

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF DODOMA 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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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 Dodoma District Council for the year ended 30th June 2005.

Council means - Dodoma 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 Dodoma 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 Dodoma 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 Dodoma 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.5,346,627,479.18 made up of Shs.71,294,561.78 from own sources, Shs.5,275,332,917 from government grants and donors funds.

1.5 Management

The Dodoma 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 Dodoma 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.71,294,561.78 from own sources against the internal revenue budget of Shs.111,036,300 reflecting a collection shortfall of Shs.39,741,738.00 or 35.8%. 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.5,275,332,917.40 making total revenue of Shs.5,346,627,479 during the year.

Expenditure

The Council spent Shs.5,052,264,319 during the year against total income of Shs.5,346,627,479 or 94.5% of total revenue, resulting into unspent amount of Shs.294,363,160. However, the expenditure of Shs.5,052,246,319 is less by Shs.1,550,788,229 or 23.5% compared with budgeted expenditure of Shs.6,603,052,548.

A comparison of the internal revenue of Shs.71,294,561.78 against expenditure of Shs.5,052,264,319 (net of depreciation) is only 1.4% 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 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 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 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,
Dodoma District Council.

RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF DODOMA 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 Dodoma District Council shown on annexure I 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 Dodoma 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 Dodoma 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 Dodoma 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. Payment vouchers and supporting documents in respect of a total expenditure of Shs.127,807,890 were not available for audit verification.
2. Fuel worth Shs.6,612,000 were not taken on ledger charge.
3. Statements of expenditure were not produced to audit to account for a total amount of Shs.28,746,500 paid to two officials for purchase of pharmaceutical items.

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 Outstanding revenue collections Shs.2,020,000

Examination of records relating to revenue collection disclosed that a total amount of Shs.2,020,000 was not yet remitted by revenue collecting agents as at the end of June 2005 as follows:

S/N	NAME OF AGENT	AMOUNT OUTSTANDING
1.	Felix Mhangama	900,000
2.	Tatu Sumbe	<u>1,120,000</u>
	Total	<u>2,020,000</u>

Implication

The total amount of revenue collected as at 30th June 2005 was understated by Shs.2,020,000

Recommendation

Management should ensure that the outstanding revenue is recovered from the collecting agents.

3.2.2 Improperly vouched and unvouched expenditure Shs.127,807,889.96

Examination of payment vouchers for the year under view revealed cases of unsupported and missing payment vouchers amounting to Shs.127,807,889.96 as shown below:

(i)	Improperly vouched expenditure (Missing supporting documents)	Shs. 65,156,408.96
(ii)	unvouched expenditure (Missing payment vouchers)	Shs. 62,651,481.00
	Total	Shs. 127,807,889.96

Implication

The propriety and regularity of the total expenditure of Shs.127,807,889.96 could not be ascertained.

Recommendation

The missing documents should be traced and submitted to audit for verification.

3.2.3 Transfers of funds between accounts Shs.55,811,716

A total amount of Shs.55,811,716 was noted to have been transferred between accounts as follows:

PV	CHQ No.	AMOUNT (SHS)	FROM	TO
3/5/2005	095286	9,963,096	A/C 5	DEPOSIT
50/5/2005	021457	700,000	A/C 5	DEPOSIT
106/3/2005	088327	325,000	A/C 5	DEPOSIT
123/3/2005	088346	9,310,000	A/C 5	DEPOSIT
122/3/2005	088345	348,360	A/C 5	DEPOSIT
1/6/2005	01685	2,000,000	A/C 5	DEPOSIT
13/3/2005	017170	9,695,260	A/C 5	DEPOSIT
148/11/2004	094806	9,970,000	A/C 5	DEPOSIT
8/7/2004	098861	13,500,000	A/C 5	VARIOUS
TOTAL		55,811,716		

The reasons for the transfer of funds between accounts were not explained during the audit.

Implication

The activities/projects for which the transferred funds were budgeted could not be implemented in time.

Recommendation

The funds should be reimbursed to the lending account and confirm that the activities for which the transferred funds were budgeted for were not affected by the removal of funds from the respective accounts.

3.2.4 Stores not accounted for Shs.6,612,000

A total amount of Shs.6,612,000 was spent on procurement of fuel during the financial year ended 30th June 2005 as follows:

PV NO.	LPO	AMOUNT (SH)	A/C NO.	REMARKS
18/9/2005	00705 of 2/9/2004	996,000	5	1,200lts of diesel @ 830
19/9/2005	00706 of 2/9/2005	2,241,000	5	2,700 of diesel @ 830
89/10/2004	01486 of 15/3/2005	1,335,000	5	1,300lts of diesel @ 890
86/4/2005	?	2,040,000	5	2,000lts of diesel @ 1,020
		6,612,000		

Implication

It was not possible to ascertain delivery and proper use of the fuel purchased.

Recommendation

Management should confirm that the stores were delivered, properly accounted for in the stores ledger and utilized as intended.

3.2.5 Questionable payments Shs.34,646,500

Payments amounting to Shs.34,646,500 pertaining to the year under review were noted to be questionable as categorized here under:-

3.2.5.1 Payments from Deposit Account

- (i) An amount of Shs.1,900,000 was paid to Court Broker of P.O Box734, Kondo, being charges for a civil case No.69/2003 involving Dodoma District Council as a defendant. The civil case was in respect of unsettled debts amounting to Shs.94,906,503. The payment was effected out of the deposit account instead of the recurrent account.

Implication

- The expenditure was understated by Shs.1,900,000 and the deposit account was overdrawn by Shs.1,900,000.
- The expenditure was nugatory as no value was received for the money paid.

Recommendation

The amount of Shs.1,900,000 should be reimbursed to the deposit account.

- (ii) A sum of Shs.4,000,000 was paid to Walimu Saving and Credit Society, Dodoma to enable them pay members of SACCOS. The payment was made as a loan from deposit account due to insufficient funds in the SACCOS account. However, it was not confirmed whether the amount of Shs.4,000,000 was recovered.

Recommendation

The amount of Shs. 4,000,000 should be refunded to the deposit account.

3.2.5.2 Payments from Basket Fund

A total amount of Shs.28,746,50 was paid to the Regional Medical Officer and Medical Officer Incharge, Mvumi, to enable them purchase pharmaceutical items from Government Store Department as follows:-

(i) Regional Medical Officer	Shs.	18,730,000
(ii) Medical Incharge (Mvumi)	Shs.	<u>10,016,500</u>
Total	Shs.	<u>28,746,500</u>

However, the statements of expenditure were not produced to account for the total amount of Shs.28,746,500.

Implication

It could not be ascertained whether the funds were properly applied.

Recommendation

The statements of expenditure should be produced for audit scrutiny.

3.2.6 Consolidated Balance Sheet

(i) Debtors Shs.9,353,571.50

The outstanding debtors included imprests and advances amounting to Shs.8,106,571 and Shs.1,247,000 respectively. The total amount of debtors of Shs.9,353,571.50 outstanding as at 30th June 2005 has increased by Shs.7,495,793 or 403 % when compared with the amount of Shs.1,857,778 which was outstanding as at 30th June 2004.

Implication

It appears there is inadequate control in management of imprests and advances.

Recommendation

Management should ensure that all outstanding imprests and advances are cleared.

(ii) Creditors Shs.32,640,347

The balance sheet reflected creditors amount of Shs.31,550,723 being overdue payments to the Local Authority Provident Fund in respect of statutory contribution deductions. Also the current liabilities included Shs.1,089,624 representing sundry creditors.

Implication

Might result in extra charge if interest is imposed on the outstanding debts.

Recommendation

The District Council management should ensure that the outstanding debts are cleared in time.

3.2.7 Government grants not transferred to respective accounts

Shs.124,252,838.83%

The Government grants in respect of personal Emolument amounting to Shs.124,252,838.83 were not yet transferred to the respective bank accounts as at 30th June 2005. The procedure is that such grants are required to be transferred to the respective accounts from which payments are effected.

Implication

The balances of the respective accounts were understated by a total of Shs.124,252,838.83 and the deposit account balance overstated by the similar figure.

Recommendation

Management should ensure that the grants received from the Central Government are disbursed to the respective accounts.

Transfer of funds to depot A/C from Development A/C Shs.20,000,000

A sum of Shs.20,000,000 was transferred to deposit accounts from development account contrary to the financial regulation.

Implication

Implementation of the planned development projects could have been delayed.

Recommendation

Management should ensure that the amount of Shs.20,000,000 has been refunded to the development account and the project(s) for which the funds were budgeted have been completed in time as scheduled.

3.2.8 Bank reconciliation statements

The following items were still uncleared with the bank as at 30/11/2005

- **General Fund Account (Account No.5051200001)**
 - (i) Unpresented cheques Shs. 2,137,717
 - (ii) Receipts in bank not in cash book Shs. 900,000
 - (iii) Receipts in cash book not in bank Shs. 2,954,000
 - (iv) Payment in bank not in cash book Shs. 972,000

- **Deposit Account (Account No.5051200006)**
 - (i) unpresented Cheques Shs.510,000

- **Deposit Account (Account No.5051200003)**
 - (i) Unpresented cheques Shs.1,068,900
 - (ii) Receipts in Cash book not in bank Shs. 130,862

- **Ujenzi Account (Account No.5051200004)**
 - (i) Unpresented cheques Shs. 258,119
 - (ii) Receipts in bank statement not in cash book Shs.2,427,500

- **Education Account (Account No.5051200007)**
 - (i) Unpresented cheques Shs. 49,251,430

- **Health Account (Account No. 5051200011)**
 - (i) unpresented cheques Shs.306,078

- **Maji Account (Account No.5051200013)**
 - (i) Unpresented cheques Shs.842,601

- **Kilimo Extension Account (Account No.5051200023)**
 - (i) Unpresented cheques Shs.2,039,500

Implication

Mispasted transactions, which might lead to losses of cash, might not be acted and dealt with in time.

Recommendation

Management should follow up to ensure immediate clearance of the outstanding balances.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Dodoma District Council during exit meeting. The Management of Dodoma 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 Dodoma District Council - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF DODOMA DISTRICT COUNCIL

