

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF KIBAHA TOWN COUNCIL
FOR THE YEAR ENDED 30TH JUNE, 2005**

The Controller and Auditor General
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March, 2006

AR/LG/008/2005

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 attached schedules Kibaha Town Council for the year ended 30th June, 2005.

Council means - Kibaha Town 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 Kibaha Town 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 Kibaha Town Council was established in 1984 in terms of the provisions of sections 8 and 9 of the Local Government Act (Town Authorities) 1982. Besides the Act, the Council operates within the framework of the following instruments.

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

1.3 Operational objectives

According to the Local Government (Town Authorities) Act, the Town Council of Kibaha 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 internal 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. 2,946,516,605 made up of Shs. 259,206,562 from own sources and Shs.2,687,310,643 from government grants.

1.5 Management

The Kibaha Town 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 Town Council is the Town 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 and Trade, Health, Education, Works, Town Planning & 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 appendix 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 that 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 Sect.34 (1) provides for establishment of Procurement Management Unit.

The Internal Control set up of Kibaha Town Council complies with the statutory requirements, but is lacking an Audit Committee which is part of transparency and good governance, Nevertheless weakness arising from review of the effectiveness of internal control system are included under part 3 of this report.

1.7 Financial Performance Issues

Revenue Collection

The Town Council collected an amount of Shs. 259,206,562 from own sources against a revenue budget of Shs.355,420,000 reflecting deficit of Shs.96,213,438 or 27% of the internal revenue budget. In addition the council had budgeted for grants of shs. 2,632,020,444 but grants received amounted to

Shs. 2,687,310,643; making total revenue of Shs. 2,946,516,605 during the year. The internal sources represented only 9% of the total funds available for use during the year.

Expenditure

The Council spent Shs.2,775,842,393 during the year against total approved budget of Shs.2,970,068,871 or 93%. The Council closed its accounts with an arbitrary saving of shs.194,226,478 or 7% of total revenue before deducting depreciation amounting to shs. 364,441,367. After deducting the amount of depreciation charge for the year, the actual balance should have been a deficit of shs.170,214,889. Therefore, the total internal revenue compared to cash expenditure of shs.2,775,842,393 (net of depreciation) was 9% only, implying that the Town 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 expenditures of this Town 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 Town 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 Town 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 Town 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 me.

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: Hon. Mizengo Pinda (MP)
Minister, PMO-RALG

The Regional Commissioner,
Coast Region

Council Director and Accounting Officer
Kibaha Town Council

**Re: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
KIBAHA TOWN 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 Kibaha Town Council shown on pages 13 through 18 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 Kibaha 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 Kibaha Town 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 Kibaha Town Council as at 30th 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 Finances Act No.9 of 1982.

Dr. Frank.M.H. Mhilu
Ag. CONTROLLER AND AUDITOR GENERAL

Office of the Controller and Auditor General
The National Audit Office
DAR ES SALAAM.

31 March 2006.

KIBAHA TOWN COUNCIL

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2005

Introduction

Kibaha Town Covers an area of 750,000 square meters. According to the 2002 National Population and housing census results the town has 78,294 people male are 39,448 and 38,846 are Female.

The Vision of Kibaha Town Council is to have a modern sustainable social economic welfare of the Town Council. The Mission is to create a sustainable social economic development through participatory process in order to exploit effectively available resources. This can be achieved through participatory process, which has been started whereby 25 Mitaas have been developed their plans after identifying obstacles for development.

Kibaha Town Council as other Towns in our country is growing fast following the rapid population increase from rural areas and the location advantage near the Dar es Salaam City.

In this case for the year 2005/2006 the council has planned to improve urban planning and land surveying effort in order to ensure proper land uses and improve human settlements. However the major challenges facing the Kibaha Town Council currently are in the following key areas: -

- Poverty alleviation
- HIV Aids
- Improve environmental sanitation
- Increase and improve education and health facilities
- Provision of clean water supply near communities
- Reduce the rate of child - Maternal Mortality rate.
- Increase Agriculture and Livestock production.

In the effort to meet the above-mentioned challenges for the year 2005/2006 the council has set out the following.

1. To improve access and quality of social services whereby the target is to increase supply of clean and safety water, raise qualities of both Primary and Secondary Education and reduce child maternal mortality rate.
2. Improve and develop physical, economic infrastructure and land use plan.
3. Enhance economic growth through increase productivity in the Agriculture Livestock, Trade industry, Co-operatives and Natural resources sectors.
4. Build the capacity of both workers and councilors in order to raise productivity and improve decision-making capability.
5. Enhance good governance and joint participation of the main stakeholders and the community in poverty reduction efforts.

In order to fulfill these objectives, the council expected to get assistance from the following: -

- | | | |
|--|-----|----------------|
| • TASAF | shs | 42,000,000.00 |
| • Local Government Capital Development Grant | | 227,000,000.00 |
| • Capital Development Grant | | 112,299,000.00 |

For the year 2004/2005 expenditure of fund received from the central Government was done following planned activities. Quarterly progress reports for other charges and development projects for the first, second, third and fourth quarter were prepared and submitted to the Regional Administrative Secretary. The fixed Assets of the council have been reduced by Shs. 148,437,245.12 Due to fire accident at Mkoani Health Centre. Expenditure of funds collected from own sources also were also spent in planned activities with emphasis in contribution to projects and delivery of services. Some of the projects and services delivered included: -

- Construction of four classrooms at Tumbi Secondary School.
- Paying compensation for 100 surveyed plots
- Construction of shelter at Nanenane ground
- Spots improvement at Mailimoja Stand
- Minor maintenance of Mwambisi Dispensaries
- Minor maintenance of TRC Kibaha.
- Procurement of 200 Desks and 20 tables for Visiga, Nyumbu and Miembe Saba Secondary School.
- Minor Maintenance of pipeline from main pipe to Kambarage Primary School.
- Contribution to LGLB
- Contribution to ALAT
- Construction of four classrooms at Visiga Secondary School
- Partitions of classrooms at Nyumbu Secondary School Building.

Other funds were used for operation, administrative and revenue collection expenses.

KIBAHA TOWN COUNCIL
CONSOLIDATED BALANCE SHEET AS AT 30th JUNE 2005

AS AT 30 th JUNE 2004		PARTICULARS	AS AT 30 th JUNE 2005	
		<u>FIXED ASSETS (NOTE 1.13)</u>		
1,863,972,873.93		Land and Buildings	2,335,203,087.93	
195,057,662.00		Plants & Motor Vehicles	255,678,758.90	
240,221,190.96		Furniture & Fittings	237,051,287.16	
105,334,718.00		Tools & Equipments	104,711,608.00	
669,832,568.80	3,074,419,013.69	Long term Capital Outlays	793,617,590.20	3,726,262,332.19
	373,715,121.50	Less: Capital discharged (NOTE 1.14)		878,227,871.40
	2,700,703,892.19	NET FIXED ASSETS		2,848,034,460.79
		<u>INVESTMENTS (NOTE 1.15)</u>		
	1,000,000.00	Investment with LGLB		5,000,000.00
		<u>CURRENT ASSETS (NOTE 1.16)</u>		
44,946,807.40		Cash balances	111,164,855.27	
2,874,967.40		Debtors	11,376,973.00	
47,821,774.80		Total current assets	122,541,828.27	
		<u>Less: CURRENT LIABILITIES (NOTE 1.17)</u>		
1,718,400.00		Creditors	32,557,276.00	
1,718,400.00		Total current liabilities	32,557,276.00	
	46,103,374.80	Net current assets		89,984,552.27
	<u>2,747,807,266.99</u>	NET ASSETS		<u>2,943,019,013.06</u>
		<u>FINANCED BY:</u>		
	8,898,400.00	Capital grant unapplied (NOTE 2)		923,993.00
	798,229,491.00	Revaluation reserve (NOTE 3)		649,792,245.88
	1,902,474,401.19	Capital reserve (NOTE 4)		2,229,768,655.34
	1,000,000.00	MCR Reserve (NOTE 5)		5,000,000.00
53,172,424.33		Accumulated Surplus/Deficit b/d		37,202,974.80
(15,967,449.53)		Add/Less: Surplus/Deficit for the year	20,329,144.04	
37,204,974.80	37,204,974.80	General reserve – Surplus (NOTE 6)	57,534,118.84	57,534,118.84
	<u>2,747,807,266.9</u>			<u>2,943,019,013.06</u>

Ms. Ngjillleah, L.V.
 Ag. TOWN TREASURER
 KIBAHA TOWN COUNCIL

Frank T. Ernest
 TOWN DIRECTOR
 KIBAHA TOWN COUNCIL

Hon. Omar Nonganonga
 CHAIRMAN
 KIBAHA TOWN COUN

**CONSOLIDATED INCOME AND EXPENDITURE STATEMENT FOR THE
YEAR ENDED 30th JUNE 2005**

COMMITTEE	GROSS EXPENDITURE	I NCOME	NET EXPENDITURE
Finance and Administration	274,922,066.60	255,306,900.22	19,615,166.38
Social Service	1,722,070,084.14	1,904,802,608.33	(182,732,524.19)
Trade and Economic Affairs	205,915,180.57	239,972,850.20	(34,057,669.63)
Subtotal	2,202,907,331.31	2,400,082,358.75	(197,175,027.44)
RCCO Charges			228,733,656.40
Dev. Expenditure/Receipt	14,100,061.00	12,753,000.00	1,347,061.00
GENERAL INCOME			32,905,689.96
Property Tax		3,477,836.00	
Produce cess & levies		141,750.00	
Grant in lieu of abolished revenue		49,615,248.00	
		53,234,834.00	(53,234,834.00)
SURPLUS/DEFICIT FOR THE YEAR		<u>20,329,144.04</u>	

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Ms. Ngililleah, L. V.
Ag. TOWN TREASURER
KIBAHA TOWN COUNCIL

.....
Frank T. Ernest
TOWN DIRECTOR
KIBAHA TOWN COUNCIL

.....
Hon. Omar Nonganonga
CHAIRMAN
KIBAHA TOWN COUNCIL

KIBAHA TOWN COUNCIL
ONSOLIDATED CASHFLOW STATEMENT FOR THE YEAR ENDED 30th JUNE 2005

	FOR SIX MONTHS PERIOD ENDED 30 th JUNE 2004			FOR THE YEAR ENDED 30 th JUNE 2005		
CASHFLOW FROM PERATING ACTIVITIES						
Excess of Income over expenditure/		(15,967,449.53)			(20,329,144.04)	
Adjustment for non cash (or non Operating) items:						
RCCO Charges	107,717,043.50			228,733,656.40		
MCR Contribution	1,000,000.00	1108,717,043.50		4,000,000.00	232,733,656.40	
Surplus before working capital		92,749,593.97			253,062.800.44	
Increase/decrease in Debtors	(358,413.40)			8,502,005.60)		
Increase/decrease in Creditors	(3,005,384.20)	(3,363,797.60)		30,838,876.00	22,336,870.40	
Cash generated from operating activities			89,385,796.37			275,399,670.84
CASHFLOW FROM INVESTING ACTIVITIES						
Capital Cash Expenditure		(373,715,121.50)			(544,308,720.40)	
Cash Investment with LGLB		(1,000,000.00)			(4,000,000.00)	
Cash used in investing activities			(374,715,121.50)			(548,308,720.40)
CASHFLOW FROM FINANCINGACTIVITIES						
Govt. grant for Dev. Activities		20,250,000.00			12,753,000.00	
Other capital grants		215,690,226.00			326,374,097.43	
Cashflow from financing			235,940,226.00			339,127,097.43
NET CASHFLOW FOR THE YEAR			<u>(49,389,099.13)</u>			<u>66,218,047.87</u>
Cash balances at the beginning and end of the period			94,335,906.53			44,946,807.40
Cash balances at 30 th June, 2004 30 th June, 2005			44,946,807.40			111,164,855.27
CASH INCREASE/(DECREASE)			<u>49,389,099.13</u>			<u>66,218,047.87</u>

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

1. Accounting policies

The Final Accounts of Kibaha Town Council have been prepared in accordance with the Local Authority Accounting Manual (LAAM) and the Local Authority Financial Memorandum (LAFM - 1997)

1.1. THE RECORDING OF TRANSACTIONS

1.2 Recording of Revenue transaction

Revenue transactions have been recorded on income and expenditure basis. Whereby income have been recognized when have been earned and expenditure have been recognized when have been incurred

1.3 Recording of Capital Transactions

Capital expenditure has been recorded on accrual basis.

1.4 Recording of fixed Assets

Fixed assets have been recorded in the Accounts at historical costs. The historical costs include the Local Authority Staff time spent to prepare, moving, transportations and installation charges.

1.5 Capital Receipts

Sources of capital receipts to the council and their application have been described in attached schedules.

1.6 Basis of Capitalization

Capital expenditures of fixed Assets have been brought into the balance sheet at historical cost.

1.7 Treatment of Grants

Government Grants (Personal Emoluments and other charges) have been allocated directly to accounts of relevant departments and hence committees.

1.8 Stores

Kibaha Town Council operates one central unallocated store, which is run on direct use basis.

1.9 Personal Emoluments

Personal Emoluments have been charged to the accounts on the basis of gross pay including income tax, LAPF, PSPF and NIHF which have been deducted by the Ministry of Finance (MOF) payroll section at sources for all employees. Deductions at sources have been brought in to accounts by dummy vouchers.

1.10 Revenue collection Agency:

Kibaha Town Council privatized some of Revenue Sources, on the basis of retention on 25% of collections by the agents, the amount retained by agents have been included in accounts as revenues and expenditure as journalized in the attached schedules.

1.11 Surplus During the year on recurrent account

The revenue accounts closed with the excess of income over Expenditure being unutilized grant for PEDP received rate in June 2005.

1.12 Exceptional items

On January 2005 the council lost its entire Mkoani Health Centre due to fire accident. The value of the Mkoani Health Centre in the council's books of accounts (at Historical Cost) as reflected in the fixed Asset Registers amounted to 148,437,245.12 this amount has been written off from council accounts by Journal Voucher No. JVL/13/75.

1.13 FIXED ASSET

Fixed assets have been recorded in the balance sheet net of capital discharged during the year. Capitals discharged in the previous years have been transferred to capital reserve. Fixed assets schedules have been given in the attached schedules.

1.14 CAPITAL DISCHARGED

Detailed description of capital discharged during the year has been disclosed in the attached schedules.

1.15 INVESTMENT

During the period of this financial year the council has been continued investing making total investment at the end of this financial to be 5,000,000.00

1.16 CURRENT ASSETS

CURRENT assets comprise of cash balances from different funds as shown in the bank reconciliation statements of each fund as adjusted cashbook balance. Debtors being outstanding salary advances provided to different staffs during the year, outstanding building plot fees and unretired imprests as per attached schedules.

1.17 CURRENT LIABILITIES

Current liabilities comprise creditors who provided various services/goods to the council as per attached schedule.

2.0 CAPITAL GRANT UNAPPLIED

This is the grant from the central Government for Development project, which remain unused, at the end of the financial year.

OPENING BALANCE	RECEIVED DURING THE YEAR	THIS YEAR EXPENDITURE	BALANCE AS 30 TH JUNE 2005
8,898,400.00	12,753,000.00	20,727,407.00	923,993.00

3.0 REVALUATION RESERVE

Revaluation reserve has been reduced by 148,437,245.12 being amount written off following the loss to the council caused by fire accident at Mkoani Health Centre.

REVALUATION RESERVE OPENING BALANCE AT 01/07/2004	VALUE REDUCED DURING THE YEAR	REVALUATION RESERVE BALANCE AT 30 TH JUNE, 2005
798,229,491.00	148,437,245.12	649,792,245.88

4.0 CAPITAL RESERVE

Capital discharged during previous years are accumulated and transferred to this reserve CAPITAL RESERVE as follows:

CAPITAL DISCHARGED UP TO 31/12/2003	CAPITAL DISCHARGED DURING THE YEAR	TOTAL CAPITAL DISCHARGED TRANSFERRED TO CAPITAL RESERVE
1,902,474,401.19	373,751,121.50	2,276,189,522.69

5.0 MCR RESERVE

During the year ended 30/06/2005 the council contributed Tshs. 4,000,000.00 to the LGLB making the total investment to 5,000,000.00 represented by MCR Reserve.

6.0 GENERAL RESERVE SURPLUS

This reserve is used to accumulate surplus or accommodate deficits surplus and deficits are mainly due to non-matching of receipts and payments especially towards the end of accounting periods.

ACCUMULATED SURPLUS B/D	SURPLUS DURING THE YEAR	GENERAL RESERVE AS AT 30/06/2005
37,204,975.80	22,968,325.07	60,173,299.80

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 Improperly vouched expenditure; shs.1,685,800

An examination of payment vouchers revealed payments adding to Shs.1,685,800 which were lacking necessary supporting documents such as original pay-lists, acknowledgement receipts and original invoices. In the event, the authenticity and regularity of the expenditure incurred could not be established.

Implication

Existence of 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.1,685,800 should be regularized by submitting the missing vouchers and supporting documents.

3.2.2 Missing revenue receipts book

Revenue receipt books serial No. 75401- 75450 was 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.

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 controls to avoid possible losses.

3.2.3 Overstated income & expenditure

The Consolidated Income and Expenditure account reflected total income figure of shs. 2,466,070,193. However, this figure differs with the total ledger balances figure of shs.2,463,411,163 ascertained in audit. Similarly, the statement reflected total expenditure figure of shs. 2,445,741,049 instead of total ledger balances of 2,442,618,288

Implication

- The income for the year was overstated by shs.2,659,030 and expenditure by shs. 3,122,761; with net effect of understating the year-end balance by shs. 463,731.
- The misstated figures are not good for performance analysis.

Recommendation

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

3.2.4 Outstanding Debtors and Creditors

The Consolidated Balance Sheet reflected Debtors amounting to Shs. 11,376,973.00 being unpaid plot fees and creditors worth Shs.32,557,276.00 relating to unpaid suppliers. Nevertheless, the accounts did not show age analysis and did not state the Councils policy on Debtors and Creditors

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.

3.2.5 Outstanding items of Bank Reconciliation Statements -shs. 15,795,368

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

<u>Details</u>	<u>Amount Shs.</u>
Receipts in cash book not in Bank Statement	1,305,359
Unpresented cheques	14,490,009
Total	<u>15,795,368</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.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Kibaha Town Council during exit meeting held on 23rd November 2005. The Management of Kibaha Town 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.

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ORGANIZATION STRUCTURE OF KIBAHA TOWN COUNCIL

