the following anomalies:-

- (i) Invoice No.1133 and delivery No.1085 were dated 16/12/2004 and 17/12/2004 respectively. However, according to the details of the relevant LPO the Council's Tender Board authority for the purchase of radio calls was obtained on 21/12/2004 as per agenda No.61/2004, meaning that the purchase was effected prior to the release of the authority. Still the very authority or quotations could not be produced for audit.
- (ii) The value for money appeared not to have been taken into account as the radios are still in the store for almost a year, an indication that there was no need to purchase such equipment.

##### **Implication**

Procurement procedures were violated.

##### **Recommendation**

Management of the Council should ensure that all procurement procedures are followed and the items purchased to be put into use.

##### **3.1.3 Questionable amount of Shs.27,402,000 paid suppliers**

An amount of Shs.27,402,000 was paid to various suppliers of goods and services by the Council. However, authenticity of the purchases could not be verified in the absence of the Tender documents.

**Implication**

Ascertainment of whether procurement procedures were followed cannot be established.

**Recommendation**

Management should ensure that all procurement documents are made available and produced for audit scrutiny.

**3.1.4 Questionable expenditure on Motor Vehicles maintenance Shs.2,356,767**

An amount of Shs.2,356,767 was paid to M/S ACTION AUTO GARAGE, Dodoma for carrying out maintenance services for motor vehicles DFP 680 and DFP 679. The mechanical expert as having been satisfactorily carried out did not certify the maintenance services.

**Implication**

Procurement procedures were not followed

**Recommendation**

Management should investigate on the anomaly and take proper measures for remedy of the situation.

**3.1.5 Deposit register not produced**

According to para 4.20 of the Local Authorities Accounting Manual the Council is required to establish and maintain a deposits register in which deposits receipts and payments have to be recorded. However, such a register could not be produced for audit though a test check disclosed that during the financial year under review deposits payments to the tune of Shs.1,119,073,744 were effected. In addition an account for the deposits transactions could not be traced in the final accounts.

**Implication**

The violation of Local Authorities accounting treatment, and the total deposits receipts and payments and the year-end balance in respect of the deposits account could not be ascertained in the absence of such records.

**Recommendation**

Management is advised to establish a deposit register and recorded in it all the deposits transactions for the purposes of obtaining total receipts and payments and the year-end balance and also to prepare and include in the accounts final financial statements in respect of the deposits account.

**3.1.6 District agricultural development project account (DADP Account No.0501000001 PV 1.11/2004 CHQ.024555 Shs.7,000,000**

An amount of Shs.7,000,000 was paid to Dr. R.M. Urasa as special imprest to enable him meet expenses on construction of a cattle dip. The expenses included cost of hiring a bulldozer for Shs.4,000,000 for 10 days @400,000 as per contract agreement signed on 22/11/2004 between Hombolo Irrigation Scheme and the District Agricultural Development Officer. The Hire charges

included payment of wages to the bulldozer operator and purchase of fuel according to the signed agreement.

(i) However, the following payments were effected:-

• Hire charges	Shs.	4,800,000
• Operator's wages	Shs.	430,000
• Fuel expenses	Shs.	<u>572,500</u>
<b>Total</b>	<b>Shs.</b>	<b><u>5,802,500</u></b>

(ii) Minutes of the District Council Tender Board regarding the award of the contract to M/s Hombolo Irrigation Scheme was not produced for audit scrutiny.

(iii) Certificate(s) for confirmation of satisfactory completion of works by M/S Hombolo Irrigation Scheme was/were also not made available for audit.

#### **Implication**

- The authenticity of the transaction could not be established
- In the absence of the minutes of the Council's Tender Board regarding the award of the contract it could not be ascertained that the contract awarded was legally authorized by the Council.
- Without certificate(s) of satisfactory completion of works, propriety of the expenditure against the public funds could not be authenticated.

#### **Recommendation**

- Recover Shs.1,802,500 overpaid or clarify.
- Produce for audit the Minutes for the Council's Tender Board to prove that the contract was legally awarded.
- Produce certificate(s) of satisfactory completion of works for authentication of the propriety of the expenditure incurred.

### **3.1.7 Stores not taken on ledger charge Shs.9,079,500**

Payment totaling Shs.9,079,500 were observed to have been made to various suppliers for the purchases of items of stores. However, the items of stores paid for were noted to have neither been taken on ledger charge nor their utilization accounts produced to audit.

#### **Implication**

Stores regulations on the stores management were breached and it could not be ascertained whether the stores purchased were delivered and used as intended.

#### **Recommendations**

Management should ensure that adherence to the regulations on the stores management and reference to the relevant ledger folio references and utilization details is properly kept.

**3.1.8 Missing acknowledgement receipts Shs.71,328,637**

An amount of Shs.71,328.637 made to various payees during the financial year 2004/2005 could not be ascertained whether payments made were received by the bonafide payees.

**Implication**

There is a possibility of the payments falling into wrong hands.

**Recommendation**

Management should have to communicate with the payees for submission of the receipts.

**3.1.9 Missing payment vouchers Shs.102,842,580**

Payment vouchers amounting to Shs.102,842,580 were found missing during the audit.

**Implication**

Propriety of the expenditure could not be vouched without the relevant payment vouchers.

**Recommendation**

Management should trace and submit the missing vouchers for audit examination and in future ensure that all paid vouchers are properly safe guarded.

**3.1.10 Missing signed paylists Shs.10,396,170**

Amount of Shs.10,396,170 was paid in favour of various beneficiaries. However, the signed paylists were noted missing from the respective payment vouchers.

**Implication**

Receipt of payments by the payees could not be confirmed in the absence of the signed paylists/sheets.

**Recommendation**

Management should trace and submit the missing signed paylists for audit verification.

**3.1.11 Unproduced receipts books**

Four (4) earning receipt books were found missing during the audit as shown below:

No.	Type of Books	Serial Nos.	Issued To
1.	GRR (HW5) 2003/2004	00096751 00096800	Flix Mkalawa
2.	GRR (HW5) 2004/2005	00102201 00102250	Isaac Mogope
3.	GRR (HW5) 2004/2005	00102351 00102400	Ernest Chaulema
4.	GRR (HW5) 2004/2005	00104711 00104800	Sailas Ngelula

#### **Implication**

Revenue collected on the books could not be verified

#### **Recommendation**

Management should trace and submit the missing books for audit examination.

#### **3.1.12 Overpayment on Electricity Bill PV 38/4 CHQ 029103 Shs.582,393**

An amount of Shs.930,307 was paid to TANESCO on various Electricity Bills. However, according to the bills the amount payable was Shs.347,914 resulting in a difference of Shs.582,393 overpaid.

#### **Implication**

The Council has suffered a loss of Shs.582,398 through the overpayment.

#### **Recommendation**

Management should recover the overpaid amount and submit the supporting document for audit verification.

#### **3.1.13 Questionable payment shs.22,520,000**

An amount of Shs.22,520,000 was observed to have been paid to NMB Mpwapwa branch vide PV No.21/11 and cheque No.028690 of 11/11/2004 in respect of capitation funds to various Primary Schools for the period October to December 2004. However, the payment was later stated to have been cancelled without producing the relevant cheque vide which it was made.

#### **Implication**

Authenticity of the cancellation of the payment could not be established.

#### **Recommendation**

The Council management is urged to produce the cheque vide which the payment was made.

### 3.1.14 Incorrect expenditure figures

Scrutiny of the statement of capital expenditure and the relevant ledger accounts disclosed the following differences in expenditure figures:-

Name of Account	Expenditure as per statement (Shs)	Expenditure as per general ledger (Shs)	Differences (Shs)
Road Fund Account	76,833,988.00	76,863,988.00	+30,000
ASPA Account	9,289,975.80	10,239,975.80	+950,000
DADPS Account	33,141,000.00	32,505,300	-635,700
<b>Total</b>	<b>119,264,963.80</b>	<b>119,609,263.80</b>	<b>344,300</b>

In addition, ledger accounts in respect of Basket fund and MMEM Accounts against which amounts of Shs.139,564,090 and Shs.817,947,569.99 were incurred, could not be traced in the general ledger produced for audit.

#### Implication

Correctness of the transactions could be ascertained.

#### Recommendation

The management should reconcile the discrepancies cited above and confirm existence of the two figures in question.

### 3.1.15 Consolidated cash flow statement as at 30/6/2005

#### (i) Surplus before working capital changes

The following irregularities were noted:-

Details	Balance as at 30/6/2004	Balance as at 30/6/2005	Increase or decrease
Stores and stocks	82,691,810	153,570,690	(70,878,880.00)
Imprests	10,815,405	6,080,690	4,734,711
Loans and Advances	1,673,700	1,673,700	NIL
Creditors	132,315,127.55	130,329,214.55 (Audit figure)	(1,985,913)
			(68,130,082)
Add; Deficit of income and expenditure			(7,136,852.89)
Cash generated from operating activities (per audit)			(75,266,934.89)

#### Implication

The cash generated from operating activities was overstated by (Shs.18,053,531.78) compared to the figure of (Shs.57,213,403.11) reported in the statement (Shs.75,266,934.89 - 57,213,403.11).

### Recommendation

Management should revise the statement by effecting the necessary adjustments.

#### (ii) Cash floor from investing activities

The total expenditure according to the summary statement of capital expenditure as at 30/6/2005 was reported as Shs.1,684,543,032.33. However, examination of the relevant general ledgers disclosed that the real total expenditure should have been Shs.1,684,887,332.33.

### Implication

The total expenditure was understated by Shs.344,300

### Recommendation

Management should effect the necessary adjustment to revise the statement.

#### (iii) The face of the statement with the opening and closing balances

Deficit of income and expenditure	(7,136,852.89)
Surplus before working capital charges	(68,130,082.00)
Cash generated from operating activities (see (i) above)	(75,266,934.89)
Cash used in investing activities	<u>(1,684,887,332.00.00)</u> (1,760,154,266.89)
Cash from financing activities (Government Grants)	1,834,521,621.54
<b>Net increase</b>	<b>74,367,354.65</b>

However, the net increase figure should be equal to the difference between the opening and closing balances. In this case the balances are:

- Opening balance (cash) Shs.283,063,796.18
- Closing balance (cash) Shs.381,421,028.87
- Difference Shs. 98,357,231.69

### Implication

There is a difference of Shs.23,989,878.04 between the net increase of Shs.74,367,354.65 and Shs.98,357,232.69 being the difference between Shs.283,063,796.18 (opening balance) and Shs.381,421,028.87 (closing balance).

### Recommendation

Management should effect the required adjustment to the statement revised.

### 3.1.16 Fixed Assets Shs.2,935,743,030.57

Total value of fixed assets was reflected as Shs.2,935,743,030.57. This figure includes Shs.168,546,874.70 being value of plant and vehicles. However, according to the ledger accounts and schedule of fixed assets and depreciation, the value of the plant and vehicles was overstated by Shs.4,530,978.32 as shown below:-

- The value of a motor vehicle (NISSAN PICK UP HARD BODY) was Shs.37,859,422 but reported as Shs.35,890,400.
- The cost of maintenance of Shs.6,500,000 for Isuzu Lorry (FRS) SM 2635 was added in the schedule of fixed assets as a capital expenditure instead of a revenue expenditure.

#### Implication

- In the first place the value of the motor vehicle was understated by Shs.1,969,022.
- In the second place the value of plant and motor vehicle was overstated by Shs.6,50,000. Therefore the actual value of plant and motor vehicles was Shs.164,015,896.44 (168,546,874 + 1,969,022 - 6,500,000)
- Then total value of fixed assets would read Shs.2,931,212,052.25 as follows:-

Land and Building	Shs.	2,658,884,711.52
Plant and Vehicles	Shs.	164,015,896.44
Furniture and Equipment	Shs.	<u>108,311,444.29</u>
<b>Total</b>	<b>Shs.</b>	<b><u>2,931,212,052.25</u></b>

In principle, the total value of assets was overstated by Shs.4,530,978.32

#### Recommendation

Effect the necessary adjustment and revise the statement.

### 3.1.17 Debtors and Creditors.

Consolidated balance sheet reflected debtors amounting to Shs.7,754,390 comprising imprests, loans and advances. On the other hand the statement reflected creditors worth Shs.130,329,214.55. Nevertheless, accounts did not include details on individual Creditors and Debtors with age analysis. Moreover, the Council did not state its policy on Debtors and Creditors.

#### Implication

Lack of age analysis limits assessment of recoverability of debts and implementation of creditors policy.

#### Recommendation

The management is advised to come up with debts collection policy as well as creditors policy to ensure outstanding amounts are cleared.

### 3.1.18 Overdrawn Accounts Shs.5,657,371.80

According to the schedule of cash and bank balance the following accounts were overdrawn:-

Account Names	Amounts Overdrawn (Shs)
General Fund Account	4,339,091.22
Works Account	618,021.50
Education Account	694,259.08
<b>Total</b>	<b><u>5,651,371.80</u></b>

#### Implication

Financial regulations were violated and it is an indication that there are over payments effected.

#### Recommendation

Management should investigate on the matter, adhere to the financial regulations and put more controls in payments effected.

### 3.1.19 Totals in trial balance do not balance by 3,229,497,528

According to the consolidated trial balance, credit and debit totals mounted to Shs.9,162,761,669.96 for each side while the individual account totals for each side amounted to Shs.5,933,264,141.18.

#### Implication

There is a difference of Shs.3,229,497,528 to be reconciled.

#### Recommendation

Management should investigate on the anomaly and effect the necessary adjustments.

### 3.1.20 Outstanding balance of bank reconciliation statement.

The bank reconciliation statements for individual accounts as at 30<sup>th</sup> June 2005 reflected the following outstanding items.

#### (a) General Fund Account

Receipts in cashbook not in bank	Shs.	422,856.90
Unpresented cheques	Shs.	6,303,968.45

#### (b) Development Fund Account

Receipts in cash book not in bank	Shs.	3,950.00
Unpresented cheques	Shs.	7,442,700.00

#### (c) Ujenzi Account

Unpresented cheques	Shs.	652,697.98
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#### (d) Education Account

Receipts in cash book not in bank	Shs.	600.00
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Payment in bank no in cashbook	Shs.	60,000.00
Unpresented cheques	Shs.	57,361,908
<b>(e) Health Account</b>		
Receipts in cashbook not in bank	Shs.	1,049,995.00
Unpresented cheques	Shs.	9,609,667.55
<b>(f) revenue Account</b>		
Receipt in cash book not in bank	Shs.	1,999,769.12
<b>(g) NAEP II Account</b>		
Erroneous Debt	Shs.	78,000.90
Unpresented cheques	Shs.	881,108.60
<b>(h) Rural Water Supply and Sanitation Project Account</b>		
Unpresented cheques	Shs.	4,850,905.50
<b>(i) ASPS-SEED Account</b>		
Unpresented cheques	Shs.	1,825,000.00
<b>(j) Cost Sharing Account</b>		
Receipts in cash book not in bank	Shs.	775,325.00
Unpresented cheques	Shs.	131,850.00
<b>(k) capitalization Account</b>		
Receipts in cash book not in bank	Shs.	989,900.00
<b>(l) C.H.F Account</b>		
Receipt in cash book not in bank		2,988,146.70
<b>(m) DADP Account</b>		
Unpresented cheques	Shs.	256,000.00

#### **Implication**

Losses of funds are likely to occur if the outstanding balance are not cleared with the bank. Wrong transactions may be included by bank in your accounts.

#### **Recommendation**

Management should ensure that all outstanding items are cleared.

#### 4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Mpwapwa District Council during exit meeting. The Management of Mpwapwa 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  
**Ag. CONTROLLER AND AUDITOR GENERAL**

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## 5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF MPWPWA DISTRICT COUNCIL

