

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF KILOSA 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
E-mail ocag@nao.or.tz
Dar es Salaam, Tanzania.

February, 2006

AR/LG/070/2005

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.

- © This audit report is intended for use by government authorities. However, upon receipt of the General Report of the CAG by the Speaker, this report is a matter of Public record and its distribution may not be limited.

Table of Contents

	Page
1.0: Background information to the audit	5
1.1: Introduction	5
1.2: Brief history of the client establishment	5
1.3: Operational objectives	5
1.4: Financing	6
1.5: Management structure	6
1.6: Brief description of internal control system	6
1.7: Financial Performance Issues	7
1.8: Audit mandate	7
1.9: Audit objectives	7
1.10: Audit scope	8
1.11: Audit methodology	8
1.12: Presentation of audit findings	9
2.0: Audit report on the financial statements	10-12
3.0: Audit findings and recommendations	13
3.1: Follow up of previous year's Audit findings	13
3.2: Current audit findings	13-16
4.0: Conclusion	16
5.0: Annexures	
Financial statements, accounting policies and notes to the financial statements	

Definition of terms and Abbreviations

Financial Statements means: The Consolidated Balance Sheet, Consolidated Income and expenditure Statement, Consolidated Cash-flow Statement, Notes and related schedules of Kilosa District Council for the year ended 30th June 2005.

Council means: Kilosa District Council, both as Councillors as well as a operating entity

CAG	Controller and Auditor General
CD	Council Director
DED	District Executive Director
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
LGA	Local Government Authorities
LGRP	Local Government Reform Programme
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
NSSF	National Social Security Fund
OCAG	Office of the Controller and Auditor General
ISA	International Standards on Auditing
PV	Payment Voucher
PO-RALG	President'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
TIN	Tax-payer Identification Number

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction:

I have completed the audit of Kilosa District Council for the period ended 30th 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 Kilosa District Council was established in 1984 in terms of the provision of section 8 and 9 of the Local Government Act (District Authorities) 1982. Besides the Act, the council operates within the framework of the following instruments.

- Local Authority Financial Memorandum 1997.
- Public Procurement Act No 21 of 2004.
- Local Government Finances Act No 9 of 1982.

1.3 Operational objectives

According to the Local Government (District Authorities) Act, the Council has the following objectives:

- (a) To maintain and facilitate maintenance of peace, order and good governance within its area of jurisdiction.
- (b) To promote the social welfare and economic well being of all persons within its area of jurisdiction.
- (c) Subject to the national policy and plans for Rural and Urban Development, to further the social and economic development of its area of jurisdiction.
- (d) Collection of Public funds through taxes, licenses, fees and charges.
- (e) To convince the public that the use of funds have achieved the maximum benefits through sound financial management.

Short Term Objectives

In addition to the above objectives, the Council has the following short-term objectives:

- (a) To formulate, co-ordinate and supervise the implementation of all plans for the economic, commercial, industrial and social development.
- (b) To establish, preserve, maintain, improve, and regulate the use of forests and forest produce.

- (c) To build classrooms, teacher's quarters and pit latrines for the primary and secondary schools so as to provide for the increase of children in primary education and raise the number of pupils to be enrolled in secondary schools.

1.4 Financing

The Council has two sources of funds; which are own source and external source. The own source includes collection of Public funds through taxes, fees, licenses and charges. On the other hand, external source includes subsidies from central government as well as grants and loans from donor community. From these sources, total Income during the year was Shs.8,313,736,116.09 made up of Shs.263,225,108.00 from own sources, Shs.7,290,349,927.7 from government grants and Shs.760,161,080.54 from donors.

1.5 Management

The Kilosa 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 Council is the District Executive Director (DED), 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. However, for the time being both posts are vacant.

In addition the structure provides for functional departments namely: Administration, Finance, Economic and Trade, Health, Education, Works, Planning and Environment, Agriculture, Livestock and Co-Operatives as well as social welfare and Community Development.

1.6 Internal Control System

A system of internal control that should be adopted by councils is given under order 9 through 11 of the Local Authority Financial Memorandum; 1997. The Order requires the finance committee to adopt written procedures for proper control of finances. In addition, the Director and the Treasurer should ensure there is assignment of specific responsibilities to individual officers, an organization chart of the Finance Department, division of responsibilities and periodic rotation of duties. Accountability of all areas of operations by the Director or his designated representative to check effectiveness of the control system is also mandatory. The Council is further required to employ its own Internal Auditor who report 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 Section 34 (1) provides for Establishment of Procurement Management Unit.

The Internal Control set up of Kilosa District Council abides by this order and Procurement Act, but is lacking an internal auditor and Legal officer. Weaknesses arising from review of internal control system are included under part 3 of this report.

1.7 Financial Performance Issues

Revenue

The District Council collected an amount of Shs.263,225,108 from own sources, the internal revenue budget was not disclosed. In addition the council received grants amounting to Shs.8,050,511,008 making total revenue of Shs.8,313,736,116 during the year.

Expenditure

The Council spent Shs. 9,287,139,805 during the year against total income of Shs.8,313,736,116 or 111% of total revenue, causing deficit amount of Shs.973,403,689. 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.263,225,108 against expenditure of shs.9,287,139,805 (net of depreciation) is only 2.8%, 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 auditor of all government revenues and expenditure, including the revenues and expenditure of this Council.

1.9 Audit objectives.

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

- To determine whether transactions were executed in accordance with the financial regulations, and recorded properly in the books of account for easy preparation of the financial statements.
- To determine whether the revenues due have been collected and used to meet expenses as per approved budget and governing regulations.
- To ascertain whether all supporting documents, records and accounts have been 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.

1.10 Audit Scope

The audit was carried out in accordance with the International Standards on Auditing. The audit covered the evaluation of effectiveness of the financial accounting system and Internal Control over the activities of the District Council, examination and verification of the accompanying financial statements and other auditing procedures as was considered necessary for the purpose of forming an opinion on the financial statements. The audit was conducted on a test check basis; therefore the findings are confined to the extent that records and information requested for the purpose of the audit were made available to us.

As auditors we are not required to search specifically for fraud; herefore our audit cannot be relied upon to disclose all such matters. However, our audit was planned so that we would have a reasonable expectation of detecting material misstatement in the financial statements resulting from irregularities or fraud. The responsibility for detection and prevention of irregularities and fraud, rests with the Council management who are responsible for setting up and maintaining an adequate and effective system of internal control.

1.11 Audit Methodology

In examining the financial statements together with the underlying records the following audit steps were followed;

- A review of the council's regulations, guidelines and other Authority's documents as was deemed necessary under the circumstances.
- Examination of receipts and payments to confirm compliance with existing legislation, financial regulations and other instructions or directives.
- A review of the internal control structure by assessing significant policies and procedures and establish its adequacy.
- Review of financial statements, progress reports, various implementation reports and other associated information.

- Conduct compliance tests on the system of awarding contracts and their execution.
- Interview and discussion with some of the staff and other key stakeholders in the implementation of various activities.
- Conduct local inspection to verify physical implementation of planned activities as well as assessing the progress made.
- Hold entrance and exit meetings with the auditee to discuss the audit objectives and results of the audit, respectively.

1.12 Presentation of audit findings

The audit was carried out according to the mandate stated above, applying professional standards and audit procedures that were considered appropriate in each situation.

The audit findings are divided into two parts. The first part comprises the opinion on the critical examination of the financial statements submitted for audit and the circumstances surrounding their preparation and presentation.

The second part comprises the detailed findings on the gaps and shortfalls in the internal control system and compliance which, if rectified on time, will greatly improve the effectiveness of the internal control system applied.

2.0 AUDIT REPORT ON THE FINANCIAL STATEMENTS

To: The Regional Commissioner,
Morogoro Region.

District Executive Director and Accounting Officer
Kilosa District Council.

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

Responsibility of the Council Management on the financial statements

These financial statements are the responsibility of the management of Kilosa District Council.

Order Nos. 9 through 16 of the LAFM requires the Council Management to establish and support a sound system of Internal Control within the Council. Order No. 53 places responsibility on the Council to prepare and present the financial statements based on 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 Kilosa 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.

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

Except for the material matters pointed out below, in my opinion the financial statements fairly reflect, in all material respects, the financial position of Kilosa District Council as at 30th. June 2005 and the results of the operations and cash-flows for the year then ended, in accordance with Part IV of the Local Government Finances Act No. 9 of 1982.

Fundamental disagreement and Non compliance with the Law:

1. The Consolidated Income and Expenditure Statement is neither presented in the format prescribed in the Local Government Accounting Manual nor Generally Accepted Accounting Standards and it is difficult to follow.
2. Notes to the financial statements are not appended for disclosure purposes as per Generally Accepted Accounting Standards.
3. The financial statements are neither appended with any notes nor accounting policies for disclosure purposes.
4. There is outstanding matters uncleared from previous year's audit findings amounting to Shs.204,567,521.00
5. The Consolidated Balance Sheet reflected Debtors amounting to Shs.161,146,278.00 and creditors worth Shs.181,185,969.79 without age analysis and the policy on Debtors and Creditors was not disclosed.

Further to my opinion, the transactions of procurement of: service and repair of health centres, vehicle maintenance, fuel, road-works, and consultancy services, for Kilosa District Council which I have tested as part of the audit, have generally complied with the requirements of the Public Procurement Act No.21 of 2004.

The details of these matters are given in Part 3 of this report.

Dr. Frank Mosses Hiza Mhilu

Ag. CONTROLLER AND AUDITOR GENERAL

Office of the Controller and Auditor General
The National Audit Office
Dar es Salaam
March, 2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow-up of Previous Audit Findings

Para	Description	Amount Queried (Shs)	Amount Outstanding (Shs)	Comment
6.1.1.1	Outstanding Sundry Debtors	18,215,400.00	17,603,000.00	More efforts should be exerted to recover the outstanding balance.
6.1.1.2	Outstanding Imprests and Advances	83,777,452.20	83,777,452.20	More efforts should be exerted to pay the outstanding balance.
6.1.2	Outstanding Creditors	115,113,406.95	95,942,893.00	More efforts should be exerted to pay the outstanding balance.
6.1.3	Unclaimed Salaries	18,340,000.00	7,244,175.29	The outstanding balance should be paid back

3.2 Current Audit Findings

3.2.1 Decline in Revenue Collection

Year	Budget	Actual Collection	%	Remarks
2003	513,581,100	425,395,738.00	82%	Low
2004	81,055,511	61,269,152.00	75%	Low
2004/05	259,612,800	169,414,751.64	66%	Low

Implication

The above trend indicates that, the revenue performance is declining every year since actual collections had never been achieved as compared to approved budget.

Recommendation

Realistic budgeting is required and effort to collect more revenue should be exerted.

3.2.2 Payments against proforma invoice - Shs. 5,169,100.00

Total amount of Shs.5,169,100 was paid to Medical Stores Department DSM from Health account for purchases of dental equipment vide PV No.616, cheque No. 045214 and Proforma Invoice No. DU/65/42 of 01/06/2005. The items ordered and paid for against a proforma invoice were neither receipted nor a delivery note was produced to support the same as detailed belows:

Items	Amount (Shs.)
12 Packets Triple distilled dental mercury 500mg @ 23,100/=	277,200
20 " Calcium hydroxide 12g base, 12g-catalist @ 17,300/=	346,000
10 " Glass/onemer (art) @ 76,600/=	766,000
15 " Zinc Oxide - Enginol @ 14,900/=	223,500
20 Pcs Scaler @ 9,300/=	186,000
20Pcs Mouth mirror handle @ 3,000/=	60,000
20 Sets Mouth mirror heads @ 24,100/=	482,000
20 Pcs upper molar forceps - right @ 30,000/=	600,000
20 Pcs upper molar forceps - left @ 30,000/=	600,000
30 Pcs Lower Pre-molar forceps @ 30,000/=	900,000
20 Pcs upper pre-molar forceps @ 30,000/=	600,000
1 Packet Light cure composite @ 128,400/=	128,400
Total	5,169,100

Implication

In the absence of cash sale and delivery note, the delivery of the stated items could not be confirmed.

Recommendation

Ensure that the items were collected, receipted and accounted for as per order No. 207 (i) and 223 to 224 of the Local Authority Financial Memorandum (1997).

3.2.3 Outstanding Debtors-Shs.161,146,278.18

Debtors reflected in the final financial statements as 30th June 2005, were as follows:-

Category	Amount outstanding as on 30/6/2004 (Shs.)	Additions as on 30th 30/6/2005 (Shs.)	Total Amount reported (Shs.)
House rent	17,603,000.00	2,508,500.00	20,111,500.00
Imprests	59,689,261.90	42,650,160.98	102,339,422.88
Advances	24,088,190.30	14,607,165	38,695,355.30
Total	101,380,4520.20	59,765,825.98	161,146,278.18

Implication

Failure to recover the debtors may lead to forfeiture of the activities the funds were budgeted for as well as inviting unnecessary loss

Recommendation

A follow-up should be made to recover the debtors and recovery particulars availed to audit for verification.

3.2.4 Outstanding Creditors Shs.181,185,969.79

Creditors disclosed in the Balance Sheet for the year ended 30th June, 2005 amounted to Shs.181,185,969.79 consisting of the following:-

Category	Amount outstanding as at 30/6/2004 Shs	Additions as at 30/6/2005 Shs.	Total Amount reported Shs.
LAPF	43,677,726	36,684,486.39	80,362,212.39
LGLB	11,860,900	--	11,860,900
Private suppliers	40,404,267	--	40,404,267
Unclaimed salaries	18,046,000	18,590,726	36,636,726
Unclaimed LAPF	--	11,829,622.40	11,829,622.40
Overdraft Cash Bank PFM - A/c	--	92,242	92,242
Total	113,988,893	67,197,076.79	181,185,969.79

Implication

Non settlement of debts in time tarnishes the Council's credit worthiness. Further, the Council may face financial instability when compelled to settle the amount.

Recommendation

The management is advised to come up with a policy for managing creditors and ensure that the outstanding amounts are cleared.

3.2.5 Presentation of Financial Statements

The Consolidated Income and Expenditure Statement is neither presented in the format prescribed in the Local Government Accounting Manual nor Generally Accepted Accounting Standards and it is difficult to follow.

Further, Financial Statements are neither appended with any notes nor accounting policies for disclosure purposes.

Implication

- There is departure from approved reporting standards.
- There is disagreement between the financial statements and underlying records.

Recommendation

In the future the management should present the financial statements in the Generally Accepted Accounting Standards

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Kilosa District Council during exit meeting held on 23rd November, 2005. The Management of Kilosa District Council has promised to take appropriate action with a view to rectify the situation. I shall appreciate to receive formally the action taken in this respect.

Lastly, I would like to express my appreciation for the co-operation given to the audit team. It is my hope that such good working relationship will be extended during future audits.

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

Copy to: The Permanent Secretary,
Prime Minister's Office,
Regional Administration and Local Government,
P O Box 1501.
Dodoma

The Permanent Secretary and Paymaster General,
Ministry of Finance,
P O Box 9111,
Dar es Salaam

5.0 ANNEXURE

- The Financial Statements of Kilosa District Council for the year ended 30th June 2005
- Organization structure of Kilosa District Council - annexure II

ORGANIZATION STRUCTURE OF KILOSA DISTRICT COUNCIL

