

**THE UNITED REPUBLIC OF TANZANIA**  
**NATIONAL AUDIT OFFICE (NAO)**



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

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**AR/LG/041/2005**

**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 Municipal 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 Municipal Council for the period 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**

The Moshi Municipal 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 Finance Procurement Act no 21 of 2004.
- Local Government Finances Act no 9 of 1982.

#### **Vision of Moshi Municipal Council:**

The vision statement states that “It is determined that in the forthcoming 10 years Moshi Municipal Council should be a city controlled by good governance”. This endeavour is also reflected in the mission undertaken by Moshi Municipal Council to translate the vision into reality as:

#### **Mission Statements:**

“The Council which delivers better service incorporating its people and the accountability of its stakeholders depending mainly on the available resources and adhering to existing laws and abiding to the principles of democracy”.

Basing on the objectives of the Moshi Municipal Council, the strategies were formulated which will enhance Municipal Council in better service provision.

### **1.3. Operational Objectives**

According to the Local Government (District Authorities) Act the Moshi Municipal 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, Licence 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.4,908,336,345 made up of Shs.1,297,857,810 from own sources and Shs.3,610,478,535 from government grants.

#### **1.5. Management**

Moshi 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 departments who are sub-accounting officers and one legal Officer.

#### **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 Municipal Council abide by this order and Procurement Act 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 Issues**

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

The Municipal Council collected an amount of Shs.1,297,857,810 from own sources against the internal revenue budget of Shs.1,254,000,000,

reflecting an over collection of Shs.43,857,810 or 3.5%. The difference between the actual revenue collection and estimates was not explained but would appear to be a result of unrealistic revenue budget. In addition the council received grants amounting to Shs.3,610,478,535 making total revenue of Shs.4,908,336,345 during the year.

#### **(ii) Expenditure**

The total income for the year 2004/2005 was Shs.4,908,336,345 out of which expenditure of Shs.4,754,605,601 was incurred. The surplus was therefore Shs.153,730,744. However, performance against budget could not be assessed since budget figures were not disclosed in the financial statements.

A comparison of, the internal revenue of Shs.1,297,857,810 against expenditure of Shs.4,754,605,606 (net of depreciation) is only 27%, implying that the Municipal Council cannot sustain either its recurrent or development expenditure without depending on grants.

### **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 in 2000, the controller and auditor General is the statutory auditor of all government offices including Local Authorities.

### **1.9 Audit Objectives**

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

- To determine whether transactions were executed in accordance with the financial regulations, and recorded properly in the books of 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 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 me.

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 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:** Hon. Mizengo Pinda (MP)  
Minister, PMO-RALG

The Regional Commissioner,  
Kilimanjaro Region.

District Executive Director and Accounting Officer,  
Moshi Municipal Council.

**RE: Independent Audit Report on the Financial Statements of Moshi 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 Moshi Municipal 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 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 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 Moshi Municipal 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.

### **Qualification**

In my opinion, except for the matter detailed below the financial statements fairly reflect, in all material respects, the financial position of Moshi Municipal 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 Act No.9 of 1982.

Further to my opinion, the procurement of computers, clinic cards, office furnitures and hospital equipment and 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.21 of 2004 and related regulations.

### **Non-compliance with the Law:**

- Overpayment made to a supplier (Tshs.5,586,000) without recovery to date.
- Purchase of a solar system without competitive bidding (Shs.9,980,000)
- Outstanding debtors account Shs.213,157,823
- Outstanding deposit account against 42 categories without reconciliation and clearance.
- Fixed Asset Management System not installed hence, actual fixed asset figure reflected in the final accounts not well presented.
- Detailed expenditure and analysis of Shs.186,716,250 (as per Consolidated Trial Balance) not given.

Frank Mosses Hiza Mhilu

**Ag. CONTROLLER AND AUDITOR GENERAL**

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Office of the Controller and Auditor General  
The National Audit Office  
Dar es Salaam.

31 March 2006.

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

#### **3.1 Follow up of previous year's audit recommendation.**

All observations raised in the last year's management letter have been replied satisfactorily and have been closed.

#### **3.2 Current year's Audit Findings**

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

Matters arising from examination of municipal Council payment Vouchers and other related records has revealed the following questionable expenditure:

- (i) Overpayment to a supplier (Tshs.5,586,000)**  
Cost of surveying equipment purchased vide LPO 000002689 of 3/9/2004 was Shs.24,663,000 as against amount paid for Shs.30,249,000) vide, 8/10/2004 respectively paid to M/s High Tech. TZ Ltd BOX 3633 Dar es Salaam.

**Implication:**

The expenditure incurred can not be justifiable.

**Audit Recommendation:**

The overpayment of the sum of Shs. 5,586,000/= should be recovered.

**Management Response:**

The matter will be investigated and outcome submitted to the National Audit Office for verification.

##### **3.2.2 Internal Audit**

The Local Authority Financial Memorandum orders 12-16 stipulate that in accordance with section 45 (1) of the Local Government Finance Act No.9 of 1982 the Council shall employ its own Internal Auditor who shall work closely with the Treasurer, but shall report directly to the Director.

The Internal Auditor, under the control and direction of the Director, shall be responsible for carrying out a review of financial and related systems of the Council to the effect that they are protected.

Review precludes the auditor from being involved in any line management functions such as the checking of payment vouchers prior to payment.

In collaboration with the Internal Auditor, the Director shall prepare an annual work programme for the Internal Audit section and have a copy

sent to the office of the Controller and Auditor General by not later than January 15 of the year to which it relate.

Officers engaged in internal audit will prepare and submit dated reports direct to the Director for action and onward transmission to the Finance Committee. The Director will send a copy to the office of the Controller and Auditor General within 15 working days of the date of the report.

The internal Auditor shall keep a register in all relevant work, showing dates of fieldwork, the date of the final report, date and nature of the responses received and indication of proposed follow-up activity. Such registers shall be made available to the Controller and Auditor General upon request.

We noted that despite the existence of the Internal Auditor's Reports for the Municipality apparently very little consideration and action taken upon them and no copies are made to the CAG as required.

**Implication:**

The purpose of establishing the Internal Audit Service Unit will be defeated if reports are not considered and action taken by the Director and Accounting Officer, thus improper or fraud payments might be made and effected without the notice of the management.

**Recommendation:**

The management of the Council should make sure that reports prepared by the Internal Auditor are acted upon and replies made without delay and a copy submitted to National Audit Office for verification.

**Management Response:**

The matter will be investigated to make sure that all internal auditor reports are prepared and submitted to the Resident Auditor.

**Audit Comment:**

The management is advised to submit the reports without further delay.

**3.3. Purchase of a solar system Tshs.9,980,000 without competitive bidding or inviting tender:**

The Local Authority Financial memorandum order 277 stipulate that the Council may, by special resolution agree to negotiate with a single supplier if the Council determines that no financial or technical benefit would proceed from compliance with usual procedures. The minute, giving effect to the resolution, shall be subject to specific review by the office of Controller and Auditor General. Whilst, order 261 stipulate that the finance committee shall, as part of the annual budgeting process, adopt expenditure limits in excess for which they will call for tenders.

- (i) By invitation from a tender list and
- (ii) By public notice.

I observed that, a solar system worth Shs.9,980,000 was purchased without calling for competitive in a bid to curb for enhanced costs. Further, the solar system was supplied to residential house occupied by the Municipal Director, which I believe uses electricity supplied by M/s TANESCO and paid by the Council as per entitlement of the Director.

**Implication:**

Violation of procurement regulations might cause mismanagement of funds.

**Recommendation:**

- The Council Management should adhere to the regulations governing procurement of stores.
- The Council Management should confirm settlement of electricity bills in respect of the Residential House occupied by the Municipal Director.

**Management Response:**

Scrutiny of the relevant documents in respect of the payment will be carried out and the findings be communicated to the Resident Auditor for verification.

**Audit Comment:**

Prompt submission of the documents is required.

**3.4. Outstanding Debtors Account (Tshs.213,157,823)**

The consolidated cash flow statement for the period ended 30<sup>th</sup> June 2005 reflected outstanding debtors amounting to Tshs.213,157,823. Further, there was no age analysis of debtors and no Council policy regarding treatment of long outstanding debtors accounts.

**Implication:**

The debtors have created a weak financial capability as recovery would have created a corresponding strong financial capability.

**Recommendation:**

The Council management should ensure that long outstanding debtors are recovered and cleared in the Council's books of account.

**Management Response:**

The system of Platinum SQL changed into Epicor was programmed since 1999, by then we thought that the system will allow a retirement/recoveries of imprest being effected for adjustment purpose but it was the opposite. Since then, the balances have remained

untouched to financial year 2004/2005 the time we were ordered to close our accounts using Epicor system while in actual sense the Council had manually recovered them and no outstanding balances were there.

In this case there is no need of age analysis being prepared since we have no outstanding balance of debtors in our records. However the system is being revisited to make sure that the necessary adjustments are incorporated there on.

**Audit Comment:**

Rectification of the system is awaited.

**3.5. Operational Performance issues**

**Capital expenditure (Tsh.292,125,126)**

A review of physical progress of activities performed by the Council has revealed the following features/achievements as narrated hereunder:

**OPERATIONAL PERFORMANCE 2004/2005**

S/ No.	Goal/Target	Achievement	Remarks
1.	To construct five classrooms for Primary Schools at cost of Tshs. 12,387,000/=: <ul style="list-style-type: none"> <li>• Mandela</li> <li>• Soweto</li> <li>• Majengo</li> <li>• Miembeni</li> <li>• Njoro</li> </ul>	5 classrooms have been since been completed and are in use.	<i>Construction work done as was planned. However, there is shortage of schools 119</i>
2.	To construct 17 classrooms for Secondary schools at cost of Tshs 31,766,879/= as follows: <ul style="list-style-type: none"> <li>• Kiborloni - 4 classrooms.</li> </ul>	4 classrooms have since been completed and are in use.	<i>Construction of other 13 classrooms is still in progress</i>
	<ul style="list-style-type: none"> <li>• Rau - 1 classroom.</li> </ul>	1 Classroom is complete and in use	<i>Construction work done as planned.</i>
	<ul style="list-style-type: none"> <li>• J.K. Nyerere - 3 Classrooms.</li> </ul>	2 - Classrooms completed and are in use 1 - Classroom is at finishing stage	<i>Work in progress</i>
	<ul style="list-style-type: none"> <li>• Pasua - 2 Classrooms</li> </ul>	2 - Classrooms completed one are in use.	<i>Construction work done as planned.</i>
	<ul style="list-style-type: none"> <li>• Karanga - 4 Classrooms</li> </ul>	4 - Classrooms are complete and in use.	<i>Construction work done as planned.</i>
	<ul style="list-style-type: none"> <li>• Msaranga - 2 Classrooms</li> </ul>	2 - Classrooms are at finishing stage.	<i>Work in progress</i>

	• Mji Mpya - 1 Classrom	1 - Classroom is at finishing stage.	<i>Work in progress</i>
3.	To renovate and construct 4 dispensaries at cost of Tshs. 7,297,650/=: • Shirimatunda • Majengo • Kiborloni • Msaranga	4 (four) dispensaries completed	<i>Treatment of patients going on well</i>
4.	Completion of Ward construction at cost of Tshs. 945,000/=.	Mji Mpya Ward Office complete	<i>Construction work was done it was planned.</i>
5.	<i>To construct Kiusa Market at cost of Tshs. 172,710,335/=.</i>	<i>Construction still in progress phase I (78%)</i>	<i>Construction work will continue beyond 2004/2005. Financial year (2 phase remaining)</i>

**Implication:**

Implementation of some development programmes and may result to costs overrun due to passage of time.

**Recommendation:**

Some of the projects were found to have not been completed as planned. The management is required to formulate a suitable way of completing them on time.

**Management Responses:**

The uncompleted project have been carried forward to financial year 2005/2006 where by completion will be effected.

**Audit Comments:**

I expect that the projects which will be carried forward to the next financial year will not consume funds without budgetary provision.

**3.6. Council Investments (Tshs.33,319,813)**

The Local Authority Financial Memorandum orders 199 & 203 stipulate that cash funds not required for immediate use shall be invested to the best advantage for the Council, in accordance with the policy of the Council and subject to any general and specific directives issued by the Minister.

- Such investments shall be evidenced by a security, deed or contractual document which shall be, entered in a register and kept under safekeeping.

However, I noted that the Council's investments are made up as follows:

	<u>Shs.</u>
Fixed Deposits	5,000,000
Financial stocks	10,860,500
Short term investments	<u>17,459,313</u>
<b>Total</b>	<b><u>33,319,813</u></b>

Further, interests accruing from investments were neither reflected nor disclosed in the accounts for the year under review and proceeding years.

Furthermore, there was no evidence to show that the short-term investments were subject to a formal resolution of the Council and included in the Development or Recurrent Budgets as required by the Local Authority Financial Memorandum (1997) order 202.

**Implication:**

Revenue has been short collected by not reflecting on the budget interest accrued from the investment and equally by the Council making no formal resolution to include short term investments in the budget.

**Recommendation:**

- The Council should make sure that all investments are supported by a security or deed document which shall be entered in a register and kept under safe custody.
- Further, interest accruing from the investment and short term investment should be dealt with separately and included in the budget of the Council.

**Management Response:**

This issue will be delta with accordingly and we promise adhere to the laid down principles for treatment of interest accrued and short term investment.

**Audit Comment:**

Management is to take action for rectification as promised.

**3.7. Deposit Account (Tshs.1,604,652,120)**

The prime responsibility for keeping proper accounts for deposits lies with the Council Management concerned, therefore, the Council has a responsibility to investigate and take any necessary accounting action to deal with a deposit for any considerable period or which has not been reconciled with a bid to clear them.

I noted that current liabilities in the form of deposits amounting to Tshs.1,604,652,120 outstanding against 42 categories, (as per notes to the accounts) for which some of them have been overdrawn, dormant

for a considerable length of time, without being reconciled and cleared.

**Audit Recommendation**

The Council Management should investigate and take any necessary action to deal with deposits, which become overdrawn or which have been dormant with a view of clearing them from the Council books of accounts.

**Management Response:**

Scrutiny of the deposit worth Sh.1,604,653,120 with a view of cleaning them from the Council's books of accounts will be done and clearance effected.

**Audit Comment:**

Rectification is awaited.

**3.8. Revenue accruing from Property Tax - Shs.180,447,988 (Property tax arrears during the year 31,758,838.25)**

A physical verification/survey was made on computer and printer supplied by the Urban Sector rehabilitation Project to the Municipal Valuer Office, which was intended in boosting revenue collection accruing from property taxes.

I have observed that during the year under review property tax collected amounted to Tshs. 210,233,237.01 compared to Shs.229,924,000 of last year resulting in under collection of Shs.19,690,763 beyond expectation especially after introducing the computer software which was expected to boost revenue from property tax.

**Implication:**

Property tax revenue collection has decreased.

**Recommendation:**

The management is obliged to deal with the decrease in 2004/2005 year as compared to the collection realized in year ended 2003/2004 for the purpose of addressing the matter for improvement.

**Management Response:**

We agree for the decline in revenue collection from property tax in the year 2004/2005 against July - Dec. 2003 and January - June 2004 collections of Shs.210,233,237/= and 229,924,000/= respectively. We hope that this situation will be rectified soon. Revenue data base have been built up in order to identify tax payers this will help to increase the collection of property tax in the coming financial year 2005/2006. Also the land rent tax data have been programmed in the computer for easy follow up.

### 3.9. Fixed Assets:

#### Weaknesses noted:

The accounts of Municipal Director - Moshi for the period ended 20<sup>th</sup> June, 2005 were prepared based on the Epicor System. However, the system revealed anomalies in that no Fixed Assets Management System had not been installed as a result rendering them not susceptible for verification as they lacked background/schedule, changes of previously closed records and Depreciation allowed (formular and amount) and Additions or deductions made on the assets.

Further, the balances of fixed assets below were not verified in the absence of Asset management system

	<u>Shs.</u>
(i) Land and Buildings	11,658,708,745.70
(ii) Furniture and fittings	226,623,785.55
(iii) Motor vehicles and plants	702,418,567.00
(iv) Tools and equipments	134,284,752.17
(v) Stocks - main stores	41,020,171.85

#### Implication:

The Fixed Assets figure reflected in the accounts do not present a true and fair position of their value as at 30<sup>th</sup> June, 2005.

#### Recommendation:

The management is advised to take action for the purpose of reprogramming the system to allow accountability of the Assets.

#### Management Response:

We agree that Fixed Asset Management were not installed into Epicor System. However action has been taken to inform Zonal Reform to re-programme the system immediately.

#### Audit Comment:

Rectification is awaited.

### 3.10 Books, study materials for Primary Schools Shs.186,716,250

The consolidated Trial balance has reflected a debit balance of Shs.186,716,250 in respect of books, study materials for Primary Schools within the Municipality of Moshi, for which no details, were provided regarding, number of books, study materials and distribution list.

#### Implication

School materials worth Shs.186,716,250 not known and distribution not made open.

#### Recommendation

The Municipal Council management should disclose the type of school materials purchased and distribution list to respective primary schools.

### Management responses

The above was not for school materials procurement, instead, this sum was Government grant for development activities (i.e. construction and purchase of school desks as follows:

	<u>Shs.</u>
Construction of teacher's house	86,400,000
Construction of classrooms	75,390,000
Purchase of schools desks	18,986,250
Construction of latrines	<u>5,940,000</u>
<b>Total</b>	<b><u>186,718,250</u></b>

### 3.11 Internal Audit

The Local Authority Financial Memorandum orders 12-16 stipulated that in accordance with section 45 (1) of the Local Government Finance Act No.9 of 1982 the Council shall employ its own Internal Auditor who shall work closely with the Treasurer, but shall report directly to the Director.

The Internal Auditor, under the control and direction of the Director shall be responsible for carrying out a review of financial and related systems of the Council to the effect that they are protected.

Review precludes the auditor from being involved in any line management functions such as the checking of payment vouchers prior to payment.

In collaboration with the Internal Auditor, the Director shall prepare an annual work programme for the Internal Audit section and have a copy sent to the office of the Controller and Auditor General by not later than January 15 of the year to which it relate.

Officers engaged in internal audit will prepare and submit dated reports direct to the Director for action and onward transmission to the Finance Committee. The Director will send a copy to the office of the Controller and Auditor General within 15 working days of the date of the report.

The internal Auditor shall keep a register in all relevant work, showing dates of fieldwork, the date of the final report, date and nature of the responses received and indication of proposed follow-up activity. Such registers shall be made available to the Controller and Auditor General upon request.

In view of the above noted that despite the existence of the Internal Auditor who regularly issued internal audit reports for the Municipality, apparently very little consideration and action was being taken by the Council's Authority and Finance Committee and no copies were being

sent to the CAG contrary to the Local Authority Financial Memorandum requirement or orders 12-16.

**Implication**

The purpose of establishing the Internal Audit Service Unit will be defeated if reports are not considered and action taken by the Director and Accounting Officer, thus improper or fraud payments might be made and effected without the notice of the management.

**Recommendation**

The management of the Council should make sure that reports prepared by the Internal Auditor are acted upon and replies made without delay and a copy submitted to National Audit Office for information and placing reliance on the amount of work by the Internal Auditor.

**Management Response**

The matter will be investigated to make sure that all internal auditor reports are prepared and submitted to the Resident Auditor.

**Audit Comment**

The management is advised to submit the reports without further delay.

#### 4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Moshi Municipal 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**

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**DODOMA.**

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## 5.0 ANNEXURES

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

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

ORGANIZATION STRUCTURE OF MOSHI MUNICIPAL COUNCIL

