

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF KARATU DISTRICT COUNCIL
FOR THE YEAR ENDED 30TH JUNE, 2005**

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AR/LG/003/2005

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
LGLB	Local Government Loans Board
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 Karatu District Council for the year ended 30th June 2005.

Council means - Karatu 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 Karatu District Council for the year ended 30th 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 Karatu 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, Karatu District Council 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.374,216,251 made up of Shs.93,357,557 from own sources and Shs.280,858,694 from government grants.

1.5 Management

The Karatu 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 Karatu 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

(i) Revenue

The District Council collected an amount of sh.93,357,558 from own sources against the internal revenue budget of sh.97,704,000 reflecting a deficit of sh.4346442. In addition the Council received grants amounting to sh.3,189,135,680 making total revenue of sh.3,282,493,238 during the year. The internal revenue comprises only 3% of the total funds collected.

(ii) Expenditure

During the year under review Karatu District Council had spent a sum of sh.3505290117 against the total income of sh.3,282,493,238. The council therefore closed with a deficit of shs.(222,796,879).

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,
Karatu District Council.

RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF KARATU 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 Karatu District Council shown as annexure I of this report for the financial year ended on 30th June 2005.

Responsibility of Council Management on the financial statements

These financial statements are the responsibility of the management of Karatu 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 Karatu 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

Except for the material matters pointed out below, in my opinion, the financial statements fairly reflect, in all material respects, the financial position of Karatu 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 Finance Act No.9 of 1982.

Further to my opinion except for the procurement and utilization of building materials and fuel, procurement procedures were done in accordance with the Public Procurement Act No.21 of 2004 and the related regulations.

Disagreement in record keeping and violation of law:

1. Collections not acknowledged and intimated sh.2,852,800
2. Improperly vouched expenditure amounting to sh.6,703,000
3. Questionable procurement of building materials 5,668,100
Fuel 1,760,000
7,428,100
4. Unclaimed salaries not surrendered to Treasury sh.3,068,285
5. there is an overpayment of salary to employee amounting to Shs.461,600

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

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

31 March 2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 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 Audit Findings

3.2.1 Financial Control

(i) Missing Revenue Earning Receipt Books (3).

Three (3) General Receipt Books (HW5) were not returned to the Council's Treasurer as at the time of audit inspection.

Implication

There is a weak control over the receipt books.

Recommendation

The management should make efforts to trace the missing books for audit examination.

(ii) Revenue collection not acknowledged - Shs.661,800

Revenue collection totalling to Shs.661,800 was not acknowledged with receipts at the main Treasury.

Implication

There is risk for someone to temper with cash. This also may result into loss of Council's revenue, which could facilitate the implementation of other planned activities.

Audit recommendation

Acknowledgement receipts on the amount collected should be quoted for further verification and the management has to strengthen the controls on revenue collection.

(iii) Collection not remitted to Council - Shs.2,191,000

A total amount of Shs. 2,191,000 collected by VEO Basodawish was not remitted to Council. (Your letter ref. No. KDC/DED/A.I/Vol.II/13 of 10th December 2005 refers).

Implication

There is a risk that the council's money may be misappropriated.

Audit recommendation

The management should ensure that the revenue collection is brought to account promptly as required by order No.117 of the LAFM.

(iv) Improperly vouched expenditure Shs.6,703,000

Expenditure totaling shs.6,703,000 were not supported by relevant supporting documents such as paylists, contracts agreements, statement of expenditure, quotations etc.

Implication

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

Audit recommendation

The management should ensure that, all supporting documents are attached to the respective payment vouchers. Also it has to observe the requirements of Public Finance Act and Public Procurement Act as well as the related regulations.

(v) Procurement of goods and Services

(a) Utilization account for building materials not produced- Shs.5,668,100

Building materials worth Shs.5,668,100 in respect of Minor Works for Laja dispensary were noted delivered to the site as per delivery notes endorsed by Building Technician.

However, the utilization account of the same could not be produced though called for.

Implication

The procured building materials could have been utilized not for intended purposes.

Audit recommendation

The Council's management should ensure that all materials procured are utilized as planned. For the above case it has to submit the utilization account for audit verification.

(vi) Fuel not accounted for - Shs.1,760,000

Fuel worth Shs.1,760,000 purchased from M/s Kastul Samwel was neither accounted for in the relevant fuel ledger nor their utilization account made available to audit.

Implication

Fuel purchased may not be utilized by Council. The Council is lacking controls in storing the procured supplies including fuel.

Audit recommendation

The procurement regulations should be adhered to. The management has also to take action in order to clear the above anomalies.

(vii) Unclaimed salaries not surrendered to Treasury DSM - Shs.3,068,285.28

Audit scrutiny on the payment of salaries revealed that, names of employees who were no longer in services were now being deleted from computer payrolls.

However, salaries totaling Shs.3,068,285.28 for the period October, 2004 to April, 2005 pertaining to the deceased/absconded employees were wrongly credited to their bank accounts.

Implication

Misuse of unclaimed salaries.

Audit recommendation

The management should comply with the current cash management system that any unspent release should be surrendered to Treasury.

Management Response

This amount will be remitted to Treasury before March 2006.

Audit Comment

Verification would be carried out in April 2006.

(viii) Overpayments to an employee - Shs.461,600

A total amount of Shs.1,384,800 was paid to one officer who was on half pay as under:-

Pv.No.	Cheque No	Deposit A/C Amount (Shs)	Payee	Remarks
10/5	022025	692,400	Sabbo M. Shilinde	3 Months Salaries Febr - April,2005 @ 230,800=
22/5	022037	230,800	- do -	May, 2005
19/4	022007	461,600	- do -	March-April, 2005 @ 230,800=
Total Shs.		<u>1,384,800</u>		

In view of the above, salaries totaling Shs. 461,600 for the months of March and April, 2005 were paid twice.

Implication

Control over payment of salaries is lacking.

Audit recommendation

The management is urged to recover the amount of Shs. 461,600 over paid. It is also recommended to put strong controls on payment of personal emoluments.

Management Response

We are investigating the circumstances, which led to the overpayment so that we can effect recovery.

Audit Comment

Recovery of the amount involved shs.4,616,000/= is still awaited.

(ix) Questionable Distrurbance Allowance - Shs.797,432

<u>Pv. No</u>	<u>Amount</u>	<u>Cheque</u>	<u>Account</u>
66/12	797,432	022623	Health

The Council made a payment to Elizabeth Kiita being allowance while proceeding on transfer to Mang'ola Juu - Karatu, as detailed below:

Mr & Mrs Kiita -2 x 14 days @ 10,000=	Shs.	280,000
Children - 4 x 14 days @ 5,000=	"	280,000
Disturbance allowance 98,930x1/5 x 12	"	<u>237,432</u>
Total		<u>797,432</u>

The disturbance allowance was paid contrary to the prevailing circulars computed as $98,930 \times \frac{1}{25} \times 12 = 47,486.40$ resulting to an apparent overpayment of Shs. 189,945.60.

Implication

Regulations are not properly observed which could lead into loss of Council money.

Audit recommendation

The amount of Shs. 189,945.60 overpaid should be recovered from the officer responsible. Also the Council should ensure that Treasury directives are observed.

Management Response

The overpayment has been noted. This amount will be recovered from her salary w.e.f. March, 2006.

Audit Comment

Verification of recoveries will be made in April, 2006.

(x) Unrecovered Loans - Shs.9,465,823.30

Loans pertaining to Women and Youth development groups totaling Shs.9,465,823.30 remained outstanding not recovered as at the time of audit inspection.

Implication

It implies that, the management of the Council has not been effective in debt collection.

Audit recommendation

The management should take effective action towards recoveries of the outstanding balances.

Management Response

We are making a follow-up of the groups to initiate recovery measures. You will be informed of the outcome very soon.

Audit Comment

Recovery measures are still awaited.

(xi) Investment - Shs.43,000,000

The consolidated balance sheet reflected an investment of Shs.43,000,000 deposited with the Local Government Loans Board (LGLB).

However, no interest appeared to have been received from the amount invested.

Implication

This implies that the figure reported in the financial statements for revenue is incorrect.

Recommendation

The management has to report the interest received or receivable in order for the financial statements to be meaningful.

Management Response

We have written a letter ref. No. KDC/DED/CF/1/3 vol 11/22 of 13th January 2006 requesting the Secretary LGLB Dodoma, to let us know the amount of accumulated interest earned as at 31st December 2005. The outcome will be communicated to you.

Audit Comment

Response from LGLB is awaited.

(xii) Outstanding Creditors - Shs.50,911,020

The following creditors were still outstanding at the time of writing this report.

Category	Amount (Shs)
Creditors	4,146,000
Deposits	32,679,733
Loan (LGLB)	<u>14,085,287</u>
Total	<u>50,911,020</u>

Implication

The council has not been effective in settlement of its liabilities as they fall due.

Recommendation

The management of the Council must ensure that liabilities are settled promptly as they fall due.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Karatu District Council during exit meeting. The Management of Karatu 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. Frank Mosses Hiza Mhilu
Ag. CONTROLLER AND AUDITOR GENERAL

CC: Permanent Secretary,
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DODOMA.

Permanent Secretary and Paymaster General,
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5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF KARATU DISTRICT COUNCIL

