

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



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

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March, 2006

AR/LG/021/2005

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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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
RTB	Regional Tender Board

Financial Statements means:

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

Council means - Kongwa 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 Kongwa 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 Kongwa 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 Kongwa 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.4,255,881,318.86 made up of Shs.190,282,173.86 from own sources, Shs4,042,644,531 from government grants and donors funds and Shs22,954,614 from other revenue.

1.5 Management

The Kongwa District Council operates under directives of the Full Council, which is a supreme body for legislative responsibilities. The Chief Executive for the District Council is the District Executive Director (DED) who is responsible for the day-to-day activities. The Director is assisted by twelve heads of departments who jointly form the Council Management team.

In addition, the structure provides for functional departments namely: Administration and Personnel, Finance and Accounts, Planning and Trade, Education and Culture, Health, Agriculture and Livestock, Water, Roads, Community Development, Co-operatives and lastly Natural Resources.

The pictorial management structure of the District Council is shown as appendix 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 Kongwa 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.190,282,173.86 from own sources against the internal revenue budget of Shs.234,374,000

reflecting a collection shortfall of Shs.44,091,826 or 19%. 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.4,042,644,531 and collected a total amount of Shs.22,954,614 in respect of other revenue making total revenue of Shs.4,255,881,318.86 during the year.

Expenditure

The Council spent Shs.4,562,358,122.34 during the year against total income of Shs.4,255,881,318.86 or 107.2% of total revenue, resulting in overspent amount of Shs.306,476,803.48. however the expenditure of Shs.4,562,358,122.34 is less by Shs.213,790,797.66 when compared with the budget expenditure of Shs.4,776,148,920.

A comparison of the internal revenue of Shs.190,282,173.86 against expenditure of Shs.4,562,358,122.34 (net of depreciation) is only 4% 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 Town 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 previous year's audit recommendations.

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 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,
Kongwa District Council.

RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF KONGWA 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 Kongwa 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 Kongwa 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 Kongwa 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 Kongwa 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.

Limitation of scope and non-compliance with Laws

1. Supporting documents in respect of a total expenditure of Shs.69,810,747 were not available for audit verification.
2. A total of 24 revenue earning receipt books were not produced for audit.
3. Stores worth Shs.16,978,562 were not taken on ledger charge.
4. The amount of total expenditure was understated by Shs.84,636,998.78

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 in respect of the previous year's audit findings have not been received.

3.2 Current year's Audit findings

3.2.1 A total of 24 receipt books issued to various revenue collectors for revenue collections were not produced for audit scrutiny.

Implication

- Revenue collected using these books could not be verified to have been brought to account.
- If the books have been lost, and found by unauthorized persons they could be illegally used.

Recommendation

Management should

- Institute more controls on the receipt books issued for revenue collections.
- Investigate to find out whether the revenue collected was properly accounted for in the books of accounts and banked.
- Trace the books and submit them for audit.

3.2.2 Improperly vouched expenditure Shs.69,810,747

Receipted paylists in respect of payments of wages and allowances amounting to Shs.13,589,067 and receipts acknowledging payments totalling Shs.56,221,680 to various payees were not produced for audit examination.

Implication

It could not be confirmed whether the money paid was received by the bonafide payees.

Recommendation

Management should trace and submit for audit the acknowledgement receipts and the paylists dully receipted for audit scrutiny.

3.2.3 Invoices raised before issuing LPO's Shs.22,619,225

Payments amounting to Shs.22,619,225 were made to two suppliers of goods and services. However, invoices were raised before the relevant LPO's were issued for the respective purchases.

Implication

Genuineness of the invoices raised could not be confirmed.

Recommendation

Management should confirm that the goods/services for which the invoices were raised were properly received.

3.2.4 Purchases not Authorized by Regional Tender Board Shs.98,943,565

A total amount of Shs.98,943,565 was paid during the year for procurement of goods. The Regional Tender Board approval for the purchases was not produced for audit verification.

Implication

It could not be ascertained whether the purchases and expenditures incurred were approved by the RTB.

Recommendation

Management should ensure that in future procurement procedures are followed.

3.2.5 Stores not taken on ledger charge Shs.16,978,562

Stores purchased worth Shs.16,978,562 could not be ascertained to have been taken on ledger charge.

Implication

Delivery and utilization of the stores could not be confirmed.

Recommendation

The District Council management should confirm that the goods purchased were delivered and utilized as planned. In addition references to the relevant ledger folios on which the stores were recorded should be given for audit verification.

3.2.6 Schedule of fixed Assets and Depreciations

Examination of schedule of Buildings revealed that net book value of buildings as at 30th June 2005 was understated by Shs.10,273,007.50 as follows:

Hospital ward constructed during the year 2004/2005 was omitted from the schedule Shs.	10,734,450.00
Surgical building constructed during the year 2004/2005 at a cost of Shs. 21,614,014.50	
But shown in the schedule as Shs. 22,075,457	<u>(Shs.461,442.50)</u>
Value understated Shs.	<u>10,273,007.50</u>

Therefore, the net book value of the buildings as at 30th June 2005 should have been Shs.735,933,565.92 and not Shs.725,660,558.42.

Similarly, the value of additional assets for the year 2004/2005 would have been Shs.418,915,463.62 instead of Shs.408,642,456.12 reported in the schedule.

Implication

The value of fixed assets in the consolidated balance sheet has been understated by the same amount.

Recommendation

The District Council management should adjust the schedule of buildings and depreciation and the consolidated balance sheet taking into account the corrections suggested above.

3.2.7 Long term outlays depreciation

The long term outlays included the following assets:-

Details of Assets	Cost
Banyibanyi bridge	29,000,000.00
Mseta bridge (Shs.34,000,000 + 27,000,000)	61,224,203.50
Pemba Moto bridge	12,000,000
Total Cost	102,224,203.50

These assets, which are long term outlays were depreciated at a rate of 4% annually.

Implication

In Principle long-term outlays are not depreciated and are not liquidated as in the case of other fixed assets.

Recommendation

Management should revise the schedule of bridges depreciation value to show original value of the bridges. In addition, the consolidated balance sheet should be adjusted taking into account these corrections.

3.2.8 Consolidated statement of income and expenditure as at 30th June 2005.

Expenditure

The total expenditure of Shs.3,761,459,800.46 shown in the consolidated statement of income and expenditure would appear to have been overstated by a net amount of Shs.84,636,998.78 as follows:

Department	Expenditure reported (Shs)	Expenditure per Audit	Differences
Finance	31,898,099.30	43,178,099.30	11,280,000.00
Planning	1,277,360.00	1,245,860.00	-31,500.00

Administration	203,586,363.90	108,654,865.12	-94,931,498.78
GS 2 and Above	209,269,790.04	209,287,790.04	18,000.00
Health	612,106,827.99	611,656,827.99	-450,000.00
Community Development	1,823,700.00	1,433,700.00	-390,000.00
Land Administration	1,076,930.00	944,930.00	-132,000.00
Total	1,061,039,071.23	976,402,072.45	84,636,998.78

In view of the above, the result of the statement of income and expenditure is a deficit of Shs.38,324,418.96 instead of the deficit of Shs.122,961,417.74 shown in the statement.

Implication

The surplus has been understated by the same amount.

Recommendation

The variances should be confirmed and the statement adjusted accordingly.

3.2.9 Consolidated Trial Balance as at 30th June 2005

Examination of the consolidated trial balance did not include balances in respect of the following accounts.

Name of Accounts	Account Number
Development Account	6502000002
Dekposit Account	6502000003
Ujenzi Account	6502000004
Elumu Account	6502000005
Afya Account	6502000006
Maji Account	6502000007
Road Fund Account	6502000008
Majosho Account	6502000009
Lorry Account	6502000010
Women Account	6502000015
ASPS Account	6502000016
WAMMA Account	6502000019
DMPP Account	6502000021
DRSP Account	6502000022
Land Survey Account	6502000023
RWSSP Account	6502000024
DWSSF Account	6502000025
NAEP II Account	6502000029
DADPS Account	6502000031

Implication

The correctness of the consolidated trial balance could not be ascertained.

Recommendation

The consolidated trial balance should be revised to include the omitted account balances.

3.2.10 Consolidated Cash flow statement as at 30th June 2005

The consolidated cash flow statement disclosed that the surplus for the year before working capital changes was a deficit of Shs.122,961,417.74. However, examination of the statement of the consolidated income and expenditure as at 30th June 2005 revealed that the deficit amount was Shs.38,324,418.96 instead of that reported in the statement.

Implication

- The deficit reported was overstated by (Shs.84,636,998.78)
- The net cash provided by operating activities would amount to Shs.5,042,591 and not Shs.79,594,406.79 as reported.
- The net cash increase would read Shs.214,496,127.25 and not Shs.299,123,126.03 as reported.

Recommendation

Management should revise the statement after effecting the necessary adjustments.

3.2.11 Outstanding Debtors

According to the balance sheet outstanding debtors were as follows:-

Details of Accounts	Amounts Outstanding
Imprests	4,658,050.00
Salary Advances	8,266,577.85
Deposits	1,000,000.00
Loans	8,683,600.00
Total	22,608,227.85

In addition, according to the ledger account the balance for salary advances was Shs.8,100,977.85 as against Shs.8,266,577.85 reported.

Implication

Funds have been tied up and they are not available for other budgeted activities.

Recommendation

The Council management should ensure that the outstanding debtors are recovered and that outstanding salary advance balance is corrected.

3.2.12 Current Liabilities

Creditors amounting to Shs.74,845,358.81 were still outstanding as at 30th June 2005.

Recommendation

Management should ensure that the outstanding debts are settled.

3.2.13 Fund Receipts Unapplied

Examination the statement of fund receipts unapplied disclosed that the balance of the DADPS account shown in the statement of fund receipt unapplied was Shs.3,480,830. however, the balance of this account according to the ledger account was Shs.3,090,830.

Implication

The balance reported was overstated by Shs.390,000.

Recommendation

Management should effect the necessary adjustments.

3.2.14 Accumulated surplus as at 30th June 2005

According to the ledger accounts the accumulated surplus would read Shs.53,791,388 and not Shs.54,921,388.09 as reported in the consolidated balance sheet as at 30th June 2005.

Implication

The surplus figure was overstated by Shs.1,130,000.09

Recommendation

The balance sheet should be adjusted as necessary.

3.2.15 Balances not posted in the general ledger

The following surplus balances were not traced in ledger accounts.

Account Names	Surplus Balances
Elimu Account	8,419,442.43
Maji Account	485,221.91
Urban Water Account	1,915,360.44
Total	10,820,024.78

Implication

The correctness of the surplus balances reported could not be ascertained.

Recommendation

The omitted surplus balances should included in the ledger accounts.

3.2.16 Outstanding items in Bank Reconciliation Statements.

Bank reconciliation statements for individual accounts as at 30th June 2005 reflected the following outstanding items.

- (a) **Miscellaneous Deposit Account**
Receipts in cash book not in bank Shs.6,549,965.65
- (b) **Afya Account**
 - Receipts in cash book not in bank Shs.838,811
 - Wrong debits in bank statement Shs.10,491,630
- (c) **Road Fund Account**
Receipts in bank not in cash book Shs.5,679,225.41
- (d) **Wanawake Account**
Receipts in cash book not in bank Shs.238,000
- (e) **DMPP Account**
Unpresented Cheque Shs.280,080
- (f) **Land Survey Account**
Payment in cash book not in bank Shs.667,500
- (g) **RWSSP Account**
Payment in cash book not in bank statement Shs.541,750
- (h) **Revenue Account**
 - Receipts in cash book not in bank Shs.6,052,495
 - Payment in cash book not in bank Shs.1,240,400.20
- (i) **NAEP II Account**
Payment in bank not in cash book Shs.39,336
- (j) **DADPS Account**
 - Receipts in cash book not in bank Shs.535,625
 - Payment in bank not in cash book Shs.30,000

Implication

Losses of funds are likely to occur if the outstanding items are not cleared with the bank.

Recommendation

Management should ensure that the outstanding items are cleared.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Kongwa District Council during exit meeting. The Management of Kongwa 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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The Permanent Secretary and Paymaster General,
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5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF KONGWA DISTRICT COUNCIL

