

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF ILALA MUNICIPAL COUNCIL
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2005**

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Office of the Controller and Auditor General
The National Audit Office,
United Republic of Tanzania

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

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

Our Vision

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

Our Mission

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

Therefore, our Core Values are

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

We do this by

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

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DEFINITION OF TERMS AND 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 Ilala Municipal Council for the year ended 30th June, 2005.

Council means - Ilala Municipal Council, both as Councilors as well as an operating entity.

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

I have completed the audit of Ilala Municipal Council accounts 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 Ilala Municipal Council was established in February 2000 vide Government Notice No. 319A under the Local Government (Urban Authorities) (Establishment of Municipalities) Order 1999.

1.3 Operational objectives

According to Section 54 (1) of the Local Government (Urban Authorities) Act, and the Local Authority Financial Memorandum, the Ilala Municipal Council has the following operational objectives:

To maintain and facilitate maintenance of peace, order and good governance within its area of jurisdiction.

To promote the social welfare and economic well being of all persons within its area of jurisdiction.

Subject to the national policy and plans for Rural and Urban Development, to further the social and economic development of its area of jurisdiction.

Collection of Public funds through taxes, licenses, fees and charges.

To convince the public that the use of funds have achieved the maximum benefits through sound financial management.

In addition to these objectives, the Municipal 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 is partly self financed by its revenue collection and largely has continued to receive grants and donation from the Government and institutions as follows:

Source	Amount	%
Revenue collection	7,736,773,619	49
Government grants	8,180,767,473	51
TOTAL	15,917,541,092	100

1.5 Management Structure

The Ilala Municipal Council operates under directives of the Full Council which is a supreme body for legislative responsibilities.

The Council is headed by the Municipal Director who is accountable to the Finance and Administration Committee and Full Council for its day-to-day operations. The Council is administered under the Chairmanship of the Hon. Mayor and the Municipal Director of the Council assisted by Heads of Departments.

The structure has positions of Internal Auditor and Legal Officer with responsibilities of advising the Municipal Director on matters falling under their jurisdiction.

The pictorial management structure of the Municipal Council is shown as appendix II of 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 Sect.34 (1) provides for Establishment of Procurement Management Unit.

The Internal Control set up of Ilala Municipal 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 Council collected an amount of Shs.7,736,773,619 from own sources against the internal revenue budget of Shs.7,190,000,000 reflecting over collection of Shs.546,773,619 or 107%. The favourable difference indicates efficiency in revenue collection. In addition, the Council received grants amounting to Shs.8,180,767,472 making total revenue of Shs.15,917,541,092 during the year.

Expenditure

The Council spent Shs.14,324,318,178 during the year against total income of Shs.15,917,541,092 or 89% of total revenue, leaving unspent amount of Shs.1,593,222,914. However, performance against budget could not be assessed since budget figures were not disclosed in the financial statements. The detailed sources of Council revenue is given below:

Source	Amount
Manpower and administration	249,375,799.00
Finance	2,998,680,085
Planning and coordination	1,132,617,443
Works	869,734,479
Education	28,225,897
Health	39,377,010
Trade and informal sector	2,408,275,407
West management	10,487,500.00
Total on source of income	7,736,773,619
Grants	8,180,767,472
Total income	15,917,541,092

A comparison of the internal revenue of Shs.7,736,773,619 against expenditure of Shs.14,324,318,178 (net of depreciation) is only 58% indicating that the Council can partly sustain its recurrent and 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 Public Finance 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 Municipal 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 Municipal 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 Municipal 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 Municipal 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 FINACIAL STATEMENTS

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

Municipal Director and Accounting Officer,
Ilala Municipal Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
ILALA MUNICIPAL 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 Ilala Municipal Council attached as appendix 1 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 Ilala Municipal Council.

Order Nos. 9 through 16 of the LAFM requires the Council to establish and support a solid 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 attention 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 Ilala Municipal 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.

Qualification

In my opinion, except for the material matters pointed out below, the financial statements fairly reflect, in all material respects, the financial position of Ilala Municipal 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.

Material disagreement in record keeping:

1. Payments not supported by proper documentation to authenticate payments effected Shs.37,743,880.
2. Catering service paid basing on expired contract agreement Shs.20,619,000.
3. Revenue accruing from rented public toilets not accounted for by revenue collectors Shs.12,360,190.
4. Long outstanding sundry debtors account Shs.585,602,336.
There are outstanding audit recommendations from previous year's audits which are yet to be acted upon.

Further to my opinion, except for the procurement of services of towing motor vehicles wrongly parked along the streets, the procurement of goods and services by the Council which I have tested as part of the audit, have generally complied with the requirements of the Public Procurement Act No.21 of 2004 and the related Regulations.

The details of these matters and others are given in part 3 of this report.

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

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow up of previous year's Audit findings

During the previous year's audit, recommendations were made on some of the key issues which require necessary action for improvement. However, as at this reporting date (February 2006), the following outstanding features have not been fully implemented as follows: -

period	Para	Description	Amount queried (Shs.)	Outstanding amount as at (Shs.)
2004	4.2	Nugatory expenditure	6,820,000	6,820,000
2004	4.4	Nugatory payment of compensation	12,500,000	12,500,000
2004	4.5	Road rehabilitation works	25,000,000	25,000,000
2004	4.6	Contracts signed after the completion of work	35,222,320	35,222,320

3.2 Current years' findings

3.3 Position of audit queries

A test check of accounts and related records for the year under review resulted in 59 audit queries being issued the more significant of which form the basis of this report. As at this report date (February 2006); the position is as follows:

F/Y	Queries issued	Queries closed	Outstanding queries
January-June, 2004	47	42	5
2004/2005	59	29	30
Total	106	71	35

3.4 Revenue accruing from rented public toilets not accounted for (Shs.2,360,190)

The Local Authority Financial Memorandum (1997), collection procedures-cash income paras 109-112 stipulate that:

- Every council shall appoint officers to collect designated types of income, whose photograph and details shall be kept at the Head Office, and who shall carry, at all times while on duty, an identification card containing the said photograph.

- All monies collected by designated officers shall be remitted to the cashier for safe custody before the closure of work each day, if possible; or if not at intervals to be specified by the Treasurers.
- The cashier shall issue a receipt for the money and ensure prompt banking of accounts deposited.
- Each collector shall maintain a Revenue Collector's Cash Book in which he/she shall record individual receipts showing the serial number, amount received and name of payee.

Notwithstanding the above collection procedures, cash income or revenue collected from rented public toilets and reflected in the revenue statement for the year was Shs.27,569,810 whereas revenue collected and recorded in the register maintained by designated officers was (Shs.40,200,000 resulting in unfavorable difference of Shs.12,360,190 not accounted for or remitted to the Council's cashier by designated officers.

Implication

Un-reconciled figure could lead to uncollected revenues.

Audit recommendation

Management should reconcile the two figures as reported in the income statement with that reported in the register.

Management response

No management response was given.

Audit comment

Replies regarding the un-reconciled figures are awaited.

3.5 Revenue accruing from property tax Shs.635,691,390

A physical verification/survey was made on computer and a printer supplied by the Urban Sector Rehabilitation Project to the valuers of respective Municipal Councils, including in this case, Ilala Municipal Council. The aim for supplying the computer and printer was to boost collection of property tax through proper tax identification of tax payers and, valuation of taxes rates due to the Council. We observed that one special computer and a printer together with the Capital Property Tax software were supplied (to the Municipal Valuer) for digitizing and merging field data with Municipal Council "valuation role" which are installed in the micro-soft access data base.

Further, despite the installation of the micro-soft access database there was no data on record or information indicating the total revenue, which was expected to be collected, and revenue not

collected. In the absence of this important information/data, we were unable to confirm the accuracy and legitimacy of Shs.635,691,390 reflected in the financial statements under property tax budget Line.

Also, we could not confirm whether the special computer and printer are being utilized for the purpose intended, since the data or information needed to be produced is not forthcoming.

Implication

No boosting of revenue collections.

Audit recommendation

Management, should ensure maximum revenue collections accruing from property tax.

Management response

No management response was given.

Audit comment

Submission of documents to support the amount of revenue collections of Shs.635,691,390 is awaited.

3.6 Unsupported payments Shs.37,743,880

During the year under review, we noted that payment vouchers of various accounts amounting to Shs.37,743,880 were not supported by proper documentation as follows: -

Description	Amount (shs)
• Payments made on proforma invoices	9,562,608
• Payments made without statement of expenditure	16,865,930
• Unapproved repair of motor vehicles.	2,918,492
• Payments to TANESCO whose bills were missing	2,296,850
• Payments based on expired contract	9,188,520
Total	37,743,880

Implication

Laxity in control over supporting documentation.

Audit recommendation

Management should ensure proper documentation of documents supporting expenditure incurred.

Management response

No management response was given.

Audit comment

Submission of supporting documents amounting to Shs.37,743,880 is awaited.

3.7 Catering services paid basing on expired contract agreement (Shs.20,619,000)

The Local Authority Financial Memorandum (1997) orders 250-256 stipulate that all goods, materials or Services supplied to or work executed for the Council shall be ordered or confirmed in writing by an official Local Purchase Order (LPO), or by written acceptance of a tender or offer signed only by officers authorized by Head of the ordering department.

It shall be the duty of each Head of department to ensure that all goods, materials and services received are checked against the order in respect of price, quality and quantity.

The Head of each department which incurs expenditure shall arrange for the certification in manuscript by an officer of his department that all payment vouchers comply with the following; -

- The expenditure is on items or Services, which it is within the council's legal powers to incur.
- The relevant expenditure has been properly incurred and is within the relevant estimate provision.
- When scrutinizing the contract agreement for catering services entered with the municipal council, we observed that, during the month of November 2004 a sum of Shs.20,619,000 was paid to M/s Mogo Supplies of Dar es Salam for supplying food staff to two special Primary Schools at Buguruni and Uhuru Mchanganyiko. Apparently, the payment was made basing on contract agreement which expired last year on 30th June, 2004.

Implication

No checks or pre-audit before payments are made.

Audit recommendation

Management should ensure that a revised contract agreement between the Ilala Municipal Council and M/S MOGO Supplies is produced and communicated to audit.

Pre-audit section within accounts unit should be strengthened.

Management response

No response was given by management.

Audit comment

A reply from management regarding the above observation is awaited.

3.8 Doubtful payments to breakdown owners Shs.17,650,000.

Two payments totaling Shs.17,650,000 were made to two breakdown owners for rendering the services of towing motor vehicles, which were wrongly parked along the streets. Two contract agreements, or offers in respect of this service were signed after the service had been provided without a written acceptance in the first place.

Implication

Signing contracts after the completion of work could lead to payment for services not rendered.

Audit recommendation

Management should ensure that contracts are signed before the services are rendered.

Management response

No management response was given.

Audit comment

Management reply regarding the above observation is awaited.

3.9 Sundry Debtors Shs.585,602,335.8

The balance sheet as at 30th June 2005 disclosed the figure of outstanding debtors amounting to Shs.585,602,335.80 as detailed below:

Description	Amount
Outstanding imprests	40,106,271.50
City Service Levy	201,050,078.86
Salary advances	22,581,888.14
Women and Youth loan	312,232,514
Debtors arising from sale of motor vehicles	5,851,583.30
Dishonored cheques	5,851,585.30
Total	585,602,335.80

However, as at the time of writing the report, (January 2006), no evidence of recovery have since been made.

Implication

This may result into failure to discharge the Councils' obligations due to lack of funds.

Audit recommendation

Management should ensure that the outstanding balances are recovered.

Management response

No management response was given.

Audit comment

Management response to recover the outstanding balance of debtors is awaited.

3.10 Uncleared Bank Reconciliation Items as at 30th June 2005

The Bank Reconciliation Statements reflected uncleared items as follows: -

Item	Amount (Shs)
Receipts in Cash Book not in Bank	1,063,549,311
Unpresented Cheques	1,315,993,675

Implication

Huge outstanding items in the Bank statement not cleared imply losses or misappropriation of public funds.

Audit recommendation

Management should ensure clearance of the outstanding items in the Bank statement and communicate the findings for audit verification.

Audit comment

Management reply regarding clearance of the outstanding balances in the Bank statement is awaited.

4.0 CONCLUSION

The detailed audit findings and recommendations presented above have been communicated to the management of Ilala Municipal Council during exit meeting. Management of the Ilala Municipal Council 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.

I wish to point out that the audit team had experienced delays in getting documents from the management. It is my hope that action will be taken to prevent recurrence of these and similar problems in the future.

Lastly, without prejudice to the delays experienced in getting documents, I would like to express my appreciation for the co-operation given to the audit team. It is my hope that such good working relationships will be extended in the next and subsequent audits.

Dr. Frank Mosses Hiza Mhilu
Ag. CONTROLLER AND AUDITOR GENERAL

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5.0 ANNEXURES

- Financial Statements and notes to the financial statements - annexure I
- Organization structure of Ilala Municipal Council - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.