

**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL  
ON THE FINANCIAL STATEMENTS OF KOROGWE TOWN COUNCIL  
FOR THE YEAR ENDED 30<sup>TH</sup> 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](mailto:ocag@nao.or.tz)  
Dar es Salaam, Tanzania.

February, 2006

AR/LG/113/2005

## 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 Korogwe Town Council for the year ended 30<sup>th</sup> June 2005.

Council means - Korogwe Town Council, both as Councilors as well as an operating entity.

## **1.0 BACKGROUND INFORMATION TO THE AUDIT**

### **1.1 Introduction:**

We have completed the audit of Korogwe Town Council for the year ended 30<sup>th</sup> June 2005. Audit findings arising from examination of accounting 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 Korogwe Town 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 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 the Korogwe Town 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 source 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.836,267,757 made up of Shs.167,408,566 from own sources and Shs.668,859,191 from government grants.

## **1.5 Management**

The Korogwe Town 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 Town Council is the Town Director who is responsible for 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, Works and Education. Others are; Town planning and environment, Country Development, Agriculture-Livestock & Cooperatives and Economic & Trade.

## **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 Treasury 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 Korogwe Town Council abide by this order and Procurement Act but is lacking an audit committee which is part of transparency and good governance. Nevertheless weakness arises from review of internal control system are included under part 3 of this report.

## **1.7 Financial Performance Issues**

### **Revenue**

The District Council collected an amount of Shs.167,408,566 from own sources against the internal revenue budget of Shs.206,827,253 reflecting a collection shortfall of Shs.39,418,687 or 19%. 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.668,859,191 making total revenue of Shs.836,267,757 during the year.

## **Expenditure**

The Council spent Shs.879,297,173 during the year against total income of Shs.836,267,757 causing a deficit of Shs.836,267,757. 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.167,408,566 against expenditure of Shs.851,596,856 (net of depreciation) is only 19.7% implying that the District Council cannot sustain either its recurrent or development expenditure without depending on grants.

### **1.8 Audit Mandate:**

By virtue of the 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 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 Municipal 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 governing regulations.
- To ascertain whether all supporting documents, records and accounts have been kept in respect of all Town 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 Council 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 Town 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 Town 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 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, 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,  
Tanga Region

Council Director and Accounting Officer  
Korogwe Town Council

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS  
OF KOROGWE TOWN 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 Korogwe Town Council shown on appendix 2 of this report for the financial year ended on 30<sup>th</sup> June 2005.

### **Responsibility of Council Management on the financial statements**

These financial statements are the responsibility of the management of Korogwe Town 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 (GAAS). 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 Korogwe Town Council, consistently applied and adequately disclosed, evaluating the overall financial statement presentation, and assessing the extent of compliance with the statutory requirements. I believe the audit provides a reasonable basis for my opinion.

**Opinion**

In my opinion, the financial statements fairly reflect, in all material respects, the financial position of the Korogwe Town 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 the International Financial Reporting Standards.

Further to my opinion, the transactions of purchases of goods such as 1 Land Cruiser (VX), Fire resisting sets, 1 set of AC and 1 Lap Top Computer 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.**

February 2006.

### 3.0 AUDIT FINDINGS AND RECOMMENDATIONS

#### 3.1 Follow-up on previous audit findings

The following observations raised in my previous years' reports have not been fully dealt with:-

Year	Para	Audit recommendation	Status of implementation												
2003/2004	3.2	Transfer of funds Between Accounts Shs.20,487,100	A sum of Shs. 487,100 is still outstanding.												
	4.1	Outstanding Balances in the Consolidated Balance Sheet as at 30 <sup>th</sup> June 2004.  <table><thead><tr><th>Category</th><th>Amount Shs.</th></tr></thead><tbody><tr><td>Advances</td><td>740,000</td></tr><tr><td>Imprests</td><td>10,092,200</td></tr><tr><td>Debtors</td><td>4,820,200</td></tr><tr><td>Stale cheques</td><td>4,631,935</td></tr><tr><td>Creditors</td><td>19,340,236</td></tr></tbody></table>	Category	Amount Shs.	Advances	740,000	Imprests	10,092,200	Debtors	4,820,200	Stale cheques	4,631,935	Creditors	19,340,236	All amounts are still outstanding
Category	Amount Shs.														
Advances	740,000														
Imprests	10,092,200														
Debtors	4,820,200														
Stale cheques	4,631,935														
Creditors	19,340,236														

#### Recommendation

The Council management should implement the audit recommendations made in the previous report in order to clear all the above outstanding matters.

#### 3.2 Current year's audit findings

##### 3.2.1 Revenue Collections not Banked - Shs.612,050

Examination of revenue collections and related banking records revealed an underbanked amount of Shs.612,050. No action has been taken to make good the difference.

#### Implication

- The Council does not make regular checks and there is a high risk of misappropriation of revenue.
- Total revenue for the year has been understated.

#### Recommendation

The Council should ensure that all revenue collections are banked intact as required by order no.189 of the LAFM 1997.

### **3.2.2 Doubtful payment on additional works shs.5,850,000**

We noted that the Council Engineer issued a certificate of payment for unapproved additional works worth shs.10,440,000 in respect of construction of the Council main building. It was further noted that the payment certificate was not supported with either actual or estimated bill of quantities.

However, it was revealed that the claim raised by the contractor amounted to shs.4,590,000 only leaving un-explained payment of shs.5,850,000.

#### **Implication**

- There is a possibility of collusion between the two parties to the contract.
- Breach of order No.285 of the LAFM 1997, which requires claims pertaining to additional works to be referred to the Tender Board for approval.

#### **Recommendation**

The management is advised to investigate the matter for appropriate cause of action. Results of the investigation should be submitted to audit for verification.

### **3.2.3 Inter-account transfers not refunded - Shs.11,750,000**

A total amount of Shs.11,750,000 was temporary transferred from one bank account to another. Upon inquiry, the Council did not produce written evidence to substantiate that; the amount transferred has been refunded to the respective Account.

#### **Implication**

Non-refund of the transferred amounts to the right account, amounts to diversion and misallocation of funds to activities not approved by the Full Council.

#### **Recommendation**

The management should refund the amounts to the respective account and adjust the ledger balances.

### **3.2.4 Outstanding Government Grants Shs.9,453,136**

An examination of pay rolls (wage bills) for the period Sept 2004 to June 2005 against Telegraphic Transfers (T.Ts) showed that grants amounting to Shs.9,453,136 were not received from the Treasury as budgeted. Nevertheless, there was no correspondence between the Council and Treasury showing the reasons for non-release of the funds.

#### **Implication**

The Council's cash flows were affected.

**Recommendation**

The Council should follow-up the matter with Treasury to establish the reasons and look for a possibility of obtaining the difference in order to improve its liquidity.

**3.2.5 Unvouched and Improperly Vouched Expenditure Shs.44,126,000**

An examination of payment vouchers against Cash Book revealed missing payment vouchers amounting to shs.30,000,000. In addition, payment adding to shs.14,126,000 were not supported with paylists, delivery notes and final invoices. In the absence of the vital records, we could not establish the authenticity and regularity of the expenditure incurred.

**Implication**

The Council lacking proper control over custody of accounting records.

**Recommendation**

The internal check system should be strengthened and custody of accounting records empowered.

**3.2.6 Questionable repair of motor vehicles Shs.11,407,000**

Various payments totalling Shs.11,407,000 were made to sundry payees out of Health Services Account for repairs of Council's motor vehicles.

However, we noted that an excess amount of shs.7,907,000 was spent since only shs.3,500,000 was budgeted for the purpose. Moreover, the management did not give an evidence of sanction by the relevant authority. In addition, we noted that out of this payment, shs.5,000,000 was a refund to M/s Nassa Trans & Mult Trade being costs of repairing Council's Lorry No. SM 734 while on hire to the same company. Even so, there was no prior express argument to support the payment. An inspection of the Lorry found that it was grounded apart from the repair costs incurred.

**Implication**

The situation could lead to collusion and misappropriation of public funds.

**Recommendation**

The Council Director should investigate the matter for necessary action. In addition results of the investigation and action taken should be rendered to audit for verification.

**3.2.7 Overdrawn Bank Accounts Shs.12,543,040**

An examination of Bank reconciliation statements dated 30<sup>th</sup> June 2005 against cashbooks noted that five bank accounts were overdrawn by shs.12,543,543 without prior approval of the Minister as required by

section 12(i) of the LGPA No.9 of 1982. Details of the overdrawn accounts are shown below.

<b>Account Name</b>	<b>Amount overdrawn Shs.</b>
General Fund	10,219,066.00
Works Fund	350,492.00
Education Fund	99,496.95
Health Services	1,412,200.85
Rural Water	461,784.00
<b>Total</b>	<b><u>12,543,039.80</u></b>

#### **Implication**

- The internal check system is not adequate to monitor bank balances and budget.
- The amount contributed to excess expenditure.

#### **Recommendation**

The Director of the Council should ensure that, payments do not exceed budgetary provisions.

#### **3.2.8 Outstanding Debtors and Creditors**

The Consolidated Balance Sheet reflected Debtors amounting to shs.15,954,740 comprising Revenue Debtors, Advances and Imprests. On the other hand, the statement reflected Creditors worth shs.30,564,100. nevertheless, the accounts did not include age analysis of both Debtors and Creditors. Moreover, the Council did not state its policy on Debtors and Creditors and no provision for doubtful or bad debts was made.

#### **Implication**

Lack of age analysis limits assessment of bad and doubtful debts and implementation of Debtors and Creditors policy if any.

#### **Recommendation**

The management is advised to improve debts collection efforts and came up with policy of dealing with both Debtors and Creditors.

#### 4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Korogwe Town Council during our 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: Permanent Secretary,  
Prime Minister's Office,  
Regional Administration and Local Government,  
Box 1923,  
**DODOMA.**

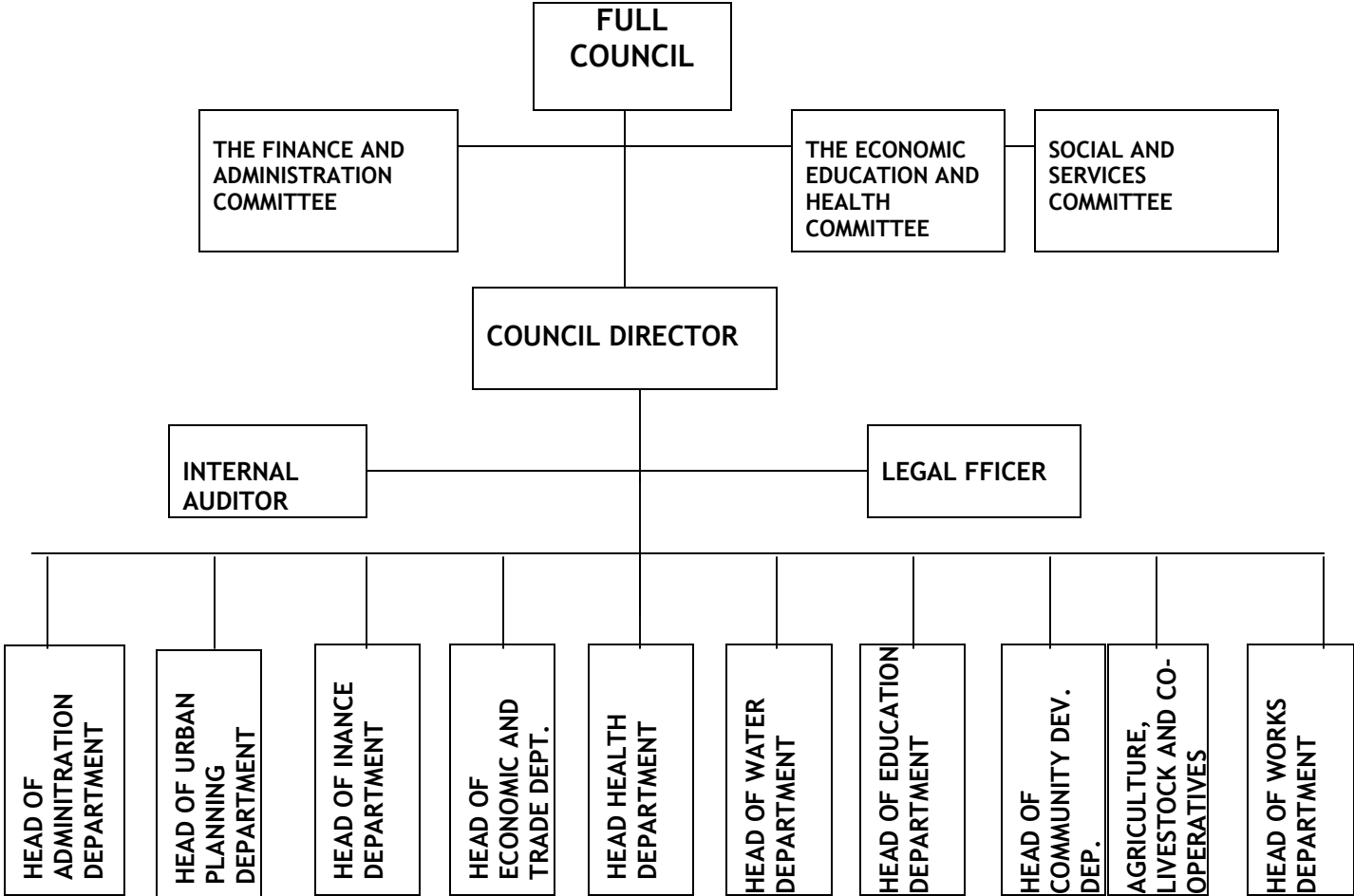
Permanent Secretary and Paymaster General,  
Ministry of Finance,  
Box 9111,  
**DAR ES SALAAM.**

## 5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF KOROGWE TOWN COUNCIL



**Note:** At the moment the services of Internal Auditor and Legal Officer are obtained from Korogwe District Council.