

**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE (NAO)**



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

The Controller and Auditor General  
National Audit Office  
Samora Avenue / Ohio Street  
P.O. Box 9080  
Tel: 255 (022) 2115157/8  
Fax: 255 (022) 2117527/2255333  
E-mail [ocag@nao.or.tz](mailto:ocag@nao.or.tz)  
Dar es Salaam, Tanzania

March, 2006

AR/LG/002/2005

## 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.

© This audit report is intended for use by government authorities. However, upon receipt of the General Report of the CAG by the Speaker, this report is a matter of Public record and its distribution may not be limited.

## Table of Contents

	Page
1.0 Background information to the audit	5
1.1 Introduction	5
1.2 Brief history of the client establishment	5
1.3 Operational objectives	5
1.4 Financing	5
1.5 Management structure	5-6
1.6 Brief description of internal control system	6
1.7 Financial performance issues	6
1.8 Audit mandate	7
1.9 Audit objectives	7
1.10 Audit scope	7-8
1.11 Audit methodology	8
1.12 Presentation of audit findings	8
2.0 Audit report on the financial statements	9-10
3.0 Audit findings and recommendations	11
3.1 Follow up of previous year's Audit findings	11
3.2 Current year's findings	11
3.2.1 Financial controls issues	11-17
4.0 Conclusion	17
5.0 Annexures	18
I. Financial Statements and Notes to the Financial statements	
II. Organisation Structure	

## 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
HIPC	Highly Indebted Poor Countries
IFMS	Integrated Financial Management System
IG	Investment Grant
LGA	Local Government Authorities
LGRP	Local Government Reform Programme
NGO	Non-governmental Organisation
MoF	Ministry of Finance
OCAG	Office of the Controller and Auditor General
PER	Public Expenditure Review
ISA	International Standards of auditing
PO-RALG	President'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 Arusha Municipal Council for the year ended 30<sup>th</sup> June 2005.

Council means - Arusha Municipal Council, both as Councillors as well as an operating entity.

## **1.0 BACKGROUND INFORMATION TO THE AUDIT**

### **1.1 Introduction**

I have completed the audit of Arusha Municipal 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 Arusha Municipal Council was established in 1984 in terms of 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 the Local Government (District Authorities) Act the Arusha Municipal Council of Arusha 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.

### **1.4 Financing**

The Council has two sources of funds; which are own source and external source. The Internal source included collection of Public funds through, taxes, fees, License and charges. On the other hand external source include subsidies from central government, grant and loans donor community. Total Income during the year was Shs.5, 742,209,716 made up of Shs.1, 967,107,030 from own sources and Shs.3,775,102,686 from government grants.

### **1.5 Management**

The Arusha Municipal 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 Municipal Council is the Municipal Director who is responsible for the day-to-day activities. Under the Municipal Director there are ten heads of department who are sub-accounting officers and one legal advisor.

The pictorial management structure of the Municipal 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 Municipal Director and the Treasure 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 Municipal Director or his designated representative to check effectiveness of the control system is mandatory. The Council is also 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 Arusha Municipal Council complies with the statutory requirements, but is lacking an effective Audit Committee which is part of transparency and good governance, Nevertheless weakness arises from review of internal control system are included under part 3 of this report.

## **1.7 Financial performance**

### **(i) Out-turn**

The account for the year ended 30<sup>th</sup> June 2005 closed with a surplus balance of Shs.3,195,881 arising from the total income of shs.5,742,209,716 against total expenditure of Shs.5,739,013,835 during the period under review.

### **(ii) Revenue**

Out of the budget from own source of Shs. 2,307,194,000 for the year 2004/05, Shs.1,967,107,030 was collected resulting in a shortfall of Shs.340,086,970.

## **1.8 Audit Mandate**

By virtue of the provision 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 appointed auditor of all government revenues and expenditure, including the revenues and expenditures of this Municipal 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 Municipal 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 accounts 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 governing regulations.
- To ascertain whether all supporting documents, records and accounts have been properly kept in respect of all Municipal 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 Municipal 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 auditing the financial statements together with their underlying records, the following principal 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.

Municipal Director and Accounting officer,  
Arusha Municipal Council,

### **RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF ARUSHA MUNICIPAL 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 the Arusha Municipal Council 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 Arusha Municipal 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 attention 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 Arusha Municipal Council, consistently applied and adequately disclosed, evaluating the overall financial statements 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 Arusha Municipal Council as at 30<sup>th</sup> 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.

Further to my opinion, the procedures applied for procurement of office supplies and works were generally done in accordance with Public Act No.21 of 2004 and the related regulations.

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 RECOMMENDATION**

#### **3.1 Follow up of previous year's audit findings**

All matters have been replied satisfactory and cleared by audit.

#### **3.2 Current years audit findings ‘**

##### **3.2.1 Financial Control**

###### **(i) Weakness in internal control system**

The evaluation of Internal control systems of Arusha Municipal was found weak in the following aspects:

- Imprests were granted to Council officials without retirement of the previous imprests issued.
- Records on death, termination and officials on half pay were not properly maintained. As a result, audit trail on payroll could not be properly established.
- Council employees were paid extra duty allowances without prior application to work overtime. Therefore the authenticity of allowances paid for could not be confirmed.

###### **Implication**

Weakness in the internal control system can lead into misleading financial statements prepared from wrong books of accounts.

###### **Recommendation**

The Council's management should strengthen the system of Internal Controls so as to have a correct platform for correct financial statements.

###### **(ii) Missing Revenue Earning Receipt books- (4 books)**

4 Receipt books for property tax were not returned to the Council as at the time of Audit.

###### **Implication**

This may lead the Council into a loss of Revenue and create room for misappropriation of Council funds.

###### **Recommendation**

Revenue collection is a risk area which need strong and effective controls. Therefore the Council's management has to Review the controls in place and protect Council's revenue. The missing books should be produced for audit purpose.

**(iii) Uncollected Revenue from Council's Agencies Shs.3,850,000**  
Examination of Council Agencies register and other related records revealed that revenue amounting to Shs. 3,850,000 collected by various agencies has not been remitted to the Council. The collections were in respect of market dues and public toilets operation.

**Implication**

There is laxity in the collection of Council's revenue which may lead the Council into loss of revenue.

**Recommendation**

The management should make efforts to recover the amounts from the respective agencies. Also it has to develop a system of collecting its revenues timely.

**(iv) Revenue collections not accounted for - Shs.770,000**

Revenue collections amounting to Shs.770,000 though receipted by the main cashier have not been banked.

**Implication**

There is obvious violation of the provisions of Local Authority financial/Memorandum (1997).

**Recommendation**

The management should institute controls to ensure that all amounts collected are properly accounted for. The amount in question should be banked accordingly.

**(v) Uncollected revenue from Mbauda Market**

During the period from February 2004 to July 2005 the Council did not collect any revenue emanating from market dues at Mbauda market, which affects revenue collection targets.

**Implication**

The Council is weak in collecting revenues, which affects the Councils revenue generation capacity.

**Recommendation**

The Council has to abide to the budgetary provisions, and ensure that all moneys due to the Council are collected.

**(vi) Unvouched and Improperly Vouched Expenditure  
Shs.8,033,300**

Expenditure amounting to Shs.7,033,300 could not be vouched as the respective payment vouchers were missing. Further expenditure amounting to Shs.1,000,000 had no supporting documents.

**Implication**

Authenticity of the expenditure reflected in the financial statements could not be confirmed since vouchers and supporting documents are missing.

**Recommendation**

The missing payment vouchers and supporting documents should be traced for examination. Also controls should be in place for proper documentation of the transactions.

**(vii) Irregular transfer of fund - Shs.6,432,000**

The Council transferred a total amount of Shs.6,432,000 from Miscellaneous Deposit and General Fund accounts to General Election account without proper authority as under:-

From	Cheque No	Amount ( Shs)
Mis. Deposit A/C	089033	3,932,000
MiFC Deposit A/C	089037	1,000,000
General Fund A/C	088563	1,500,000
<b>Total</b>		<b>6,432,000</b> =====

**Implication**

There is no budgetary control hence some of budgeted activities may remain not executed.

**Recommendation**

The management should ensure that the amount is paid back to respective accounts, and in future, budgets have to be complied with

**(viii) Outstanding Imprests - Shs.3,224,000**

Imprests totaling Shs.1,654,000 remained outstanding as at the date of inspection.

In addition, imprests amounting to Shs.1,570,000 were also not recorded in the respective register. Hence, retirement particulars could not be established.

**Implication**

There is no control over the issue and accountability of imprests. This may lead into loss of Council monies and misappropriation of the same.

### **Recommendation**

Accountability over the imprests should be strengthened and compliance to the requirements of Local Authority financial memorandum (1997) is called for.

#### **(ix) Loans not recovered - Shs.9,563,631**

Loans totaling Shs.24,990,000 were granted to the newly employed teachers from Education account.

However, out of the amount loaned, Shs.15,426,369 has been recovered leaving an out standing balance of Shs.9,563,631.

### **Implication**

The Council has not been effective in loan advances and recoveries.

### **Audit Recommendation**

The management should account for recoveries of the outstanding amounts and review the procedures of loan advances and recovery.

#### **(x) Payment made on behalf not refunded - Shs.4,610,000**

An amount of Shs.4,610,000 was paid from MUPO account to one officer of the Municipal, while proceeding to Singida, Tabora and Sumbawanga Councils to conduct special audit assignment regarding refund of revenue emanating from plot fees. The work was initiated by the Ministry of Human Settlement and Land Development vide letter ref. No. LD/200256/AD dated 14<sup>th</sup> March 2005.

However, the amount has not been refunded as per para 3 of the said letter. Council bill No. 0454 dated 26/8/2005 also refers.

### **Implication**

Lack of effective communication with other offices and follow-up of settlement of bills.

### **Recommendation**

The management should make efforts to recover the amount.

#### **(xi) Loans to Women groups not refunded - Shs.2,080,000**

Various Women groups were issued with loans, all totaling to Shs.5,700,000 under the agreement that the principal amount and 10% interest thereon should be recovered in six months time.

However, a total amount of Shs.2,080,000 had not been recovered

### **Implication**

There is a risk that the amount may not be recovered if prompt action is not taken.

### **Recommendation**

The management is urged to recover the amount from the respective groups.

#### **(xii) Stores not accounted for - Shs.1,685,000**

Stores including motor vehicle spare parts all totaling Shs.1,685,000 purchased during the year could not be confirmed to have been accounted for as the relevant documents such as ledger, distribution lists etc were missing.

### **Implication**

Stores paid for were not delivered to the Council; the Council may lose more money through this practice if not controlled.

### **Recommendation**

Accountability of stores and distribution account should be produced.

#### **(xiii) Final financial statements**

The final financial statements as at 30<sup>th</sup> June, 2005 reflected the following outstanding balances:-

### **Balance Sheet**

#### **(a) Debtors - Shs.214,566,157**

<b>Category</b>	<b>Amount (Shs)</b>
Salary Advances	648,740
Imprests	603,800
<b>Sundry Debtors:-</b>	
Collecting Agents	3,850,000
House Rents	58,778,674
Service Levy	44,868,473
Hotel Levy	6,277,000
Property Tax	<u>99,539,470</u>
<b>Total</b>	<b><u>214,566,157</u></b>

There was no age analysis of debtors and no Council policy regarding treatment of long outstanding debtors accounts.

### **Implication**

The debtors items above signifies that the Council is not effective in debt collection which may lead into loss of Council funds including revenue. Also, lack of age analysis limits assessment of bad and doubtful debts.

### Recommendation

The Council management has to put more efforts in collection of revenue outstanding especially property tax, house rents and service levy.

#### (b) Creditors Shs.135,502,148

Category	Amount (Shs)
Sundry creditors	22985387
deposit	106,423,376
Loan (LGLB)	6,093,385
	<b>135,502,148</b>
	=====

The accounts did not include details of the individual creditors with age analysis. Also the Council did not state its policy on Creditors.

### Implication

The Council is not keen in settlement of liabilities as they fall due. This may tarnish the image of the Council.

### Recommendation

The Council management should pay its liabilities timely and promptly.

When examining Debtors to Creditors ratio: -

$$\begin{aligned} \text{Debtors-creditors ratio} &= \frac{\text{Debtors}}{\text{Creditors}} = \frac{214,566,157}{135,502,148} \\ &= 1.6 \\ &\text{About } 1\frac{1}{2} \text{ times} \end{aligned}$$

The Council if efficiently collected its debts, could pay all creditors with 1½ times capacity.

#### (ix) Bank Reconciliation Statement

##### Uncleared Deposits - Shs.35,996,827

The Bank reconciliation statement reflected outstanding deposits in transit amounting to Shs.35,996,827 as shown below:-

<b>Account</b>	<b>Amount (Shs)</b>
General fund	7,250,825
Expenditure	2,784,881
Health	5,634,000
Education	6,340,521
Development	1,959,040
Works	2,965,500
Women Development	700,000
Miscellaneous deposit	<u>8,362,060</u>
<b>Total</b>	<b><u>35,996,827</u></b>

### **Implication**

These money may not reach the council's bank account if follow up is not made.

### **Recommendation**

The management has to ensure that all monies in transit is credited in Council's bank account.

## **4.0 CONCLUSION**

The detailed audit finding presented above have been communicated to management of Arusha Municipal Council during exit meeting. Management of the Arusha Municipal 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 cooperation extended to the audit team. It is my hope that such good working relationships will be extended during future audits.

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

CC: Permanent Secretary,  
Prime Minister's Office,  
Regional Administration and Local Government,  
Box 1923,  
**DODOMA.**

Permanent Secretary and Paymaster General,  
Ministry of Finance,  
Box 9111,  
**DAR ES SALAAM.**

## 5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF ARUSHA MUNICIPAL COUNCIL

