

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



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

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March 2006

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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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## ABBREVIATIONS AND DEFINITION OF TERMS

Financial Statements means:

The Consolidated Balance Sheet, Consolidated Income and expenditure Statement, Consolidated Cash-flow Statement, Notes and related schedules of Kilombero District Council for the year ended 30<sup>th</sup> June 2005.

Council means - Kilombero District Council, both as Councilors as well as an operating entity.

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

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

### **1.1 Introduction**

I have completed the audit of Kilombero District Council for the year ended 30<sup>th</sup> June 2005. Audit findings arising from examination of accounting records, appraisal of activities, and evaluation of the internal control system which require Management attention and action are set out under part three of this report.

### **1.2 Brief history of client establishment**

The Kilombero District Council was established in 1984 in accordance with the provisions 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 section III (1) of the Local Government (District Authorities) Act and the Local Authority financial Memorandum, the District Council of Kilombero 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.

In addition to these objectives, the Council has short-term objectives geared towards alleviation of severe malnutrition, food security and poverty alleviation. Other short-term objectives include; improvement of health facilities, clean water supply, improving road sector and reduction of HIV/AIDS prevalence.

### **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.8,211,418,423 made up of Shs.351,523,883 from own sources, Shs.7,859,894,540 from government grants and donors.

### **1.5 Management structure**

The Kilombero 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 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, Economic and Trade, Health, Education, Works, Planning and 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 appendix II to this report.

### **1.6 Brief description of 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 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 Section 34 (1) provides for Establishment of Procurement Management Unit.

The Internal Control set up of Kilombero District Council complies with 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.351,523,883.08 from own sources against the internal revenue budget of Shs.467,090,207 reflecting a collection deficit of Shs.115,566,324 or 24.7%. 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.7,859,894,540 making total revenue of Shs.8,211,418,424.49 during the year.

### Expenditure

The Council spent Shs.7,315,085,108 during the year against total income of Shs.8,211,418,424 or 89.1% of total revenue, leaving a balance of Shs.896,333,316. 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.351,523,883 against expenditure of Shs.7,312,202,967 (net of depreciation) is only 4.8% 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 provisions of Article 143 of the Constitution of the United Republic of Tanzania, and Section 45 of the Local Government Finances Act No.9 of 1982, (revised, 2000); the Controller and Auditor General is the auditor of all government revenues and expenditures, 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 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 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 properly 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. 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  
Kilombero District Council,

Re: Independent Audit Report on the Financial Statements of Kilombero  
District 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 Kilombero District Council shown on annexure I 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 Kilombero 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 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 Kilombero District 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 Kilombero District Council as at 30<sup>th</sup> June 2005 and the results of its operations and cash flows for the year then ended, in accordance with Part iv of the Local Government Finance Act No. 9 of 1982.

Further to my opinion, the procurement of office furniture and fittings, stationeries, repairs and spare parts, office equipments, water graves and road construction were generally done in accordance with the Public Procurement Act No.21 of 2004.

### **Matters of emphasis:**

Without qualifying my opinion expressed above, attention is drawn to the following matters:

1. Previous year's unrecovered loan totalling Shs.4,560,000 made to the Director for issue to newly appointed Primary schools teachers.
2. Unclaimed salaries amount of Shs.3,325,700 for Primary schools teachers
3. Questionable payments of Shs.5,375,673.80 to Robby traders for Merela Bailey Bridge as retention money.
4. Bank reconciliation statements indicates uncleared items totalling Shs.103,903,126.50.

Details of these matters are found in part 3 of this report.

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**  
March 2006

### 3.0 AUDIT FINDINGS AND RECOMMENDATIONS

#### 3.1 Follow up of previous year's audit findings.

##### 3.1.1 Unclaimed salaries for primary education teachers Shs.3,325,700

Unclaimed Salaries totalling Shs.3,325,700 for Primary Schools Teachers were not confirmed to have been accounted for since their respective acknowledgement receipts quoted against the teachers names were not made available for verification.

##### 3.1.2 Un-recovered Loan Shs.4,560,000

Payment totalling Shs.4,560,000 were made to the District Executive Director-Kilombero for the purpose of issuing loans to newly appointed primary education teachers. However, payees list and recovery particulars were not produced to audit when called for.

PV. NO.	AMOUNT (Shs)	CHEQUE NO.	PAYEE
66/3	3,000,000	000644	DED-Kilombero
18/5	1,560,000	010991	DED-Kilombero
<b>Total</b>	<b>4,560,000</b>		

#### Implication

In absence of the above mentioned documents, the genuineness of the payments could not be confirmed.

#### Recommendation

Management should ensure that the loan amount is recovered and the payees list should be produced to audit for verification.

#### 3.2 Current year's audit findings

##### 3.2.1 Over payment to supplier Shs.993,080

The payment voucher 45/9 CN.011120 with sum of Shs.993, 080 from Education Account was paid to M/s Builder Paints and General Enterprises of DSM being part payment of the following supplies:-  
630 Pcs Daftari la Leja @ 3,900  
839 Pcs Daftari la Dodo @ 3,920  
820 Pcs Daftari la Kupokea/kutoa @ 3,920  
LPO. 05310 of 31/6/2004 and LPO.05313 of 31/8/2004 refers.

However, the total cost of the above items was Shs.8,960,280 which was paid against PV.10/11 CN.0111232 and invoice No.3524 of 31/8/2004 without deducting that part payment.

### Implication

There are no proper controls to ensure that payment are made for the actual goods or services received.

### Recommendation

Council Management should put in place procedure to ensure that payment are effected for the actual goods or services rendered. Thus a sum of Shs.993,080 should be recovered from the supplier.

#### 3.2.2 Questionable payments to a contractor Shs.7,357,176

An amount of Shs.7,357,176 was paid to Robby trades of DSM for the construction of 33m span (Merela Bailey bridge) as retention money instead of Shs.1,981,502 resulting into overpayment of Shs.7,357,176. The amount was paid as follows:-

PV No	Amount (Shs)	Cheque No.
71/12	3,000,000	009709
70/2	<u>4,357,176</u>	009865
<b>Total</b>	<b><u>7,357,176</u></b>	

Further, retention money should be paid from deposit as this money was deducted from contractors payment and kept in deposit account pending a defect liability period to elapse.

### Implication

No value for the money overpaid, hence loss to the council.

### Recommendation

Creditors ledger should be properly kept and update and every payment made should be recorded into respective ledger and management should seek the possibility for recover the amount.

#### 3.2.3 Missing paylist Shs.64,551,691

A test examination of payment voucher for the year under review disclosed payments to the tune of Shs.64,551,691 from Education Account were not supported by relevant pay list as detailed below:-

PV	CHEQUE NO.	AMOUNT	DESCRIPTION
35/12	011327	7,005,550	Annual leave to various teacher Dec 2004.
26/6	011657	12,990,000	Follow up of MMEM project
3/7	010807	21,288,441	Allowances to teachers for March, April & May 2004 (Walimu wanafunzi)
7/8	010892	11,570,200	Allowances to teachers for July 2004, (Walimu wanafunzi)
74/8	011062	11,697,500	Allowances to teachers for August 2004, (Walimu wanafunzi)
	<b>Total</b>	<b>64,551,691</b>	

**Implication**

Ascertainment of the occurrence and accuracy of the transactions amounting to Shs.64,551,691 can not be determined and whether, they were wholly and exclusively paid to the bonafide payee.

**Recommendation**

Management should trace the missing pay list and made available to audit.

**3.2.4 Outstanding Debtors Shs.56,271,720**

The Consolidated Balance Sheet shows outstanding debtors totaling Shs. 56,271,719.50 as shown below:

Category	Amount (Shs)
Advances	11,024,880
Imprests	<u>45,246,840</u>
<b>Total</b>	<b><u>56,271,720</u></b>

**Implication**

The Council liquidity position is affected.

**Recommendation**

Management should ensure that debtors age analysis is prepared and outstanding debtors cleared on time.

**3.2.5 Outstanding Creditors Shs.32,222,725**

Sundry Creditors amounting to Shs.32,222,725 are still outstanding as at the end of the financial year.

**Implication**

The outstanding creditors may affect the credit worthness of the council.

**Recommendation**

Effort should be exerted to clear all the outstanding creditors.

**3.2.6 Uncleared items in the bank reconciliation statement**

Bank Reconciliation Statement submitted along with the financial statements revealed the following uncleared items.

Account	Unpresented Cheques (Shs.)
Ezcore	1,407,000
NAEP II	1,771,943
General Fund	34,117,615
Works	15,578,300
Water Account	189,784

Health Account	215,000
Deposit Account	49,763,236
PFM Programme	295,000
Education	316,254
KDDP	248,995

### Implication

The uncleared items may conceal frauds if not cleared

### Recommendation

The Council should ensure that, immediate action for clearance of the outstanding balance has been taken.

## 4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Kilombero District Council during exit meeting. The Management of Kilombero 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**

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Permanent Secretary and Paymaster General,  
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**DAR ES SALAAM**

## 5.0 ANNEXURES

Financial Statements and notes to the financial statements - annexure I

Organization structure of Kilombero District Council - Annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF KILOMBERO DISTRICT COUNCIL

