

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND ANDAUDITOR GENERAL ON
THE FINANCIAL STATEMENTS OF MOROGORO DISTRICT COUNCIL
FOR THE YEAR ENDED 30TH JUNE 2005**

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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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Table of Contents

	Page
1.0 Background information to the audit	4
1.1 Introduction	4
1.2 Brief history of the client establishment	4
1.3 Operational objectives	4
1.4 Financing	5
1.5 Management structure	5
1.6 Brief description of internal control system	6
1.7 Financial Performance issues	6
1.8 Audit mandate	6
1.9 Audit objectives	7
1.10 Audit scope	7
1.11 Audit methodology	8
1.12 Presentation of audit findings	8
2.0 Audit report on the financial statements	9-11
3.0 Audit findings and recommendations	12
3.1 Current year's findings	12-14
4.0 Conclusion	14-15
5.0 Annexures	16
I. Financial Statements and Notes to the Financial statements	
II. Organisation Structure	

Definition of terms and abbreviation

Financial Statements means:

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

Council means: Morogoro District Council, both as Councillors as well as an 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
IFMS	Integrated Financial Management System
LGA	Local Government Authorities
LGRP	Local Government Reform Programme
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
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 Morogoro 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 Morogoro 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 District Council of Morogoro 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.8,114,183,970 made up of Shs.488,295,117 from own sources, Shs.7,289,511,790 from government grants and Shs.336,377,063 from donors.

1.5 Management

The Morogoro District Council operates under directives of the full Council which is a supreme body for legislative responsibilities. Under the Full Council there are three Committees which are directly answerable to it. The Chief Executive for the District Council is the District Executive Director (DED), who is responsible for 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, District 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 Morogoro 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

Revenue

The District Council collected an amount of Shs. 488,295,117 from own sources against a revenue budget of Shs.631,154,600 reflecting a shortfall of Shs.142,859,483 or 23% of the internal revenue budget. In addition, the Council had budgeted for grants of shs.5361,272,502 but grants received amounted to Shs.7,625,888,852 making total revenue of Shs.8,114,183,970 during the year. The internal sources represented only 6% of the total funds available for use during the year.

Expenditure

The Council spent Shs.8,612,441,625.00 during the year against total income of Shs.8,114,183,970 or 106% of total revenue causing an overspent amount of Shs.498,257,655. The total internal revenue against expenditure of shs.8,612,441,625 (net of depreciation) was 6% only, 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 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 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; 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 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,
Morogoro District Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS
OF MOROGORO 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 Morogoro District Council shown as annexure 1 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 Morogoro District Council.

Order Nos. 9 through 16 of the LAFM require 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 Morogoro 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

In my opinion the financial statements fairly reflect, in all material respects, the financial position of Morogoro 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.

Further to my opinion, the procurement of office equipment, motor cycles, motor vehicle maintenance, fuel, road-works, and consultancy services, for Morogoro District Council which I have tested as part of the audit, have generally complied with the requirements of the Public Procurement Act No.21of 2004.

Matters of Emphasis:

- (1) Three general receipt books (HW5) not quantified were not produced during the audit when called for.
- (2) A test check of the year's accounts disclosed missing payment vouchers totalling Shs.4,664,000.

- (3) Notes to financial statements are not appended for disclosure purposes as per Generally Accepted Accounting Standards.
- (4) The council did not disclose its policy on debtors and creditors while the Consolidated Balance Sheet reflected Debtors amounting to Shs.49,807,000 and creditors worth Shs.257,852,150 relating to unpaid suppliers.
- (5) During the period July, 2004 to June, 2005, the Council did not achieve some of the targeted objectives.
- (6) The Council depends heavily on grants since internal revenue is only 6% of total expenditure. In addition, during the year under review the Council exceeded the approved expenditure budget by 31%.

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 Current Audit Findings

3.1.1 Missing Revenue Receipt Books

Three General receipt books (HW5) not quantified were not produced during the audit when called for as detailed below:-

HW5 Serial No.	Date Issued	To whom Issued
91201-250	14/7/2004	H. Mfulu
92051-050	28/7/2004	Frank
99751-800	7/3/2005	P.Mfulu

Implication

In absence of the receipt books, accountability of the revenue collected, could not be ascertained.

Recommendation

The Council should ensure that, all revenue receipt books have been traced and made available for audit scrutiny as required by the Local Government Financial Memorandum (LAFM 1997).

3.1.2 Unvouched Expenditure-Shs.4,664,000.00

A test check of the year's accounts disclosed missing payment vouchers totalling Shs.4,664,000 as detailed below:-

Account	Pv No.	Amount	Cheque No	Payee
Health	61/12	3,588,000	161607	Kasanga Traders
	57/11	1,076,000	161707	DED-Morogoro
	Total	4,664,000	-	-

Implication

In the absence of the above mentioned payment vouchers the propriety of the expenditure could not be determined.

Recommendation

The Council should exert more effort to trace the missing payment vouchers for proper accountability and audit as well.

3.1.3 Advancement of Funds from Development Account For General Fund Expenses

During the year under review, the Council paid Shs.6,131,451 to an Agent through National Micro Finance Bank Morogoro vide PV 5/2 Cheque No.013879 from Development Account (Tourist Funds) for meeting clearing and forwarding expenses of a motor vehicle belonging to planning department. However, the amount borrowed has not reimbursed to the giving account.

Implication

The tourism activities could not been achieved.

Recommendation

The Council should ensure that, the amount borrowed has been reimbursed to respective account.

3.1.4 Outstanding Debtors and Creditors

The Consolidated Balance Sheet reflected Debtors amounting to Shs.49,807,000 and creditors worth Shs.257,852,150 relating to unpaid suppliers. Nevertheless, the accounts did not show age analysis and did not state the Council's policy on Debtors and Creditors. More details are as follows:

Debtors	Amount (Shs)	Creditors	Amount (Shs)
Sundry Debtors	36,138,949	Sundry Creditors	241,746,478
Staff Advances	9,384,300	Unclaimed Salaries	16,105,672
Staff Imprests	4,283,751		
Total	49,807,000		257,852,150

Implication

Lack of age analysis limits assessment of recoverability of debts and implementation of Creditors policy if any.

Recommendation

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

3.1.5 Unachieved objectives

During the period July, 2004 to June, 2005, the Council did not achieve the targeted objectives.

The table below indicate that, two development activities have not been completed.

Performance Budget Code	Activity/Target	Funds Allocated Shs.	Implementation	%
DO 6C 44	Construction of 3 teachers' houses at Kivuma Mganzi Tambuu	10,834,000	Only one house was completed	34%
AO1502	Construction of Mikongeni Water Supply Project	10,000,000	Partly Completed Engine not fixed	

Implication

Unrealistic budgeting is implied.

Recommendation

The management is advised to set realistic goals in the budgetary process.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Morogoro District Council during our exit meeting held on 23rd November, 2005. The Management of Morogoro 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,
 President's Office,
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 P O Box 1923,
 Dodoma

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

5.0 ANNEXURE

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

ORGANIZATION STRUCTURE OF MOROGORO DISTRICT COUNCIL

