

**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE (NAO)**



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

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**March, 2006**

**AR/LG/052/2005**

## 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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## DEFINITION OF TERMS AND ABBREVIATION

CAG	Controller and Auditor General
DED	District Executive Director
GDP	Gross Domestic Product
GOT	Government of Tanzania
HW	Halmashauri ya Wilaya No.5 (Open General Receipts)
IG	Investment Grant
ISA	International Standard on Auditing
LAAM	Local Authority Accounting Manual
LAFM	Local Authority Financial Memorandum
LGA	Local Government Authorities
OCAG	Office of the Controller and Auditor General
PMO-RALG	Prime Minister's Office - Regional Administration and Local Government
PS	Permanent Secretary
RAS	Regional Administrative Secretary

Act means Local Government Finance Act No. 9 of 1982

Financial Statements means:

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

Council means: Hanang' 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 Hanang' District Council for the year ended 30<sup>th</sup> June 2005. Audit findings arising from examination of accounting records appraisal of Hanang' District 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**

Hanang' 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, District Council of Hanang' 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**

Sources of fund of Hanang' District Council

Hanang' District Council income are obtained through

- Own sources (Taxes, fees, produce less and cess of property)
- Government Grants
- Donor Funds

During the year 2004/05 the Council received income from the following sources: -

	Shs.
Own sources	78,679,971
Compensation grants	158,779,300
Government Grant	3,755,071,027
Other Income	<u>308,186,825</u>
<b>Total</b>	<b>4,300,717,123</b>
	=====

### 1.5 Management structure

The Hanang' 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 Hanang' 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 Hanang' District Council 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 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 Hanang' District Council abide by this order and Procurement Act. Nevertheless weakness arises 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.237,454,273 from own sources against a revenue budget of Shs.299,160,500 reflecting an under collection of Shs.61,706,227 or 20.6% of the own source revenue budget. In addition, the Council received grants amounting to Shs.3,913,850,327 from the government and Shs.308,183,825 from other income making total revenue of Shs.4,300,712,123 during the year.

### **Expenditure**

The Council spent Shs.3,174,420,120 during the year 2004/05 against total income of Shs.4,300,712,123 or 73.8 of total revenue, making under expenditure of Shs.1,126,292,003.

A comparison of the internal revenue of Shs.237,454,273 against expenditure of Shs.3,174,420,130 is only 7.5% 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 revenues and expenditures, including the 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 Hanang' 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 Hanang' 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 of Hanang' District Council for the period ended 30<sup>th</sup> June 2005 was carried out in accordance with International Standards on Auditing. The audit covered the evaluation of effectiveness of the financial accounting system and Internal Control over the activities of Hanang' District Council, examination and verification of the accompanying financial statements and other auditing procedures as was considered necessary for the purpose of forming an opinion on the financial statements. The audit was conducted on a test check basis; therefore the findings are confined to the extent that records and information requested for the purpose of the audit were made available to us.

As an auditor I am not required to search specifically for fraud; therefore my audit cannot be relied upon to disclose all such matters. However, my audit was planned so that I 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,  
Manyara Region

District Executive Director and Accounting Officer  
Hanang' District Council

### **RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF HANANG' 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 Hanang' District Council shown on appendix 2 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 Hanang' 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 Hanang' 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 except for the matters detailed below, the financial statements fairly reflect, in all material respects, the financial position of Hanang' 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.

### **Limitation of scope**

1. Fifteen (15) audit recommendations of the previous year's audit are still outstanding as detailed in part three of this report.
2. Shs.5,064,800 were observed with missing payment vouchers in which the authenticity of the expenditure incurred cannot be verified.
3. Expenditure totalling Shs.45,055,110.13 were revealed to have been improperly vouched, that, validity of the payment made could not be established.
4. Shs.40,890,074 were observed as outstanding imprests which is the accumulation of long and current outstanding amounts unretired. Long outstanding imprests may become irrecoverable which may lead to loss of funds.
5. Shs.32,969,582 were disclosed as cash book overdraft in three accounts. This indicates weak control over the management of councils expenditure

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

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 Status of the previous year's audit recommendations

Matters raised in the previous management letter were dealt with but fifteen (15) audit recommendations detailed below are still outstanding.

S/No	Year	Paragraph	Recommendation	Status
1.	1999	9.3.2	To account for revenue collection not acknowledged receipt Shs.2,054,600	Partly implemented. Shs.873,600 not accounted.
2.	2000	9.2.3	To trace missing revenue earning receipt books 13	2 books still missing
3.	2001	9.2.3	To trace missing revenue earning receipt books 71	18 books still missing
4.	2002	58.1.2	To trace missing revenue earning receipt books 65	2 books are still missing
5.		58.1.3	To account for revenue collection not brought to account Shs.3,025,900	Shs.335,000 have not yet been accounted for.
6.		58.3.5	Imprests not recorded in imprest register Shs.17,831,215	Imprest amounting Shs.6,679,225 neither recorded in the imprest register nor retired
7.		58.4.4	Theft of cash Shs.23,723,180	Not implemented
8.	2003	58.2.1	Revenue receipts books not produced 43	2 receipts are still missing
9.		58.3.8	Over payment to a car dealer Shs.1,020,348	Not implemented
10.		58.3.10	Rehabilitation of Gawal-Gawidu road Shs.43,800,000 not certified completed	The balance of Shs.10,490,000 in respect of works in progress its completion not certified

11.	2004	2.1	(i) Supporting documentations for payment of allowances missing Shs.42,412,140  (ii) Expenditure made without support of payment vouchers Shs.9,672,671	Not implemented
12		2.2	Procurement proposal not properly evaluated Shs.3,391,000	Not implemented
13		2.5	No formal contract document for contract of leveling sport ground Shs.4,664,500	Not implemented
14		2.8	Short delivery of pipe fittings Shs.233,000	Not implemented
15		4.2	Stale cheques not analysed Shs.23,414,433	Not implemented

### Position of audit queries

Year	No of Queries Issued	No of Queries Closed	Balance
1999	17	16	1
2000	18	17	1
2001	18	17	1
2002	41	37	4
2003	19	16	<u>3</u>
2004	16	11	<u>5</u>
	10	-	<u>10</u>
<b>Total</b>			<u><b>25</b></u>

## 3.2 Current year's audit findings

### 3.2.1 Unvouched Expenditure Shs.96,330,590.

One payment voucher of Shs.5,064,800 was missing from the respective batches. Consequently, the expenditure incurred could not be authenticated in the absence of the paid voucher.

#### Implication

In the absence of payment vouchers and supporting documents, the authenticity of the expenditure incurred or the purpose for which the payments were made cannot be verified.

**Audit Recommendation**

The management should confirm that all supporting documents (payment vouchers) are traced and submitted for verification.

**3.2.2 Improperly vouched expenditure Shs.45,055,110**

Examination of payment voucher revealed cases of improperly vouched expenditure totalling Shs.45,055,110. In the absence of the requisite supporting documents, the genuineness of the payments could not be authenticated.

**Implication**

In absence of relevant supporting documents, validity of payments could not be established.

**Audit Recommendation**

- We recommend that relevant supporting documents be traced and submitted to audit for verification.
- Authorizing officers must ensure that vouchers are properly prepared and documented before allowing payments.

**3.2.3 Cash payments not receipted Shs.1,010,991**

A test examination of payment vouchers revealed that the bonafide payees on the paylists did not receipt payments totalling Shs.1,010,991. And the same was acknowledged receipt (HW5) and accordingly banked.

**Implication**

This is an indication of existence for weak internal control over payment system, as receipt of the money by the institution cannot be confirmed.

**Audit Recommendation**

The Council management should ensure that the unpaid sum of Shs.1,010,990.90 has since been receipted on HW5 and banked accordingly.

**3.2.4 Expenditure partially supported Shs.1,417,000**

A sum of Shs.2,960,000 was drawn as special imprest to carter for health dept activities. Scrutiny of the expenditure documents revealed that an amount of Shs.1,417,000 was not supported.

**Implication**

In the absence of full relevant supporting document it could not be confirmed whether the amount was used for intended activities.

**Audit Recommendation**

The Council management should confirm that the remaining balance of Shs.1,417,000 has since been receipted on (HW5) and banked accordingly.

### **3.2.5 Suspected misappropriation of unpaid salaries Shs.1,679,900**

It was observed during audit inspection that, unpaid salaries amounting to Shs.1,679,900 belong to officers who have died or left the service of the council on various grounds was neither acknowledged in the Council Treasury nor physically found in the Council coffer during cash survey. The possibility of the whole sum being misappropriated cannot be ruled out.

#### **Implication**

Unapproved expenditure could be effected out of unpaid salaries, which is contrary to financial regulations.

#### **Audit Recommendation**

The unpaid salaries amounting to Shs.1,679,900 which was misappropriated by the paying officers should be recovered from them and strengthen control over salaries.

### **3.2.6 Consolidated income and expenditure statement not ascertained**

The approved annual budget was revised during the year to accommodate increase in person emolument and other expenses but the supporting approved revised estimates document was not made available for verification when requested.

#### **Implication**

The correctness of the estimate figure reflected in the financial statement could therefore not be ascertained.

#### **Audit Recommendation**

The management of the Council should avail the revised estimates for audit verification.

### **3.2.7 Outstanding imprests Shs.40,890,074**

The final financial statements showed Shs.40,80,074 as outstanding imprests as at 30<sup>th</sup> June 2005. The outstanding amount is accumulation of long and current outstanding amounts unretired by various reasons:

- (i) Imprests were not retired within two weeks after finalization of the activity.
- (ii) Additional imprests were used to officials who have not retired previously advanced imprests.

Management did not exercise it vested power by section 134 of LFM, 1997 to recover with penalty any unreturned imprest.

**Implication**

Long outstanding imprests may become irrecoverable which may lead to loss of funds. Recipient of imprests may obtain and submit invalid documents for any amount that they could not account for after such a long period.

**Audit Recommendation**

- Imprest should be retired within two weeks after finalisation of the activity as required by LFM, (1997) order No.134 and 135.
- Management should deduct any long outstanding amount from the officer's salary.
- Additional imprest should not be issued prior to the clearance of the previous ones.

**3.2.8 Outstanding advances Shs.8,849,529**

The accounts closed with outstanding advances of Shs.8,849,526 as at 30<sup>th</sup> June 2005 amount composed of long and current advance.

**Implication**

Long outstanding imprests may become irrecoverable which may lead to loss of funds.

**Recommendation**

Follow up action should be taken to obtain recovery if advances are not recovered within the stipulated time.

**3.2.9 Outstanding loans Shs.13,442,029**

The loan amount was as the result of inter account transfer. The amount treated as a loan especially where money transferred from funds meant for development activities and spent on recurrent issued.

**Implication**

Activities on which this fund were budgeted for may not be accomplished.

**Recommendation**

The Council management should adhere to the budget.

**3.2.10 Overdrawn deposit Shs.45,612,780.71**

31 deposit items were over drawn to the tune of Shs.45,612,780.71. The amount overdrawn has not been claimed for reimbursement.

**Implication**

This implies that the council has no control on its expenditure

**Recommendation**

The Council should set-up a mechanism of controlling the payment to the limit of cash availability in its account.

### **3.2.11 Cashbook overdraft Shs.32,969,582**

The Bank reconciliation statement disclosed that three accounts closed with a total cash book overdraft of shs.32,969,582.

#### **Implication**

This has an implication that, there is weak control over the Councils expenditure.

#### **Recommendation**

The Council should limit its expenditures to the availability of funds in its accounts.

### **3.2.12 Stale Cheques not analysed Shs.45,420,253**

Stale cheques which became stale in the previous years amounting to Shs.45,420,253 continued to be reflected in the accounts without having detailed breakdown to facilitate clearance of the stale cheques as required by accounting instructions.

#### **Implication**

In absence of analysis schedule of stales cheques the possibility of settling claims received from dishonest individuals may not be avoided.

#### **Recommendation**

The analysis schedule will serve as a supporting tool at the time of liquidating creditors' lodged claims.

#### 4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Hanang' District Council during exit meeting. Management of Hanang' District has promised to take appropriate action with a view to rectify the situation. I shall appreciate to receive a formal action taken in this respect.

Lastly, I would like to express my appreciation for the cooperation given 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**

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## 5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF HANANG' DISTRICT COUNCIL

