

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF MAFIA DISTRICT COUNCIL
FOR THE YEAR ENDED 30TH JUNE, 2005

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March, 2006

AR/LG/010/2005

Office of the Controller and Auditor General

The National Audit Office,
United Republic of Tanzania

(Established under Article 143 of the Constitution of the URT).

The statutory duties and responsibilities of the Controller and Auditor General are given in the Public Finance Act No. 6 of 2001.

Our Vision

We aspire to be an organization that fosters a culture of financial discipline, transparency and accountability within the Government of Tanzania.

Our Mission

We are the Supreme Audit Institution in Tanzania, which strives to provide timely and high quality audit services to all our clients in order to enhance public sector financial performance by educating key stakeholders on the effective management of public finances; providing value added services and functioning independently and impartially in auditing and reporting on public accounts.

Therefore, our Core Values are:-

- ✓ We strive to achieve and maintain objectivity in providing impartial audit services so as to promote our independence
- ✓ We pursue excellence in the provision of our audit services
- ✓ We exercise professional integrity by demonstrating high ethical standards
- ✓ We focus on people and have great respect to our stakeholders
- ✓ We encourage and promote innovation amongst our members of staff; and
- ✓ We ensure best resource utilization at national as well as individual public entity level.

We do this by:-

- contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- helping to improve the quality of public services by supporting innovation on the use of public resources;
- providing technical advice to our clients on operational gaps in their operating systems;
- systematically involve our clients in the audit process and audit cycles; and
- providing audit staff with adequate working tools and facilities that promote independence.

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ABBREVIATIONS

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 Standard on Auditing
PMO-RALG	Prime Minister's Office - Regional Administration and Local Government
PRSP	Poverty Reduction Strategy Paper
PS	Permanent Secretary
PSRP	Public Service Reform Programme
RAS	Regional Administrative Secretary
RS	Regional Secretariat

Financial Statements means:

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

Council means - Mafia District Council, both as Councillors as well as an operating entity.

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction:

I have completed the audit of Mafia District Council for the year 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 Mafia District Council was established in 1984 in terms of the provision of sections 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 Mafia 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.

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.1,848,931,735.88 made up of Shs.147,966,977.38 from own sources and Shs.1,700,964,758 from government grants.

1.5 Management

The Mafia 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 and 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 I to this report.

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 also required to employ its own Internal Auditor who reports directly to the director. Similarly, the Public Procurement Act No.21 of 2004 Section 28 (1) requires the Council to establish a Tender Board and Section 34 (1) provides for establishment of Procurement Management Unit.

The Internal Control set up of Mafia District Council complies with the statutory requirements, but is lacking an Audit Committee. 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.147,966,977 from own sources against a revenue budget of Shs.150,702,428 reflecting under-collection of Shs.2,737,457 or 10% of the internal revenue budget. In addition the council received grants amounting to Shs.1,700,964,759 making total revenue of Shs.1,848,931,736 during the year.

Expenditure

The Council spent Shs.1,816,933,205 during the year against total approved budget of Shs.1,134,906,528 or over-spending of 60%. However, the Council closed its accounts with a saving of shs.32,361,425.59 or 2% of total revenue. A comparison of, the internal revenue of shs.147,964,971.88 against total expenditure of shs.1,493,247,307 (net of depreciation) is only 10%, 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 appointed auditor of all government revenues and expenditure, 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 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 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 an auditor I am not required to search specifically for fraud; therefore my audit cannot be relied upon to disclose all such matters. However, my audit was planned so that I 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,
Coast-Region.

District Executive Director and Accounting Officer,
Mafia District Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
MAFIA 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 Mafia District Council shown on pages 12 through 17 of this report for the financial year ended on 30 June 2005.

Responsibility of Council Management on the financial statements

These financial statements are the responsibility of the management of Mafia 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 Mafia 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 Mafia 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 works, goods, and consultancy and non-consultancy services 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:

- (a) The Council did not include comparative figures in the Balance Sheet for the year ended 30th June 2005. This is a departure from the requirements of paragraph 36 of IAS 1 (Presentation of financial statements) and Local Authority Accounting Manual format.
- (b) The assets of the Council are not adequately safeguarded against losses from unauthorized use or disposition because the management does not maintain an Assets Register.
- (c) The council did not disclose its policy on debtors and creditors
- (d) The Council depends heavily on grants since internal revenue is only 8% of total expenditure. In addition, during the year under review the council exceeded the approved expenditure budget by 60%.

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

31 March 2006.

MAFIA DISTRICT COUNCIL
CONSOLIDATED BALANCE SHEET FOR THE YEAR
ENDING 30TH JUNE, 2005.

FIXED ASSETS.	NOTE		
Land and Buildings	15	1,403,081,971.00	
Motor vehicles and plants	16	39,765,232.00	
Tools and Equipment	17	71,521,235.00	
Furniture	18	<u>72,289,697.00</u>	
			1,586,658,135.00
Accumulated Depreciation			<u>367,380,821.00</u>
			1,954,038,956.00
 CURRENT ASSETS			
Cash in Hand	19	6,098,691.38	
Cash at Bank	19	163,356,865.68	
Outstanding Advances	20	12,381,735.80	
Outstanding Imprests	20	3,041,663.00	
Debtors	21	<u>25,335,957.75</u>	
			210,214,913.61
 INVESTMENTS			
MCR Fund		1,190,500.00	
Fixed deposits with NMB		<u>27,000,000.00</u>	
			<u>28,190,500.00</u>
			<u>2,192,444,369.61</u>
 REPRESENTED BY:			
Grants/Donations	23	1,954,038,956.00	
Miscellaneous Depositis	24	44,104,777.65	
Deposits	22	618,200.00	
Creditors	21	435,669.90	
Inter fund accounts	21	413,994.25	
Reserve fund	25	<u>192,832,771.81</u>	
			<u>2,192,444,369.61</u>

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GEORGE C. SAM
AG: DISTRICT TREASURER

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A.S. GWAKIRAYI
DISTRICT EXECUTIVE DIRECTOR

.....
H.J. NYIKOMBO
CHAIRMAN

**CONSOLIDATED INCOME AND EXPENDITURE STATEMENT FOR THE
YEAR ENDING 30TH JUNE, 2005.**

	Note	2005
Levies and Taxes	1	5,358,000.00
Produce cess	2	66,818,098.50
Business licenses	3	4,700,320.00
Liquor licenses	4	187,000.00
Fees and charges	5	5,134,450.00
Revenue from investments	6	20,888,229.00
Miscellaneous collection	7	6,484,374.38
Other income	8	38,394,500.00
Grants for recurrent expenditure	8	1,310,259,183.50
Grants for non-recurrent expenditure	8	<u>390,705,575.50</u>
		<u><u>1,848,931,735.88</u></u>
 <u>DEDUCT EXPENDITURES:</u>		
Administration and finance	9	228,571,502.37
Education and culture	10	790,485,395.70
Health and economic Development	11	372,162,929.16
Extension services	12	34,353,744.97
Other expenditures	13	211,131,203.11
Development projects	14	<u>179,863,529.98</u>
		<u>1,816,568,305.29</u>
Surplus/Deficit		<u>32,361,425.59</u>

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GEORGE C. SAM
AG: DISTRICT TREASURER

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A.S. GWAKIRAYI
DISTRICT EXECUTIVE DIRECTOR

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H.J. NYIKOMBO
CHAIRMAN

CASH-FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE 2005

A: CASH FLOW FROM OPERATING ACTIVITIES

	SURPLUS	NOTE	2004/2005	JAN - JUNE 2004
Increase/decrease in Imprests/Advances			11,473,197	(32,962,884)
Increase/decrease in Creditors			4,274,430	5,250,046
Increase/decrease in Deposits			(93,690)	1,301,911
Increase/decrease in Debtors			(68,840)	-
Increase/decrease in other deposits			(4,123,081)	(900,139)
Adjustment for Reserves			(7,096,933)	-
Cash Flow from Operating Activities			<u>40,931,964</u>	<u>1,047,630</u>
			45,297,047	(26,263,436)

B: CASH FLOW FROM INVESTMENT ACTIVITIES

Increase/decrease in Fixed Assets			(120,909,598)	(32,507,399)
Increase/decrease in Investments			(14,100,000)	-
Revenue from Investment			20,888,229	12,807,547
Cash flow from Investment Activities			(114,121,369)	(19,704,852)

C: CASH FLOW FROM FINANCING ACTIVITIES

Grants and Donations			<u>120,909,598</u>	<u>32,507,399</u>
Cash flow from Financing Activities			120,909,598	32,507,399
Net Cash and Cash Equivalents			52,085,256	(13,460,689)
ADD: Opening Cash and Cash Equivalents			<u>145,508,289</u>	<u>158,968,978</u>
Closing Cash and Cash Equivalents			197,593,545	145,508,289

CONSOLIDATED BANK RECONCILIATION STATEMENT AS AT 30TH JUNE 2005

Bank balance per statements	167,903,812.85
Add: receipts in the cash book but Not in the statement	<u>6,409,500.00</u> 174,318,312.85
Less: Unpresented cheques	<u>10,926,447.17</u>
Bank balance as per cash book	163,356,865.68

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GEORGE C. SAM
ACTING DISTRICT TREASURER

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A.S.GWAKIRAYI
DISTRICT EXECUTIVE DIRECTOR

NOTES TO THE FINAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1. ACCOUNTING POLICIES

The Councils Final Financial statements have been prepared in accordance with the Local Government Financial regulations and local Authority Accounting Manual (LAAM 1&2).

Basis of accounting

The Financial statements have been prepared on accrual basis. The accounts have been prepared on the historical concept, no inflationary factors that were taken into the account, and again no provision has been taken for bad debts, imprest and advances.

Revenue

The councils revenue comprise revenue from own sources and grants from central government in particular Ministry of Finance, PO-RALG, RAS-Coast Ministry of Education and Culture, Ministry of Health and other donors to Council.

Fixed assets

The Council use the straight-line method in depreciating its fixed assets. Land and buildings are depreciated at 4%, plants and motor vehicles at 25% per annual, tools and equipment at 25% and furniture and fittings at 12.5% per annual. Depreciation is charged on assets in the year of purchase.

2. RECEIPTS

REVENUE FROM COUNCIL OWN SOURCES.

GFS Codes	Details	Estimates shs.	Actual shs.	%
010106	Income tax	2,000,000.00	1,065,000.00	53
050831	Shop licenses	5,700,000.00	100,000.00	2
050819	Fishing licenses	6,750,000.00	4,562,320.00	68
050802	Other licenses	4,320,000.00	48,000.00	1
050835	Farm Product licenses	400,000.00	-	0
050815	Business development levy	660,000.00	623,000.00	94
050716	Local liquor licenses	364,000.00	187,000.00	51
050708	Farm produce cess	15,000,000.00	12,735,300.00	85
050709	Marine product cess	55,000,000.00	53,946,798.50	98
050709	Sea weed cess	4,000,000.00	136,000.00	3
051039	Market dues	3,480,000.00	3,670,000.00	105
050714	Service levy	500,000.00	-	0
051033	Forest product fees	2,080,000.00	317,950.00	15
100107	Fans	800,000.00	-	0
080311	House rent	7,500,000.00	7,249,729.00	97
090406	Hire of plants and vehicles	15,000,000.00	10,825,000.00	72
080301	Rent of offices	3,384,000.00	2,673,500.00	79
051088	Rural water services fees	6,500,000.00	4,816,500.00	74
080308	Rent from Government farms	480,000.00	140,000.00	29
070301	Miscellaneous revenue	3,500,000.00	6,484,374.38	185
	Compensation of abolished source of revenue	13,284,428.00	25,697,814.00	193
	Total	150,702,428.00	135,278,285.88	90

GRANTS FROM CENTRAL GOVERNMENT

GFS Codes	Details	Estimates	Actual	%
1	Operating Costs	384,586,249.00	413,240,000.00	107
2	Personal emoluments	554,783,946.00	591,007,046.33	107
3	Local Government election costs	-	1,780,000.00	
	Total	939,370,195.00	1,004,247,046.33	107

DEVELOPMENT GRANTS/DONORS.

GFS Codes	Details	Estimates shs.	Actual shs.	%
1	Social services	6,628,000.00	6,628,000.00	100
2	Local Government Reform	-	13,036,362.50	
3	TACAIDS (HIV/AIDS)	1,000,000.00	24,185,500.00	2419
4	Basket Funds	26,417,580.00	26,417,580.00	100
5	Health Facilities Rehabilitation Fund	-	42,000,000.00	
6	NACP	-	8,127,000.00	
7	Rehabilitation of Water Schemes	-	10,000,000.00	
8	MEMKWA	-	15,616,495.77	
9	CAPITATION Grant	-	48,618,733.00	
10	Adult education	-	3,850,611.80	
11	Invested Grants	-	207,637,000.00	
12	Road Toll	-	163,306,805.40	
13	DADP	15,411,680.00	15,411,680.00	100
	SUB-TOTAL	49,457,260.00	584,835,768.47	1183
	GRAND TOTAL	1,139,529,883.00	1,724,361,100.68	151

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow - up of previous audit findings

3.1.1 All matters raised in the previous year's management letter were dealt with satisfactorily and have been closed.

3.2 Current Audit Findings

3.2.1 Missing revenue receipt books

Two revenue receipt books (open books) issued to Revenue Collectors during the year were not produced for audit verification when called for. In the event, any funds collected using those receipts were not on record and could not be ascertained.

Implication

There is possibility of misuse of revenue receipts

Recommendation

Management should make follow-up and account for the receipts. In case of confirmation of loss, appropriate action should be taken including preparation of a loss report in accordance with order no. 102 of Local Authority Financial Memorandum 1997.

3.2.2 Unvouched and improperly vouched expenditure-shs. 7,449,685

An examination of payment vouchers revealed missing payment vouchers amounting to Shs.905,420. In addition, payments adding to Shs.6,544,265 lacked necessary supporting documents including bills, original pay-lists, and acknowledgement receipts. In the event, the authenticity and regularity of the expenditure incurred could not be established.

Implication

There is weak control over custody of accounting records.

Recommendation

The Council management is advised to re-structure the system of payment and custody of accounting records. In addition, the questioned expenditure of Shs. 170,486,905 should be regularized by submitting the missing vouchers and supporting documents.

3.2.3 Stores not accounted for- Shs.2,967,350

A test examination of stores records revealed seven instances whereby goods worth Shs. 2,967,350 were ordered and paid for but were not taken on Ledger charge. It was further noted that the council had no utilization particulars to confirm actual delivery and disposal of the items.

Implication

There is a possibility of misuse or non-delivery of the goods paid for without management detection.

Recommendation

The council management should streamline stores management and controls to avoid possible losses.

3.2.4 Irregular and questionable payments Shs. 42,832,518

We have noted that the Council purchased various goods worth Shs.42,832,518 but the regularity of the expenditure made could not be ascertained due to various irregularities. The irregularities involved biased purchases, lack of engineer's inspection certificate, payments of salaries to deceased employees and unauthorized purchase of cellular recharge cards.

Implication

The irregularities imply that there is no proper authorization of payments.

Recommendation

The authorization mandate for all transactions must be observed at all times.

3.2.5 Fixed assets register

We have noted that the Council management does not maintain an Assets Register contrary to Order No. 60(d) of the Local Authority Financial Memorandum 1997. As a result, the financial statements did not include a detailed schedule of Council's assets to support the submitted schedule of depreciation. In the circumstances it was not possible to verify the accuracy of the figure of Fixed Assets stated in the Balance Sheet.

Implication

Control over assets management is weak in that the assets of the Council are not adequately safeguarded against losses from unauthorized use or disposition.

Recommendation

The Council management should introduce a permanent assets register that will indicate location of each asset, value, date of acquisition, disposal etc. The registers should be kept up-to-date and inspected by the council's internal auditor on a regular basis.

3.2.6 Debtors and Creditors

The Consolidated Balance Sheet reflected Debtors amounting to Shs. 40,759,356.55. Also, the Statement reflected Creditors worth Shs.413,994.25, and the accounts did not include age analysis and details of the individual Creditors and Debtors. Moreover, the Council did not state its policy on debtors and creditors.

Implication

Lack of age analysis schedules, has limitation of assessing recoverability of debts and implementation of Creditors policy. In addition, there has been unauthorized use of statutory deductions.

Recommendation

The management is advised to come up with debts collection policy as well as creditor's policy and ensure that the outstanding amounts are cleared.

3.2.7 Outstanding items of Bank Reconciliation Statements -shs. 17,335,947

A review of the Bank Reconciliation Statements for the period ended 30th June 2005 disclosed the following outstanding items which had not been cleared by the time of audit, October 2005.

<u>Details</u>	<u>Amount Shs</u>
Receipts in cash book not in Bank Statement	6,409,500
Unpresented cheques	10,926,447
Total	<u><u>17,335,947</u></u>

Implication

There is high risk of loss of funds as well as possibility of overstating receipts.

Recommendation

Immediate follow-up is necessary to clear the outstanding items.

3.2.8 Overstated income & expenditure

The Consolidated Income and Expenditure account reflected total income figure of shs. 1,848,031,736. However, this figure differs with the total ledger balances figure of shs.1,848,929,731 ascertained in audit. Similarly, the statement reflected total expenditure figure of Shs.1,816,568,305 instead of total ledger balances of 1,816,933,205.

Implication

- The income for the year is understated by shs.2,005 and expenditure overstated by Shs.364,900 with net effect of understating the year-end balance by Shs.366,905.
- The figures are not good for performance analysis.

Recommendation

The management should make post Balance Sheet adjustments in order not to carry over the errors.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Mafia District Council during exit meeting. The Management of Mafia 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. F. M. H. Mhilu
Ag. CONTROLLER AND AUDITOR GENERAL

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5.0 ANNEXURES

ORGANIZATION STRUCTURE OF MAFIA DISTRICT COUNCIL

