

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



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

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

February, 2006

AR/LG/111/2005

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
HIPC	Highly Indebted Poor Countries
IFMS	Integrated Financial Management System
IG	Investment Grant
LGA	Local Government Authorities
LGRP	Local Government Reform Programme
NGO	Non-governmental Organisation
MoF	Ministry of Finance
OCAG	Office of the Controller and Auditor General
PER	Public Expenditure Review
ISA	International Standards 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
LGLB	Local Government Loans Board
TALGWU	Tanzania Local Government Workers Union
LAPF	Local Authority Pension Fund

Financial Statements means:

The Consolidated Balance Sheet, Consolidated Income and Expenditure Statement, Consolidated Cash-flow Statement, Notes and related schedules of Handeni District Council for the year ended 30th June 2005.

Council means - Handeni District Council, both as Councillors as well as an operating entity.

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction:

We have completed the audit of Handeni 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 Handeni District Council was established in 1984 in terms of the provisions of section 8 and 9 of the Local Government (District Authorities) Act 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 Government (District Authorities) Act, the Handeni 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, grants and loans from donor community. Total Income during the year was Shs.5, 412,998,763 made up of Shs.109, 242,373 from own sources and Shs.4, 633,543,824 from donors and government grants.

1.5 Management

Handeni District Council operates under the 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, 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 II 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 Handeni District Council complies with this order and Procurement Act. Nevertheless weaknesses arising 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.109,242,373 from own sources against the internal revenue budget of 185,896,853 reflecting a collection shortfall of Shs.76,654,480 or 41.2% The large 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.4, 633,543,824 making total revenue of Shs. 4,742,786,197 during the year.

Expenditure

The Council spent Shs.4,368,515,984 during the year against total income of shs.4, 742,786,197 or 92% of total revenue, leaving unspent amount of shs.374, 270213. 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.109,242,373 against expenditure of shs.4,368,515,984 is only 3 %, implying that the District council cannot sustain either its recurrent or development expenditure without depending on grants by 97%.

1.8 Audit Mandate:

By virtue of the provision of Article 143 of the Constitution of the United Republic of Tanzania, and Section 45 of the Local Government Public Finance Act No.9 of 1982, (revised, 2000) the Controller and Auditor General is the statutory auditor of all government revenues and expenditure, 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 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 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 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,
Tanga Region.

District Executive Director and Accounting Officer,
Handeni District Council.

RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF HANDENI 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 Handeni District shown as annexure I 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 Handeni 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 attention to economy and efficiency, whether the accounts have been kept in accordance with Generally Accepted Accounting Standards, and whether they do comply with the requirements of the Local Government Finances Act No. 9 of 1982 and the Local Authorities Financial Memorandum of 1997.

Basis of opinion

The audit was conducted in accordance with International Standards on Auditing and included such other audit procedures I considered necessary in the circumstances. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the significant estimates and judgments made in the preparation of the financial statements, assessing whether the internal control system and the accounting policies are appropriate to the circumstances of the Handeni District Council, consistently applied and adequately disclosed, evaluating the overall financial statements presentation, and assessing the extent of compliance with the statutory requirements. I believe the audit provides a reasonable basis for my opinion.

Disclaimer of Opinion

I was not able to verify 128 revenue receipt books, which were not produced for Audit. This limited the scope of my work on the revenue of Handeni District Council, the area which was considered equally important for Audit review.

Because of the significance of the matter above, I do not express an opinion on the financial statements of Handeni District Council as at 30th June 2005.

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

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

February 2006.

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow up on outstanding matters from the previous year ended 30th June 2004:

The following observations raised in the previous year's Management Letter and the Statutory Report are still outstanding:-

Year	Para	Audit recommendation	Status of implementation																	
2004	2.4	Sales proceeds of famine food relief not collected Shs. 4,692,250	No reply received																	
	2.5	Unclaimed salaries for employees not in service not surrendered to the Treasury Shs. 2,062,500	No reply received																	
	3.3.1	<p>Outstanding Debtors as at 30th June 2004 Shs. 48,729,229 (Audit Figure):</p> <table> <thead> <tr> <th><u>Category</u></th> <th><u>Amount Shs.</u></th> </tr> </thead> <tbody> <tr> <td>Advances</td> <td>4,116,472</td> </tr> <tr> <td>Imprests</td> <td>44,612,757</td> </tr> </tbody> </table>	<u>Category</u>	<u>Amount Shs.</u>	Advances	4,116,472	Imprests	44,612,757	Imprest amounting to Shs. 8405070 is still outstanding.											
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Advances	4,116,472																			
Imprests	44,612,757																			
3.3.2	<p>Creditors as at 30th June 2004 Shs. 44,945,937</p> <table> <thead> <tr> <th><u>Category</u></th> <th><u>Amount Shs.</u></th> </tr> </thead> <tbody> <tr> <td>LGLB</td> <td>1,500,000</td> </tr> <tr> <td>TALGWU</td> <td>534,952</td> </tr> <tr> <td>LAPF</td> <td>37,666,495</td> </tr> <tr> <td>Creditors of Goods & Services</td> <td>5,244,490</td> </tr> </tbody> </table>	<u>Category</u>	<u>Amount Shs.</u>	LGLB	1,500,000	TALGWU	534,952	LAPF	37,666,495	Creditors of Goods & Services	5,244,490	<p>The following amounts are still outstanding:</p> <table> <tbody> <tr> <td>LGLB</td> <td>1,500,000</td> </tr> <tr> <td>TALGWU</td> <td><u>534,952</u></td> </tr> <tr> <td></td> <td>2,034,952</td> </tr> <tr> <td></td> <td>=====</td> </tr> </tbody> </table>	LGLB	1,500,000	TALGWU	<u>534,952</u>		2,034,952		=====
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	2,034,952																			
	=====																			

Recommendation

More effort is needed to clear the previous outstanding matters for efficient financial management.

3.2 Current year's findings

(a) Revenue

(i) **Missing Revenue Earning Receipt Books Shs. 5,230,000**
128 Revenue earning receipt books worth 5,230,000 issued during the period July 2004 to June 2005 were not produced for audit verification.

Category	Quantity	Value
G/Fund-W.E.O	13	Open
Ushuru wa Mnada	12	Open
Market dues @ 500	25	1,250,000
Ushuru wa mazao @ 1000	24	2,400,000
Ushuru wa mazao @ 500	26	1,300,000
Market dues @ 100	<u>28</u>	<u>280,000</u>
TOTAL - SHS.	<u>128</u>	<u>5,230,000</u>

Implication

Collection made on the missing books could not be verified.

Recommendation

The Council has to strengthen the controls on the receipt books to avoid any room for misappropriation of public funds. Further the missing books should be traced and submitted to audit.

(ii) **Revenue Collections not Banked/or under banked- Shs. 3,495,000**

Revenue collections amounting to Shs. 3,495,000 pertaining to the year 2004/2005 were not banked/or were under banked. No action seemed to have been taken to stop recurrence. Further the above under banking should be investigated and appropriate action taken.

Implication

The circumstances may lead to loss of council's revenue.

Recommendation

The Council should ensure that all revenue collections are banked intact as required by financial regulations (order 189 of LAFM 1997).

(b) Expenditure

(i) Questionable purchases of school materials Shs.21, 499,800

Payments totalling Shs. 21,499,800 were made to M/s Nassa Trans & Upendo Mult Trade and M/s Wami Traders for the supply of 30,714 health cards for Primary Schools on instructions issued by the Ministry of Education and Culture while no special funds were allocated for such purpose. The amount paid by the Council on behalf of the schools was therefore to be reimbursed from the schools Capitation Funds. However, the following irregularities were noted during the audit.

- Quotations were used instead of tender procurement method.
- No evidence of claim and refund of the amount were produced when called for.

Implication

Funds may not be utilized on intended purposes.

Recommendation

The Council Management should ensure recovery of the amount paid and properly account for the same.

(ii) Transfers of Funds not refunded - Shs. 20,519,655

A total amount of Shs. 20,519,655 was transferred between the Accounts during the year under review and no records were produced to show that the amounts have been refunded to the giving accounts.

Implication

This may cause problems in budgetary control.

Recommendation

The Council should ensure the refund of the amount to the respective accounts.

(iii) Payment of salary to ex-employees' bank accounts Shs. 1,010,166.88

The records made available to audit revealed that Shs.1, 010,166.88 was paid to six ex-employees' bank accounts. The evidence of refund of the amount to the Council or the Treasury was not produced.

Implication

Apparent lack of communication between the Administration and Finance Departments signify the weakness in internal control system, and may cause a loss of government funds.

Recommendation

The management of the council is urged to make follow up in order to recover the amount involved from the Bank or ex-employees.

(c) Final financial statements

(i) Current Assets

Outstanding Debtors Shs. 89,652,922

The Consolidated Balance Sheet reflected the following outstanding debtors. Nevertheless, the accounts did not include details of the individual Debtors with age analysis. Moreover, the Council did not state its policy on debtors and no provisions for doubtful or bad debts were made.

Category	Amount Shs.
Primary school	44,953,300
Imprests	33,880,822
Women Development	10,818,800
Total Shs.	<u>89,652,922</u>

Implication

Lack of age analysis limits assessment of recoverability of debts. Also the existence of such large outstanding debtors implies the lack of serious efforts by the Council to have these amounts collected.

Recommendations

The Council should ensure the collection of these debts as soon as possible so that the money can facilitate other activities of public interest.

(ii) Outstanding Creditors Shs. 31,587,905

The Balance Sheet disclosed Creditors of Shs. 31,587,905 outstanding as at 30th June 2005. Nevertheless, the accounts did not include details of the individual Creditors with age analysis. Moreover, the Council did not state its policy on creditors.

Implication

This implies that, the Council's delay in settling such bills consequently may tarnish the existing good image of the Council in face of related third parties.

Recommendation

The Council should ensure the payment of these creditors immediately to maintain good understanding with them.

(d) Bank reconciliation statements**(i) Uncleared Balances:**

Verification of the bank reconciliation statements as at 30th June 2005 disclosed uncleared balances as detailed below:-

ACCOUNTS	DEPOSIT IN TRANSIT	
	30/6/05	31/10/05
Education	54,385,804	3,499,250

Implication

This implies that the council has no strong controls in monitoring the movement of cheques.

Recommendation

The Council Management should ensure clearance of the outstanding item.

4.0 CONCLUSION.

The detailed audit findings presented above have been communicated to the management of Handeni District Council during exit meeting. The Management has promised to take appropriate action with a view to rectify the situation. We 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: The Permanent Secretary,
Prime Minister's Office,
Regional Administration and Local Government,
Box 1923,
DODOMA.

The 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 Handeni District Council - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF HANDENI DISTRICT COUNCIL

