

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF MONDULI 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

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 Monduli District Council for the year ended 30th June 2005.

Council means - Monduli 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 Monduli District Council for the year ended 30th 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

Monduli District Council was established in 1984 in accordance with the provisions of section 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 Monduli 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.3,618,350,189 made up of Shs.269,439,214 (includes compensation of abolished tax) from own sources and Shs.3348910975 from government grants.

1.5 Management

The Monduli 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 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 Monduli 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.269,439,214 from own sources against the internal revenue budget of Shs.320,364,474 reflecting a collection shortfall of Shs.50,925,258 or 16%. In addition the Council received grants amounting to Shs.3,348,910,975 making total revenue of Shs.3,618,350,189 during the year.

Expenditure

The Council spent Shs.3,793,327,594 during the year against total income of Shs.3,618,350,190 causing a deficit of Shs.174,977,404. 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.269,439,214 against expenditure of Shs.3,725,279,051 (net of depreciation) is only 7.2% 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 Public Finance 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 auditors we are not required to search specifically for fraud; therefore our audit cannot be relied upon to disclose all such matters. However, our 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,
Arusha Region.

District Executive Director and Accounting Officer,
Monduli District Council.

RE: **INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
MONDULI 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 Monduli District Council shown on Annexure I of this report for the financial year ended on 30 June 2005.

Responsibility of Council Management on the financial statements

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

Opinion

In my opinion, the financial statements fairly reflect, in all material respects, the financial position of Monduli District Council as at 30th June 2005 and the results of its 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, the procurement of medical and scientific equipments, road rehabilitation, construction of school, pipe water and keep borehole, was generally done in accordance with the Public Procurement Act No.21 of 2004.

Matters of emphasis

Without qualifying my opinion, I wish to point out the following matters for the attention of the full Council:

- (a) The audit revealed the absence of 47 revenue receipt books comprising 35 fixed fee receipt books and 12 open receipt books. This practice is likely to cause a loss of Council's revenue.
- (b) Unvouched and Improperly Vouched expenditures shs.18,173,582 out of this figure shs.16,850,582 was not supported by the relevant documents and the balance is a figure whose payment vouchers were not found for Audit perusal.

The details on these matters are given in Part 3 of this report.

Dr. Frank Mosses Hiza Mhilo
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.

No outstanding matters from the previous years.

3.2 Current year's Audit findings

3.2.1 Missing revenue earning receipt books - 47 books

A total of 47 revenue earning receipt books comprising of 35 fixed fee receipt books valued Shs. 1,310,000 and 12 open receipt books, could not be produced during inspection as summarized hereunder.

(i) Fixed fees receipt books - 35 books

Year	Type of Book	No of Books	Rate (Shs)	Value (Shs)
2004	Ushuru wa soko	4	20,000	80,000
2005/6	Ushuru wa soko	16	20,000	320,000
2004/5	Ushuru wa mifugo, ng'ombe	1	200,000	200,000
2004/5	Ada ya machinjio, mbuzi	2	25,000	50,000
2004/5	Ushuru wa mifugo mnadani	1	60,000	60,000
2005/6	Ushuru wa mifugo mnadani	5	60,000	300,000
2004/5	Ushuru wa soko b/madukani	3	50,000	150,000
2005/6	Ushuru wa soko b/madukani	3	50,000	150,000
	Total	35		1,310,000

(ii) Open receipt books - 12

Year	Type of books	No of books
2004	Subsidiary official receipt	6
2004/5	Subsidiary official receipt	6
	Total	12

Implication

The accountability of the revenue collected on these books could not be verified.

Recommendation

The Council should make efforts to ensure that all the missing receipt books are traced and submitted for audit examination and effective controls are operated on collection of Council revenue.

(ii) Unvouched and Improperly Vouched Expenditure
Shs.18,173,582.93

Payment vouchers for the transactions amounting to Shs. 1,323,000 were missing in the relevant batches.

Further, payments amounting to Shs. 16,850,582.93 were not supported by relevant documents.

Implication

The authenticity of the expenditure could not be confirmed in the absence of Payment Vouchers and supporting documents.

Audit recommendation

The missing payment vouchers and supporting documents worth Shs.18,173,582.93 should be traced and made available for inspection. In addition, the Council management should ensure adequate storage of accounting documents.

(iii) Loans - Shs.1,908,000

Loans amounting to Shs. 1,908,000 were granted to various women and youth groups. However, the amount could not be confirmed to have been recovered/reimbursed since the loans register/ ledger and the reimbursement particulars were not submitted when called for, as detailed hereunder:-

Details are as here under:

PV No.	Amount (Shs)	Name of group
2/8	500,000	Jiendeleze Vijana Group
3/8	308,000	Sebaju Vijana Group
4/8	100,000	Juakali Vijana Group
5/8	500,000	Beda Jackson Kikoti
6/8	500,000	Tuvumiliane group
Total	1,908,000	

Implication

Due to failure to recover the amounts on Loan, other groups may fail to secure loans from the fund.

Recommendation

The management should take action towards recovery of the amounts and furnish the respective information for audit verification.

(iii) Overpayments of arrears of salaries Shs.1,211,356

A review of payrolls revealed that salaries of two staff for the month of January, 2005 was overpaid to the tune of Shs. 1,211,356 as shown below:

Name	Check no.	Total Arrears (Shs)	Actual paid (Shs)	Amount overpaid (Shs)
Enoth B. Kissiri	507/9904961	243,128	469,144	226,016
Mariam M. Kimolo	504/8927509	985,340	1,970,680	985,340
Total		<u>1,228,468</u>	<u>2,439,824</u>	<u>1,211,356</u>

Implication

The Council is weak in internal controls over salary payments.

Recommendation

The management is urged to recover the amount overpaid to the respective staff and submit the recovery particulars for audit verification. Also controls over expenditures should be reviewed.

(v) Stores not accounted for - Shs.12,291,250.00

Stores worth Shs.12,291,250.00 were ordered and paid for. However, the stores were not accounted for in the stores ledgers. It could not be ascertained whether the items were actually delivered and properly utilized as intended.

Implication

There could be loss of stores.

Recommendation

Accountability and utilization of the stores worth Shs.12,291,250.00 Should be submitted to audit.

(vi) Questionable issue of fuel Shs. 2,783,600

A total of 3100 Lts of fuel worth Shs.2,783,600 were noted to have been issued to various Council vehicles. However, a test check of log books revealed that fuel recorded in the log books differed with the quantity issued.

Implication

There is a risk of misuse of fuel.

Recommendation

Utilization of fuel worth Shs. 2,783,600 should be confirmed. Also procedures of stores should be observed.

(vii) Goods paid for not supplied - Shs.668,800

A total amount of Shs.6,558,400 was paid to M/s National Printing and M/s Bhaganga General Supplies for the supply of various stores as per LPO No. 00772 of 10/6/2005 and 00539 of 19/10/2004 respectively.

Stores worth Shs.668,800 were not supplied as shown below:

Account	PV No.	Amount	Items not Supplied	Value (Shs)
G/Fund	122/6	908,400	200Ea market Dues books @ Shs 844	168,800
Health	10/11	<u>5,650,000</u>	10pcs curtain box @ 50,000	<u>500,000</u>
Total		<u>6,558,400</u>		<u>668,800</u>

Implication

The Council does not abide to the procurment Act and related regulations.

Recommendation

Delivery of the items should be confirmed and the management of the Council has to observe Public Procurement Act and related regulations.

(viii) Apparent overpayment - Shs.1,962,500

A total amount of Shs. 1,962,500 was paid over and above the tender prices to various suppliers for the supply of firewood and flour milling as shown below:

Pv No.	Amount (Shs)	Payee	Items supplied	Amount payable (Shs)	Difference (Shs)
11/10	864,500	Irene Onesmo	91tons firewood	455,000	409,500
25/11	650,000	Rose Mollet	Flour Milling 13,000kg	520,000	130,000
9/12	266,000	Irene Onesmo	28tons firewood	140,000	126,000
10/12	670,000	Rose Mollet	Flour Milling 13,400kg	536,000	134,000
12/12	266,000	Irene Onesmo	28tons firewood	140,000	126,000
35/3	532,000	Irene Onesmo	56tons firewood	280,000	252,000
34/3	610,000	Rose Mollet	Flour Milling 12,200kg	488,000	122,000
82/5	740,000	Rose Mollet	Flour Milling 14,800kg	592,000	148,000
84/5	532,000	Irene Onesmo	56tons firewood	280,000	252,000
64/6	399,000	Irene Onesmo	42tons firewood	210,000	189,000
67/6	370,000	Rose Mollet	Flour Milling 7,400kg	296,000	74,000
Total	5,899,500			3,937,000	1,962,500

In view of the above, the amount payable was Shs.3,937,000, an apparent overpayment of Shs.1,962,500

Implication

There is no control over tender payments.

Recommendation

The amount should be recovered from the suppliers.

(ix) Bank reconciliation statements**Items not cleared**

The Bank reconciliation statements submitted along with the accounts disclosed a number of outstanding items, which were not cleared as at the time of audit i.e. December 2005.

Receipt in cash book not in bank statement - Shs.1,311,480.20

Account	Amount (Shs)
Works	40,000.00
Education	609,000.00
House maintenance	300,879.20
Urban Water	88,800.00
Transport pool	<u>272,801.00</u>
Total	<u>1,311,480.20</u>

(x) Outstanding overdrawn deposits Shs.14,085,442

The following deposits were overdrawn to the tune of Shs. 57,343,648.03 at the time of writing. However, shs.14,085,442.42 was still outstanding as follows:-

Item	Amount overdrawn
Education Fund	3,050,000.00
Reform Fund	1,091,842.10
ALAT (T)	1,806,800.00
ADB	4,483,650.00
Fedha za UKIMWI	1,000,000.00
Miradi ya maendeleo	2,000,000.00
Fidia ya mapato	<u>653,150.32</u>
Total	<u>14,085,442.42</u>

Implication

There is no internal control over budgets.

Recommendations

The Council has to observe what was planned and spend accordingly.

**(xi) Outstanding Debtors (Shs.70,148,785) and Creditors
(Shs.27,178,304)**

The financial statements disclosed the existence of outstanding debtors amounting to shs.70,148,785 and creditors amounting to Shs. 27,178,304 as shown below:

SHS.		
Debtors	Imprests	32,909,872
	Advances	10,575,333
	Staff Loans	<u>26,663,580</u>
	Total	<u>70,148,785</u>

SHS.		
Creditors	Staff Creditors	19,689,068
	Sundry Creditors	7,489,237
	Total	27,178,305

Nevertheless, the accounts did not include details of the individual Debtors and creditors with age analysis. Moreover, the Council did not state its policy on Debtors and Creditors and no provision for bad and doubtful debts was made.

Implication

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

Recommendation

The management is advised to improve debts collection efforts and timely settlements of Council's liabilities.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Monduli District Council during exit meeting. The Management 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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DODOMA.

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5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF MONDULI DISTRICT COUNCIL

