

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



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

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March 2006

AR/LG/073/2005

## **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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## 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 Ulanga District Council for the year ended 30<sup>th</sup> June 2005.

Council means - Ulanga 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 Ulanga 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 Ulanga 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 Ulanga 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.3,877,160,020 made up of Shs.243,210,740 from own sources and Shs.3,633,949,280 from government grants.

#### **1.5 Management structure**

The Ulanga 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 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 annexure 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 Ulanga 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**

### **Revenue**

The District Council collected an amount of Shs.243,210,740 from own sources against the internal revenue budget of Shs.220,724,382 reflecting over collection of Shs.22,486,358 or 10.2%. In addition the Council received grants amounting to Shs.3,633,949,280 making total revenue of Shs.3,877,160,020 during the year.

### **Expenditure**

The Council spent Shs.4,531,586,484 during the year against total income of Shs.3,877,160,020 causing a deficit of Shs.654,426,464.

A comparison of the internal revenue of Shs.243,210,740 against expenditure of Shs.4,531,586,484 is only 5.4% 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 statutory auditor of all government revenues and expenditures, including the 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 Ulunga 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  
Ulanga District Council,

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF  
ULANGA 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 Ulanga 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 Ulanga District Council.

Order Nos. 9 through 16 of the LAFM require 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 Ulanga 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 Ulanga District Council as at 30<sup>th</sup> 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 Diesel, Office equipments, motor vehicles, Hospital equipments, roads maintenance and motor cycles was generally done in accordance with the Public Procurement Act No.21 of 2004.

### **Matters of emphasis:**

Without qualifying my opinion, I wish to point out the following matters for the attention of the Full Council.

1. Two open receipt books (HW5) were not made available to audit.
2. Missing payment vouchers were Shs.10,006,481
3. Improperly vouched expenditure was Shs.14,158,066
4. Stores not taken on ledger charge was Shs.4,621,250
5. Payments based on proforma invoices was Shs.9,793,285

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 recommendations

**(i) Para 7.2 Debtors Shs.32,978,508 and Creditors Shs.92,401,267**

The analysis of other Debtors Shs.4,987,008 and creditors Shs.55,312,187 are still not produced for audit verification.

**(ii) Para 7.3 unexplained Deposit balance Shs.476,918,479**

The supporting schedules were still missing as at the time of writing this report.

**Recommendation**

Effort should be made to clear the above outstanding matters.

#### 3.2 Current audit findings

##### 3.2.1 Financial Controls

**(i) Revenue collection Trend analysis for three years**

Year	Budget	Actual collection	%	Remark
2003	232,321,225	87,956,451	37.9	Low
2004	46,750,000	34,034,056	72.8	Low
2004/05	220,724,382	243,201,740	111	High

**Implication**

The above table indicates that the revenue collection performance is improving when compared to the approved budget.

**Recommendation**

Maintain the effort to collect more revenue.

**(ii) Missing revenue earning receipt books**

2 open receipt books (HW5) not quantified were not made available to audit when called for viz:

S/N	Serial	Date issued	To whom issued
1.	12751-800	11.06.2004	D. Mgabo
2.	14051-100	16.08.2004	L.K. Swatty

**Implication**

Revenue collected on them could not be confirmed to have been properly collected and brought to account.

**Recommendation**

The revenue books detailed above should be traced and produced for audit scrutiny.

**(iii) Questionable payments of outstanding debt for repair/service of Motor vehicle Shs.6,000,000**

The following payments were made to R.H. Garage and Transporter from the General Fund Account for the repair/services of 5 motor vehicles during the six months ended 30<sup>th</sup> June 2004 as shown below:-

<b>PV No.</b>	<b>Cheque No.</b>	<b>Amount Paid</b>
86/11	009517	2,000,000
100/12	024051	2,000,000
56/1	024149	<u>2,000,000</u>
	<b>Total</b>	<b><u>6,000,000</u></b>

The following irregularities were noted from the above payments:

- (a) The total claims raised by RH garage was Shs.7,025,981 of which only Shs.6,000,000 was paid as shown above leaving an outstanding balance of Shs.1,025,981.
- (b) LPO's, invoices or demand notes were not made available to audit to justify the correctness of the payments made.
- (c) Outstanding amount of debt reflected in the final accounts for the period ended 30<sup>th</sup> June 2004 was Shs.4,306,273 and not Shs.7,025,981 claimed by R.H. garage.
- (d) No evidence was made available to audit showing that the credit balance of Shs.7,025,981 got the approval of the Finance, Planning and Administration Committee.
- (e) The register for Trade Creditors was not made available for audit verification.

**Implication**

In the absence of LPO/Invoices, possibility of double payments cannot be ruled out.

**Recommendation**

The missing documents including the register for creditors should be produced for audit verification.

**(iv) Salary not accounted for Shs.538,300**

A sum of Shs.1,688,350.38 was paid from the General Fund to DED Ulanga, being payment of November 2004 salaries to 13 employees who were not in the computer payroll. However, the actual salaries paid was amounted to Shs.1,150,050.30 only as revealed by the receipted pay list. An amount of Shs.538,300 was therefore overdrawn.

**Implication**

The overdrawn amount could be misappropriated.

**Recommendation**

The overdrawn amount should be investigated and action taken.

**(v) Missing payment vouchers Shs.10,006,481**

Payment vouchers amounting to Shs.10,006,481 were not produced for audit scrutiny as follow:

<b>Category</b>	<b>Amount (Shs.)</b>
Education Account	8,126,981
Maji Account	<u>1,879,500</u>
<b>Total</b>	<b><u>10,006,481</u></b>

**Implication**

In the absence of the payment vouchers, the nature of payments made and expenditure charged in the council accounts cannot be justified to be proper.

**Recommendation**

Ensure that the payment vouchers are traced and submitted for audit scrutiny.

**(vi) Improperly vouched expenditure Shs.14,158,066**

Examination of payment vouchers for the year 2004/05 disclosed the existence of improperly vouched expenditure of Shs.14,158,066 as listed below:

<b>Category</b>	<b>Amount (Shs.)</b>
Education Account	7,844,840
Health Account	<u>6,313,226</u>
<b>Total</b>	<b><u>14,158,066</u></b>

**Implication**

Absence of relevant supporting documents the correctness of the expenditure incurred could not be justified.

### Recommendation

The council management should confirm that all supporting documents are traced and submitted for audit scrutiny.

#### (vii) Stores not taken on ledger charge Shs.4,621,250

Stores worth Shs.4,621,250 ordered and paid for could not be confirmed to have been received and properly utilized as they were not brought to account in the stores ledger.

### Implication

The genuineness of the procurement to the tune of Shs.4,621,250 could not be established in the absence of proper and accurate stores records.

### Recommendation

The supervising officer should investigate the where about of the above stores and also ensure that all procurements of stores are recorded in the respective ledger as and when received.

#### (viii) Outstanding Imprests Shs.16,871,000

Special imprests totalling Shs.16,871,000 issued to 6 officers from 3 departments were observed not retired as at the time of audit inspection.

Category	Amount (Shs.)
Education Account	14,788,000
Works Account	1,596,000
Maji Account	<u>487,000</u>
<b>Total</b>	<b><u>16,871,000</u></b>

### Implication

Lack of internal control over payments and retirements of imprests.

### Recommendation

Ensure that control and retirements of imprests are made within the prescribed period as per order NO. 134 - 135 of the Local Authority financial Memorandum (1997).

#### (ix) Payments based on Proforma Invoices Shs.9,793,285

Examination of payment vouchers for the year under review revealed that payments of Shs.9,793,285 were supported by proforma invoices:

Category	Amount (Shs.)
Maji Account	805,000
Health Account	3,864,685
General Fund Account	<u>5,123,600</u>
<b>Total</b>	<b><u>9,793,285</u></b>

**Implication**

Supply of the items paid for could not be confirmed

**Recommendation**

Ensure that the cash sales and delivery notes along with the appropriate stores ledger are submitted for audit verification.

**(x) Consolidated balance sheet as at 30<sup>th</sup> June, 2005****Debtors and creditors**

The Consolidated Balance Sheet disclosed the existence of debtors amounting to Shs.45,638,050 and creditors Shs.205,091,730.17 which remained unsettled as at 30<sup>th</sup> June, 2004 as indicated below:-

**(i) Debtors**

<b>Category</b>	<b>Amount (Shs.)</b>
Imprest	32,986,520
Salary advances	1,551,000
Women and Youth Loans	<u>11,100,530</u>
<b>Total</b>	<b><u>45,638,050</u></b>

**(ii) Creditors**

Unclaimed salaries	19,622,860.53
Private suppliers	34,977,989.12
LAPF	145,766,641.85
TALGWU	<u>4,724,238.67</u>
<b>Total</b>	<b><u>205,091,730.17</u></b>

The outstanding figures of LAPF Shs.145,766,641.85 and TALGWU Shs.4,724,238.67 were not supported by analysed schedule. Nevertheless, the council did not state its policy on debtors and creditor's and no provision for bad and doubtful debts was made.

**Implication**

Follow up on outstanding debtors and creditors appear to be weak.

**Recommendation**

The management is advised to improve debts collection efforts and timely settlements of Council's liabilities.

## 5.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Ulanga District during our exit meeting. The management has promised to take appropriate action with a view to rectify the situation. I 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**

**Copy to:** The Permanent Secretary,  
Prime Minister's Office,  
Regional Administration and Local Government,  
P O Box 1923,  
**Dodoma**

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

## 5.0 ANNEXURE I

The Financial Statements of Ulanga District Council for the year ended  
30<sup>th</sup> June 2005

ORGANIZATION STRUCTURE OF ULANGA DISTRICT COUNCIL

