

**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE (NAO)**



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

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AR/LG/001/2005

## 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

Financial Statements means:

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

Council means - Arumeru 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 Arumeru District Council for the year ended 30<sup>th</sup> June 2005. Audit findings arising from examination of accounting records 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 Arumeru District Council was established in 1984 in terms of the provision 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 the Local Government (District Authorities) Act, the Council of Arumeru District 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.7,070,158,268 made up of Shs.259,885,102 from own sources and Shs.6,810,273,166 from government grants.

## **1.5 Management**

The Arumeru 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 Arumeru 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 Sh. 259,885,102 from own sources against the internal revenue budget of Sh.407,542,400 reflecting a deficit of sh.158,572,800. In addition the Council received grants amounting to

Sh.6,810,273,166 making total revenue of Sh.7,070,158,268 during the year. The internal revenue comprises only 3% of the total funds collected.

### **Expenditure**

The Council spent Sh.7,163,590,155 during the year against total approved budget of Sh.7,184,060,456 or less. However, the Council closed its accounts with a deficit of sh.93,431,887 of total revenue.

A comparison of the internal revenue of Sh.259,885,102 against total expenditure of Sh.7,163,590,155 (net of depreciation) is only 3.6% 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 statutory auditor of all government offices including Local Authorities.

### **1.9 Audit objectives**

The main objective of carrying out the audit is to enable me to express an independent opinion on the financial statements of the District Council for the year ended 30<sup>th</sup> June, 2005 and in particular:-

- To determine whether transactions were executed in accordance with the financial regulations, and recorded properly in the books of account for easy preparation of the financial statements.
- To determine whether the revenues due have been collected and used to meet expenses as per approved budget and governing regulations.
- To ascertain whether all supporting documents, records and accounts have been properly kept in respect of all District Council activities.
- To verify whether goods and services bought were acquired through laid down procedures.
- To perform compliance tests to confirm whether management complied in all material respects with regulations.
- To evaluate whether the internal control procedures instituted are effective to provide relevant and reasonable information to the management, for implementing and monitoring activities and that the assets of the authority are adequately safeguarded against losses from unauthorized use or disposition.
- To verify whether the Council has implemented audit recommendations made in previous audits.

## **1.10 Audit Scope**

The audit was carried out in accordance with the International Standards on Auditing. The audit covered the evaluation of effectiveness of the financial accounting system and Internal Control over the activities of the 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,  
Arumeru District Council.

RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF  
ARUMERU DISTRICT COUNCIL FOR THE YEAR ENDED ON  
30<sup>TH</sup> JUNE 2005

I have audited the Consolidated Balance Sheet, Consolidated Statement of Income and Expenditure, Consolidated Cash-flow Statement and the related notes and schedules of Arumeru District Council shown as 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 Arumeru 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 Arumeru 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 Arumeru District Council as at 30<sup>th</sup> 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 fuel, office furnitures and office supplies 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:

1. Eleven motor vehicles received from the government and donors were not included in the balance sheet.
2. The Council did not collect Tshs.18,988,600 from its agencies.
3. The refund amounting to 7,735,180 resulting from procurement of a motor vehicle is not yet effected.

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

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Office of the Controller and Auditor General  
The National Audit Office  
**DAR ES SALAAM.**

31 March 2006.

### **3.0 AUDIT FINDINGS AND RECOMMENDATIONS**

#### **3.1 Follow up of previous audit findings**

**3.1.1** All matters raised in the previous year's management letter were dealt with satisfactorily and have been closed.

#### **3.2 Current year's findings**

##### **3.2.1 Financial Controls**

**(i) Missing Revenue Earning receipt books (2 books)**

The following receipt books were not made available during audit inspection.

- Serial Nos. 319551-600
- Serial Nos. 319701-250

**Implication**

There is inadequate control over the accountable documents contrary to the requirement of order No.95-105 of LAFM (1997).

**Audit recommendation**

The management should make efforts to trace the missing books and abide to the requirements of laws.

**(ii) Accrued Revenue from Council's Agencies not collected - Shs.18,988,600**

Scrutiny of the revenue control register in respect of collections made by Agents to collect revenue from markets, abattoir and sand/morrum, revealed that a total amount of Shs.18,988,600 was not remitted/paid over to the Council during the period 01/02/2004 - 30/06/2005.

**Implication**

There is laxity in the collection of the Council's revenue.

**Audit recommendation**

Efforts should be made in collection of the Council's revenue to meet estimates.

#### **EXPENDITURE**

**(iii) Unvouched and improperly vouched expenditure - shs.1,533,000**

**(a) Unvouched Expenditure - Shs.660,000**

Payment vouchers amounting to Shs.660,000 in respect of Education account were not produced for audit inspection.

**Implication**

Authenticity of the total expenditure reflected in the statement could not be confirmed.

**Audit recommendation**

The management should make further efforts to trace the missing payment vouchers for examination. Copies of the paid vouchers should also be batched separately.

**(b) Improperly Vouched Expenditure - Shs.873,000**

Expenditure totaling to Shs.873,000 had no supporting documents

**Implication**

Authenticity of a payment is questionable where supporting documents are missing.

**Audit recommendation**

The management is further urged to keep the supporting documents properly. Further, the above missing documents should be submitted to audit for verification.

**(iv) Procurement of goods and services****Stores not accounted for - Shs.3,500,000**

Fuel purchased from M/s BP Great North Service station worth Shs.3,500,000 was not accounted for.

**Implication**

Stores purchased may have not been delivered to the Council. This contradicts stores requirements as per part XI of LAFM (1997).

**Audit recommendation**

The management is urged to submit utilization account of fuel worth Shs.3,500,000. Stores regulations should also be observed.

**(v) Unrecovered Loans - Shs.7,566,227**

Recovery particulars of the outstanding loans pertaining to Women and Youth Development groups totaling Shs.7,566,227 have not been furnished as at the time of audit inspection.

**Implication**

The fund can not have enough money to issue loans to others if recovery of loans is not done as scheduled.

**Audit recommendation**

The management should take effective action to recover the outstanding balances.

**(vi) Pay and Allowances**

**(a) Questionable payments of Medical expenses to Councilors  
Shs.1,835,000**

A total amount of Shs. 1,835,000 was made to various Councilors to meet medical treatment expenses at private Hospitals and Dispensaries.

However, the payments were not supported by Doctors' prescription forms.

**Implication**

Authenticity of a payment is questionable where supporting documents are missing.

**Audit recommendation**

- Doctors' prescriptions should be produced by claimants prior to payment of the amounts.
- The management should establish any doubtful cash sales produced and recover the amounts.

**(b) Advances to Councilors - Shs.190,000**

The monthly allowances amounting to Shs.190,000 was advanced to two Councilors pending refund in the subsequent months.

However, the amount was still outstanding as at the date of inspection.

**Implication**

There is no control over recoveries of advances.

**Audit recommendation**

The internal control over the advances should be observed and the above allowances be recovered.

**(c) Overpayment of outstanding claims - Shs.829,650**

An amount of Shs.829,650 was made to one officer for settlement of outstanding claims relating to transfer allowances and motivation for revenue collection.

However, audit scrutiny of the personal file revealed that an amount of Shs.829,650 had previously been paid as shown below:-

Details	Amount Claimed (Shs)	Amount Previously Paid (Shs)	Personal File reference (file)
Transfer from Sumbawanga to Arumeru	1,345,000	200,000	32
Motivation for revenue collection	1,040,650	549,650	33
To ferry personal effects from Sumbawanga	1,300,000	-	34
Motivation for revenue Collection	80,000	80,000	35
Motivation for revenue Collection	575,850	-	
- do -	<u>400,000</u>	<u>-</u>	
<b>Total</b>	<b><u>4,741,500</u></b>	<b><u>829,650</u></b>	

#### Implication

There is risk for double payment.

#### Audit recommendation

The management should ensure that the amount of Shs.829,650 overpaid is recovered from the officer.

#### (vii) Outstanding balance not refunded - Shs.7,735,180

##### Health Account

Pv. No	Amount (Shs)	Cheque No	Date
8/11	29,985,680	086850	5/11/2004
38/1	<u>3,647,000</u>	087038	19/1/2005
<b>Total</b>	<b><u>33,632,680</u></b>		

The above payments were made to M/s UNICEF - TZ for the purchase of one Toyota Land Cruiser Ambulance Hard Top for Arumeru District Hospital, vide purchase order No. 03301 of 2/11/2004.

However, a Land rover defender worth Shs.25,897,500 was subsequently delivered.

The difference amount of Shs.7,735,180 has not been refunded thereof.

**Implication**

This may cause loss of Council's money if the refund is not affected.

**Audit recommendation**

The management is urged to make a follow up for refund of the amount involved.

**(viii) Consolidated Balance Sheet.****(a) Fixed Assets**

Eleven (11) Motor Vehicles received by the Council from the Central Government, SIDA and the World Bank were not valued.

**Implication.**

Omission of their values in the financial statements.

**Recommendation**

The managements should ensure that the values of the said vehicles are obtained from the issuing offices.

**(b) Sundry debtors - Shs.53,353,983**

The debtors amounting to Shs.53,353,983 were outstanding as shown below:-

<b>Category</b>	<b>Amount (Shs)</b>
Salary advances	2,660,050
Imprests	4,737,450
Other debtors	<u>45,956,483</u>
<b>Total</b>	<b><u>53,353,983</u></b>

However, the accounts did not include details of the individual debtors with age analysis. Moreover, the Council did not state its policy on debtors and no provisions for doubtful or bad debts were made.

**Implication**

Lack of age analysis limits, assessment of recoverability of debts. Also the existence of such large outstanding debtors implies the lack of serious efforts by the Council to have these amounts collected.

**Recommendation**

The management has to ensure that debts are timely collected.

(c) **Creditors - Shs.225,554,255.31**

The following Council creditors totaling to Shs.225,554,255.31 were still outstanding:-

Sundry creditors	Shs.	162,355,095.46
Deposits	"	<u>63,199,159.85</u>
<b>Total Shs.</b>		<b><u>225,554,255.31</u></b>

However, the accounts did not include details of the individual Creditors with age analysis. Moreover, the Council did not state its policy on creditors.

**Implication**

This implies that, Council's delay in settling such bills consequently may tarnish the existing good image of the Council in face of related third parties.

**Recommendation**

The management is urged to settle its liabilities as they fall due so as to maintain good relationship with third parties.

**4.0 CONCLUSION**

The detailed audit findings presented above have been communicated to the management of the Arumeru District Council during exit meeting. The Management of Arumeru 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. Francis Mosses Hiza Mhilu  
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## 5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF ARUMERU DISTRICT COUNCIL

