

**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL**

**ON THE FINANCIAL STATEMENTS OF MOSHI DISTRICT COUNCIL  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2005**

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**AR/LG/040/2005**

**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 Moshi District Council for the year ended 30<sup>th</sup> June 2005.

Council means - Moshi 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 Moshi District Council for the year ended 30<sup>th</sup> June 2005. Audit findings arising from examination of accounting records, appraisal of activities and evaluation of the internal control system which require Management attention and action are set out under part three of this report.

### **1.2 Brief history of Client Establishment**

Moshi District Council was established in 1984 in terms of the provision of sections 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 Moshi 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, licences, 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, own sources and external source. The Internal source includes collection of Public funds through, taxes, fees, licences and charges. On the other hand external source include subsidies from central government, grant and loans from donor community. Total Income during the year was Shs.8,594,068,196 made up of Shs.460,447,452 from own sources and Shs.8,133,620,744 from government grants.

### **1.5 Management**

Moshi 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, 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 annexure I 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 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 Moshi District Council complies to this order and Procurement Act but it is lacking an audit committee, which is part of transparency and good governance. Nevertheless weaknesses arising from review of internal control system are included under part 3 of this report.

### **1.7 Financial Performance**

Examination of the consolidated statement of income and expenditure revealed the following:

#### **(i) Revenue**

During the year 2004/05 the approved revenue from own sources was Shs.502,000,000. However, the amount realized at the end of the accounting period stood at Shs.397,337,849 registering a shortfall of Shs.104,662,151.

**(ii) Surplus/Deficit**

The total income for the year 2004/05 was Shs.8,763,735,005, where as the total expenditure for the year was Shs.8,448,549,522 leaving a surplus of Shs.315,185,483.

**(iii) Different figures for own source revenue**

The consolidated statement of income and expenditure and revenue statement revealed different figures of revenue collected from own source as shown below:

<u>Statement</u>	<u>Own source revenue figure</u>
Consolidated income and expenditure	397,337,849
Revenue statement	460,447,451

The above two figures need to be reconciled.

**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 Finances 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 Town Council.

**1.9 Audit Objectives.**

The main objective of carrying out the audit is to enable me 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 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 and governing regulations.
- To ascertain whether all supporting documents, records and accounts have been 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 and INTOSAI audit procedures. The audit covered the evaluation of effectiveness of the financial accounting system and Internal controls 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 an auditor I am not required to search specifically for frauds 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, which is 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 discuss 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, 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,  
Kilimanjaro Region.

District Executive Director and Accounting Officer,  
Moshi District Council.

### **RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF MOSHI 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 the Moshi District Council shown as annexure 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 Moshi 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 Moshi 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.

The financial statements have been prepared and presented based on the accrual principle of accounting pursuant to Order Nos. 56 through 58 of the LAFM. Under the accrual basis, all revenues and all the related costs are matched with the period in which they were earned and incurred.

#### **Opinion**

In my opinion the financial statements fairly reflect, in all material respects, the financial position of Moshi 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 Local Government Finances Act No.9 of 1982.

Further to my opinion, the transactions of procuring of office equipments, diesel, computer, printer, hospital supplies and other goods and services, which I have tested as part of the audit, have generally complied with the requirements of the Public Finance Act No.6 of 2001 and Public Procurement Act No.4 of 2004.

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 the previous year's audit recommendations.

Recommendations raised in the previous year's management letter have been implemented satisfactorily and no matters are still outstanding.

#### 3.2 Current year's audit findings

##### 3.2.1 Financial Controls

###### (i) Questionable payments Shs. 11,913,320

Scrutiny of payments revealed the following questionable payments:

Detail	Amount Shs.
Repair of vehicle SM 2871	3,502,320
Fumigation of Umbwe, Kahe and Mtakuja dispensaries	6,500,000
Teachers' leave payments	1,911,000
	<b>11,913,320</b>

These payments were either not supported by the relevant document or no information was available to confirm that the services were delivered.

###### Implication.

The circumstance implies weakness in documentation and improper keeping of accounting information; also it could result in misappropriation of funds.

###### Recommendation.

I recommend the management to institute and implement effective controls in order to prevent any loss therefrom.

###### (ii) Payments made on proforma invoice Tshs.2,774,000

During Audit, it was revealed that Tshs.2,774,000 was paid to a supplier on the strength of proforma. However, there was no information to confirm delivery of the supplies paid for.

###### Implication.

It implies that the council could be paying for the supplies, which have not been delivered.

###### Recommendation.

Management should abide to the requirements specified in procurement Act No.4 (2001) and the related regulations.

**(iii) Outstanding Debtors Tshs.19,097,463.30**

Outstanding balance of debtors as at the date of this year's balance sheet amounted to Tshs.19,097,463.30 made up of outstanding imprests Tshs.17,572,200, salary advance Tshs.666,014 and prepayments Tshs.859,249.

It was also noted that there has been an increase of 54.6% from last year's balance of debtors to this year's balance. The Council's policy on Debtors was not stated.

**Implication.**

It implies that there has been no enough efforts to recover the debts. Also considering that outstanding imprests constitute 92% of total debtors, it may imply that the council is not effective in enforcing retirement of imprests as explained under order 132-136 of LAFM (1997).

**Recommendation.**

The management of the council should abide to the requirements stated in LAFM (1997) regarding this respect and improve debts collection efforts.

**(iv) Outstanding creditors Tshs.18,989,778**

The balance sheet reveals the balance of creditors to be 18,989,778 for the year under audit. The accounts did not include details of the individual creditors with age analysis. Also the Council's policy on creditors was not stated.

**Implication.**

Long overdue of creditors has a negative impact on the relationship with suppliers and communicates bad image to the user of financial statements.

**Recommendation.**

The council has to abide with budgetary provisions so that transactions of credit nature may be minimized.

**(v) Presentation of balance sheet**

The perusal of the balance sheet revealed the figure that could not be understood. The fixed assets in the balance sheet revealed plant and machinery at Tshs.6,478,620 and also Motor Vehicle, plant machinery at Tshs.213,816,064 as separate figures, difference of which could not be understood.

**Implication.**

This presentation of financial statements could be misleading the users of the statements.

**Recommendation.**

Attention is required when preparing the financial statements as it affects the decisions of council's stakeholders.

**4.0 CONCLUSION**

The detailed audit findings presented above have been communicated to management of the Moshi District Council during exit meeting. The Management has promised to take appropriate action with a view to rectify the situation. I shall appreciate to receive formally the actions 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**

CC: Permanent Secretary,  
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**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 Moshi District Council - annexure II

**FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.**

ORGANIZATION STRUCTURE OF MOSHI DISTRICT COUNCIL

