

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



REPORT OF THE CONTROLLER AND AUDITOR GENERAL

**ON THE FINANCIAL STATEMENTS OF KONDOA TOWNSHIP AUTHORITY
FOR THE YEAR ENDED 30TH JUNE, 2005**

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AR/LG/020/2005

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

Financial Statements means:

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

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

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction:

I have completed the audit of Kondoa Township Authority 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

Kondoa Township Authority was established in July 2000 in terms of the provision of sections 5 and 6 of the Local Government Act (Urban 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 (Urban Authorities) Act and the Local Authority financial Memorandum, the Township Authority of Kondoa has the following objectives:

- (a) To maintain and facilitate maintenance of peace, order and good governance within its area of jurisdiction.
- (b) To promote the social welfare and economic well being of all persons within its area of jurisdiction.
- (c) Subject to the national policy and plans for Rural and Urban Development, to further the social and economic development of its area of jurisdiction.
- (d) To take necessary measures to protect and enhance the environment in order to promote sustainable development.
- (e) To give effect to the meaningful decentralizations in political, financial and administrative matters relating to functions, power responsibilities and services of all levels of Local Government Authorities.
- (f) To promote and ensure democratic participation in and control of decision making by people concerned and;
- (g) To establish and maintain reliable sources of revenue and other resources enabling Local Government Authorities to perform other financial accountability of Local Government Authority, their members and employees.

1.4 Financing

The Authority 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. Total Income during the year was Shs.95,753,005 from own sources.

1.5 Management

The Kondoa Township Authority 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 Township Authority is the Town Executive Officer 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 Township Authority is shown as annexure II to this report.

1.6 Brief description of Internal Control System

A system of internal control that should be adopted by councils is given under order 9 through 11 of the Local Authority Financial Memorandum; 1997. The Order requires the finance committee to adopt written procedures for proper control of finances. In addition, the Director and the Treasurer should ensure there is assignment of specific responsibilities to individual officers, an organization chart of the Finance Department, division of responsibilities and periodic rotation of duties. Accountability of all areas of operations by the Director or his designated representative to check effectiveness of the control system is also mandatory. The Authority 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 Kondoa Township Authority 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 Township Authority collected an amount of Shs.91,780,447 from own sources against the internal revenue budget of Shs.95,700,500 reflecting a collection shortfall of Shs.3,920,053 or 4.1%.

Expenditure

The Authority spent Shs.95,890,451 during the year against total income of Shs.91,780,447 or 104.5% of total revenue, resulting in overspent amount of Shs.4,110,004. However, the expenditure of Shs.95,890,451 is less by Shs.45,876,888 as compared with budgeted expenditure of Shs.141,767,339.

A comparison of the internal revenue of Shs.91,780,447 against expenditure of Shs.95,890,451 (net of depreciation) is only 95.7% implying that the District Council can just sustain either its recurrent but not 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 Township Authority.

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 Authority 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 Township Authority, 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: Hon. Mizengo Pinda (MP),
Minister, PMO-RALG.

The Town Executive Officer and Accounting Officer,
Kondoa Township Authority.

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

I have audited the Consolidated Balance Sheet, Consolidated Statement of Income and Expenditure, Consolidated Cash-flow Statement and the related notes and schedules of the Kondoa Township Authority 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 Kondoa Township Authority.

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

Responsibility of the Controller and Auditor General

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

Basis of opinion

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

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

Qualification

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

1. Revenue collected amounting to Shs.5,013,500 has not been accounted for in the books of account.
2. A total of 62 revenue earning receipt books were not produced for audit.
3. A schedule of fixed assets was not made available to support the total value of fixed assets of Shs.19,988,689.75 and the amount of cumulative depreciation of Shs.7,706,463.
4. The amount of sundry Debtors of Shs.8,903,345 has not been supported by a schedule of debtors.
5. There are variances of Shs.3,988,361 and Shs.30,430,422 between the amounts of total collections of revenue and expenditure recorded in the general ledger and those shown in the itemized statements, respectively.

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 Current year's Audit findings

3.1.1 Revenue collections not brought to account Shs.5,013,500

A total of Shs.5,013,500 was collected by various revenue collectors from various sources of revenue. However, acknowledgement receipts, relevant accounting records and banking particulars were not available to confirmed that the revenue collected was properly accounted for in the books of accounts and banked.

Implication

It could not be confirmed whether the revenue collected was properly brought to account.

Recommendation

Management should investigate and take appropriate action.

3.1.2 Revenue earning receipts books not produced

A total of 62 (sixty two) revenue earning receipt books (not quantified) issued to various revenue collectors were not produced for audit.

Implication

It was not possible to verify whether the revenue collected using the unproduced books was brought to account.

Recommendation

The missing receipt books should be traced and submitted to audit for examination.

3.1.3 Outstanding imprests - Shs.1,299,000

Special imprests amounting to Shs.1,299,000 were paid to the following officials for specific purposes:

PV/CHQ No.	NAME OF PAYEE	AMOUNT PAID (SH)	REASONS FOR PAYMENTS
9/11/2004-015075	Mr. Mvula Anthony	644,000	Purchase of revenue receipts books.
10/11/2004-015076	Mr. Benny A. Lemmy	655,000	Purchase of water pump spares.
Total		1,299,000	

It was however, noted that:

- (i) The types and quantity of books to be purchased were not specified on the relevant payment voucher.
- (ii) Description and quantity of spare parts for the water pump to be purchased were also not specified.
- (iii) Delivery of the receipt books and the spare parts could also not be confirmed.

There was no evidence to show that the imprests were retired since the retirement particulars were not made available to audit.

Implication

The propriety of the expenditure of Shs.1,299,000 could not be confirmed.

Recommendation

Management should follow up and ensure that the mprest are retired and give retirement particulars for verification. In addition, management should ensure that the receipt books and the spares were received and taken on charge.

3.1.4 Financial Statements as at 30th June 2005

The Director’s report at page 2 of the financial report was not signed by the Director to show his responsibility of the information contained in the report.

Implication

The information in the Directors report could not be relied upon.

Recommendation

Management should ensure that in future the Director’s report is signed by the Township Executive Officer.

3.1.5 Budget performance

Revenue

During the financial year 2004/2005 the Authority planned to collect revenue amounting to Shs.95,700,500 from own sources. However, the actual collection was Shs.91,780,447 ending with a deficit of Shs.3,920,053 or 4.1 of the total budget.

However, the amount of actual collection of Shs.91,780,447 include a total amount of Shs.11,308,432 which was collected from other revenue and unauthorized sources and for which there was no budget estimates.

	Item Nos	Budget	Actual unauthorized collections.
1	2000-50713	NIL	221,012.00

	(Ushuru wa Mazao)		
2	7000-40303 (Marejesho-Mapato ya Viwanja)	NIL	712,500.00
3	7000-70301 (Mapato mengineyo)	NIL	10,374,920
	Total	NIL	11,308,432 (19%)

In the circumstance the short-fall of revenue collection was Shs.15,228,485 or 16% of the budget estimates.

3.1.6 Over expenditure - Shs.9,930,618

An over expenditure of Shs.9,930,618 or 32.3% of budget estimates was noted under Urban Water Department as a result of an expenditure of Shs.40,690,618 against budget of Shs.40,690,618.

Implication

The budget was not realistic.

Recommendation

Management should ensure that budgets prepared are realistic.

3.1.7 Balance sheet as at 30th June 2005

(i) Fixed Assets

The value of fixed assets was reflected at a total of Shs.19,988,689.75 and the cumulative depreciation stood at Shs.7,706,463.25. However, the related fixed assets register was not produced for audit.

Implication

The correctness of the fixed assets value and that of the cumulative depreciation could not be ascertained.

Recommendation

Management should produce the related fixed assets register to enable verification of the fixed assets and their values as well as the value of the cumulative depreciation.

(ii) Current Assets

Sundry Debtors - Shs.8,903,345.30

A schedule supporting the amount debtors 8,903,345.50 was not enclosed with the financial statements.

Implication

The correctness of the amount of debtors could not be ascertained.

Recommendation

The schedule of debtors should be prepared and submitted to enable verification of the amount of debtors.

(iii) Cash Book balance (Shs.233,183.72)

Cash book balance in respect of account No.6502000023 was a negative balance of Shs.233,183.72 as at 30th June 2005.

Implication

More payments were made than the amount of money available in the account.

Recommendation

Management should ensure that no payments are effected when funds are not available. In addition, management should take appropriate action to clear the negative cash book balance.

3.1.8 Statement of income and expenditure as at 30th June 2005

The correctness of the statement of income and expenditure could not be ascertained because the income and expenditure figures transferred to the statement are different from those reported in the relevant itemized and summarized schedules as follows:-

(i) Income

Nos.	Sources of revenue	Income reported in the schedule and summary	Incomes reported in the statement	Differences
1	Taxes	3,698,015.68	3,776,172.19	-78,156.51
2	Dues	946,038.52	7,473,636.10	-6,527,597.58
3	Licences	3,047,600.00	3,203,600.00	-156,000.00
4	Fees	5,231,000.00	4,951,000.00	280,000.00
5	Water Bills	37,248,950.00	43,286,000.00	-6,037,050.00
6	Miscellaneous revenues	12,374,920.22	12,194,075.01	180,845.21
7	Sale of Authority's property	390,000.00	942,000.00	-552,000.00
8	Compensation	20,743,922.50	19,926,522.25	817,400.25
	Total	83,680,446.92	95,753,005.55	-12,072,558.63

(ii) Expenditure

Nos	Departments	Expenditure reported in	Expenditure reported in the	Differences
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		the schedules and summary	statement	
1	Administration	42,828,074.60	62,384,755.59	-19,556,680.99
2	Finance	11,181,759.25	8,090,198.00	+3,091,561.25
3	Health	490,000.00	925,000.00	-435,000.00
4	Town planning	620,000.00	964,500.00	-344,500.00
5	Water	40,690,618.00	47,280,642.97	-6,590,024.97
6	Trade	20,000.00	235,000.00	-215,000.00
	Total	95,830,451.85	119,880,096.56	-24,049,644.21

Comparably the income and expenditure totals have been overstated by Shs.12,072,558.63 and Shs.24,049,644.21, respectively, in the statement of income and expenditure.

Implication

It is evident that the statement of income and expenditure is not correct.

Recommendation

The statement should be adjusted and re-submitted for audit examination.

3.1.9 Variances between figures reported in itemized statement and General Ledger.

Scrutiny of the general ledger and the itemized statements of income and expenditure disclosed that income and expenditure figures reflected in the itemized statements differed from the ones in the general ledger as follows:

Description	Actual total collections/expenditure per general ledger	Actual total collections/expenditure reported in the accounts	Difference
Revenue	94,545,296.31	90,556,935.42	3,988,360.89
Expenditure	119,095,196.37	88,644,773.85	30,430,422.52

Implication

The accounts seem to be incorrect.

Recommendation

The variances should be reconciled and the statements adjusted.

3.1.10 Cash flow statement

In view of anomalies raised in the above observations questioning the correctness of the amounts of revenue collected, expenditure incurred,

debtors and fixed assets, the results of the cash flow statement do not appear to be correct.

Implication

Since the amounts of income, expenditure, depreciation and debtors have material effect on the cash flow statement; the statement cannot be verified as correctly presented.

Recommendation

Necessary adjustments should be made and the cash flow statement be revised and submitted to audit for verification.

3.1.11 Bank reconciliation statements as at 30th June 2005

According to the bank reconciliation statement for account No.6502000023 the following items were not cleared with bank.

- (i) Deposits in transit Shs.2,000.00
- (ii) Unpresented cheques Shs.512,000.00

In addition, schedules supporting the balances were not enclosed with relevant bank reconciliation statements.

Recommendation

The outstanding items should be cleared with the bank.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Kondo Township Authority during exit meeting. The Management of Kondo Township Authority 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 Kondo Township Authority - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF KONDOA TOWNSHIP AUTHORITY

