

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF TEMEKE 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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Table of Contents

	page
1.0 Background information to the audit	5
1.1 Introduction	5
1.2 Brief history of the client establishment	5
1.3 Operational objectives	5
1.4 Financing	5-6
1.5 Management structure	6
1.6 Brief description of internal control system	6-7
1.7 Audit mandate	7
1.8 Audit objectives	7-8
1.9 Audit scope	8
1.10 Audit Methodology	9
1.11 Presentation of audit findings	9
2.0 Audit report on the financial statements	10-11
3.0 Audit findings and recommendations	12
3.1 Follow up of previous year's Audit findings	12
3.2 Current year's findings	12-17
4.0 Conclusion	18
5.0 Annexures	19

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 Temeke Municipal Council for the year ended 30th June, 2005.

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

- (a) To maintain and facilitate maintenance of peace, order and good governance within its area of jurisdiction.
- (b) To promote the social welfare and economic well being of all persons within its area of jurisdiction.
- (c) Subject to the national policy and plans for Rural and Urban Development, to further the social and economic development of its area of jurisdiction.
- (d) Collection of Public funds through taxes, licenses, fees and charges.
- (e) To convince the public that the use of funds have achieved the maximum benefits through sound financial management.

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

1.4 Financing

During the year under review, Temeke Municipal Council received revenues from various sources as follows:-

Sources	Approved Budget (TShs.)	Actual Collection (TShs)	Percentage %
Own Source	3,041,860,000.00	2,957,645,977.00	97
Compensation (Revenue)	1,096,115,428.00	1,248,580,286.00	114
Cost Sharing	221,379,053.00	295,164,159.00	133
Grants & Donation	<u>13,227,969,414.00</u>	<u>9,440,077,804.00</u>	71
	17,587,323,895.00 =====	13,941,468,226.00 =====	

1.5 Management Structure

The Temeke 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 annexure 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 Temeke 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.2,957,645,977 from own sources against the internal revenue budget of Shs.3,041,860,000 reflecting a collection shortfall of Shs.84,214,023 or 97%. The difference between the actual revenue collection and estimates was not explained but would appear to be a result of unrealistic revenue targets. In addition the Council received grants amounting to Shs.9,440,077,804 making total revenue of Shs.12,397,723,781 during the year.

Expenditure

The Council spent Shs.14,116,746,828 during the year against total income of Shs.12,397,723,781 or 113% of total revenue, reflecting over expenditure amount of Shs.1,719,023,047

A comparison of the internal revenue of Shs.2,957,645,977 against expenditure of Shs.13,153,717,705 (net of depreciation) is only 22% implying that the District Council cannot sustain either its recurrent or development expenditure without depending on grants.

1.8 Audit Mandate

By virtue of the provisions of Article 143 of the Constitution of the United Republic of Tanzania, and Section 45 of the Local Government 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 FINANCIAL STATEMENTS

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

Municipal Director and Accounting Officer,
Temeke Municipal Council.

RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF TEMEKE 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 the Temeke Municipal Council attached and marked "Examined" 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 Temeke 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 Temeke 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 of the Council fairly reflect, in all material respects, the financial position of Temeke 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.

1. Doubtful recovery of the loaned amount Shs.50,000,000 to various Women and Youth groups of Temeke area.
2. Long outstanding debtors amount Shs.264,354,079 without recovery
3. Non-clearance of overdue Bank balances.
4. Payment not supported by proper documentation Shs. 5,673,400
5. Significant under collection of revenues denying the council the ability to implement desired work plans and operations.

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

Further to my opinion, the procurement of services of refuse collection and Dar es Salaam city solid waste treatments' disposal and street littering by law of 2004, which I have tested as part of the audit, have complied with the requirements of the Public Procurement Act No.21 of 2004 and the related Regulations.

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.

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 (January 2006), the following outstanding features have not been fully implemented as follows: -

Period	Para	Description	Amount queried (TShs.)	Outstanding amount (as at 30/11/2005 (TShs.))
2003	5.1.1	Unlearned Revenue Debtors	93,392,683	30,891,838
2004	5.2.1	- do -	137,253,294	53,028,711
2004	5.2.2	Outstanding other debtors	208,219,340	137,479,820
2004	5.2.3	Sundry Creditors not settled	739,804,398	173,950,745

Action taken to clear the outstanding balances is awaited.

3.2 Current year's audit findings

3.2.1 Position of audit queries

A test check of the accounts statements and related records for the year under review (2004/2005) resulted in the issue of 77 audit queries, the more significant of which form the basis of this report. As at this reporting date (January 2006) 61 queries have been replied satisfactory and closed.

A summary of outstanding audit queries is as follows: -

F/Y	No. of queries raised	No. of queries closed	No. of queries outstanding
2003	100	98	2
2004	32	25	7
2004/05	77	61	16
Total	209	184	25

3.2.3 Under collection of revenues

When actual revenue collected was compared with approved revenue budget we noted significant variations on certain revenue budget lines as detailed below. However, no explanations were received for these variances. For instance considerable unfavourable variances was recorded on market fees and slab dues (23%) stray animal fees (0%), sale of seedling (14), Bus stand fees (17%); Pick-up and Lorry fees (17%); Building plan Approval fees (1%) and motor vehicle parking fees (17%).

This state of affairs is due to the fact that unrealistic revenue budget was prepared. It is also likely that little effort was exerted when collecting and accounting for revenue by revenue collectors.

Code	Particulars	Approved budget (Shs)	Actual collection (Shs)	Collection percentage
AC06-000-070302	Dividend income	25,000,000	9,402,440	38
VR01-000-000-080405	Taxi Registration fees	9,000,000	4,370,126	49
BR01-000-000-050703	Hotel levy	54,000,000	22,524,497	42
BR02-000-000-090498	Market fees & Slab dues	99,273,600	22,951,817	23
CF02-000-000-090409	Abattoirs slaughter fees	30,000,000	11,893,300	40
CF02-000-000-0904414	Meat Inspection fees	7,500,000	2,955,700	39
CF 08-000-000-090410	Pugu Livestock action fees	52,004,500	25,251,812	49
CF 08-000-000-090411	Stray animal fines	300,000	-	0
CF 07-000-000-140102	Sale of seedlings	2,545,400	371,000	14
CF-04-000-000-090424	Property Tax	690,000,000	312,672,566	45
BR 02-000-000-090415	Bus stand fees	15,130,000	2,501,016	17
BR 02-000-0000-090416	Pickup and Lorries fees	20,737,000	3,427,862	17
BR 02-000-000-090418	Building plan scrutiny fees	4,000,000	40,000	1
BR 02-000-000-050711	Motor vehicle packing fees	70,000,000	11,571,122	17
BR 02-000-000-090416	Plying fees	50,000,000	20,000,000	40

Implication

- Approved revenue budget figures not realistic with actual revenue collected during the year under review.
- Under collection of revenue may deny council's ability to implement desirable work plans and operations

Audit recommendation

Management should ensure that realistic budgets are properly drawn so as to meet its obligations.

Management response

No management response was given.

Audit comment

Management comments regarding the above observations are awaited.

3.2.4 Council Investment Account

The Local Authority Financial Memorandum Orders 199 and 203 respectively stipulate that: -

- Cash funds not required for immediate use shall be invested to the best advantage for the Council and subject to any general and specific directives issued by the minister.
- Such investment shall be evidenced by a security, deed or Contractual document which shall be entered in a register and kept under safe keeping.

We observed that the Council had initially invested Shs.355,367,000 with the Dar es Salaam community Bank (as reflected in the final accounts) for facilitating various community based developments activities, particularly targeting Women and Youth groups. Further, a sum of Shs.28,000,000 was contributed towards construction of fire brigade station which is supervised by the City Council of Dar es Salaam.

Furthermore, there was no feedback or returns, from the Community Bank regarding development activities so far facilitated, and the number of community based groups which benefited from the council investment. Also, work in progress in respect of the fire station is not known.

3.2.5 Outstanding loans Shs.50,000,000

During the year under review M/S TAPSE (Tanzania Promotion of Self Employment) was appointed as an agent to issue loans amounting to Shs.50,000,000 to various Women and Youth groups of Temeke Municipal Council.

According to a clause in the contract, M/S TAPSE was required to submit collection statements and books of accounts to the office of the Controller and Auditor General for audit purposes. But to no avail so far. Further, there was no feedback on the status of loans issued to Women and Youth groups.

Implication

Doubtful refund of Council funds.

Audit Recommendation

Management should make follow-up for the required statements and accounts to facilitate compliance of the laid down procedures while processing the loans.

Management Response

No management response was given.

Audit comment

Matters relating to the above issues are still outstanding audit query No.5 of 2004/2005 refers.

3.2.6 Unvouched and improperly vouched expenditure Shs.234,796,025

During the year under review we have noted that in some instances paid vouchers, goods and services were not fully supported by proper documentation to authenticate payments effected as follows: -

S/N	Description	Amount involved (Shs)
1.	Unvouched expenditure	32,856,328
2.	Improperly vouched expenditure	201,939,397
Total		234,796,025

Implication

- Laxity in control over accounting/supporting records
- Revenue collected without an acknowledgement receipt may cause misappropriation of funds.

Audit Recommendation

The Management should trace missing vouchers and ensure that all payment voucher are dully supported by proper documents/receipts.

Management response

Category	Amount queried (Shs)	Amount cleared (Shs)	Outstanding amount as at 30/11/05 (Shs)
• Unvouched expenditure	32,856,328	27,182,928	5,673,400
• Improperly voucher expenditure	201,939,697	201,939,697	-
Total	234,796,025 =====	229,122,625 =====	5,673,400 =====

Audit Comment

Clearance of the outstanding balance of unvouched expenditure totaling Shs.5, 673,400 is awaited.

3.2.7 Sundry debtors' shs.630, 625,447

The Balance Sheet as at 30th June, 2005 disclosed outstanding sundry debtors amounting to shs.630, 625,447. However, as at the time of writing the report (January, 2006), no evidence of recovery has been made.

Category	Balance as at 30/6/05 (Shs)
(i) Sign boards:-	
- Omax Bar & Social Hal	30,000
- Tanganyika Tegry Plat Ltd	432,000
- Tradeco Ltd	432,000
(ii) House rent	25,085,000
(iii) Property Tax	89,793,319
(iv) City Service:	89,793,319
- Tanzania Power & Energy	100,000
- Graphic s supplies Ltd	1,554,359
- Simber Plastic	95,788
- J. Stambuli	221,729
- Simba Motors	216,000
- Signs Tanzania Ltd	87,450
- Anisa Ltd	48,954
- NMB TMK (Wrong Debt)	587,684
- Travel Centre Top Tours	223,100
- Tabisco Enterprises	1,499,266
- Biashara consumers Service	241,665
- B. Shapriya & Co.	1,271,863
- Graphic supplies Ltd.	1,554,359
(v) Outstanding Imprests	24,252,190
(vi) Salary Advances	4,794,813
(vii) Women and Youth Loan	135,397,616
(viii) Other advances:-	
- Ministry of Education	10,885,000
- Motor Vehicle Purchase	333,375,651
G/Total	630,625,447

Implication

This may result into failure to render the council's obligations due to lack of funds

Audit Recommendation

Management should ensure that all the outstanding balances are recovered and control measures taken on an increase in debtors list.

Management Response

Management has made an effort to recover a sum of Shs.366,266,368 leaving a balance of Shs.264,354,079.

Audit Comment

The management reply to recover the remaining balance of debtors is awaited.

3.2.8 Sundry Creditors Shs.444, 579,216.69

A review of sundry creditors as reflected in the balance sheet as at 30th June 2005 and 30th November 2005 disclosed outstanding creditors as follows:-

Item	Amount outstanding as at 30/6/05 (Shs)	Position as at 30/11/05(Shs)
• Unclaimed Salaries	12 ,172,530	10,222, 794
• LAPF Fund outstanding	11,332,570	11,332,570
• Stale Cheques	3,998,379	3,998,379
• Service Creditors (Including LGLB)	<u>461,582,000</u>	<u>419,025,009</u>
Total	489,085,479 =====	444,579,216.69 =====

Implication

Failure to clear the outstanding creditors has resulted into huge outstanding balances in the Council books of account.

Management Response

The Municipality has managed to clear shs.44, 506,727 leaving a balance as at 30/11/05 to be shs.444, 578,752

Audit Comment

Clearance of the outstanding creditors are awaited.

3.2.9 Grants unspent balance Shs. 733,681,228

We have noted that, during the year under review, Temeke Municipal Council received grants from the Government totalling Shs.10,983,822,249 from which expenditure totalling Shs.10,250,141,021 was incurred, leaving the balance of unspent amount of TShs. 733,681,228 as follows; -

Grant	Total receipts (Shs)	Total Expenditure (Shs)	Unspent balance (Shs)
• Recurrent	7,353,033,730	7,065,202,117	287,831,613
• Development	3,630,788,519	3,184,938,904	445,849,415
Total	10,983,822,249	10,250,141,021	733,681,228

Implication

Planned activities were partially/not implemented.

Audit Recommendation

Management should ensure that during the year, all planned activities are implemented so as to achieve the intended objectives for which funds were allocated and approved.

Management response

No management response was given

Audit comment

A utilization detail of an unspent balance of Shs.733,681,228 is awaited.

4.0 CONCLUSION

The detailed audit findings and recommendations presented above have been communicated to the management of Temeke Municipal Council during exit meeting. More over, Management of the Temeke Municipal Council has promised to take appropriate action to our recommendation 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 a problem of delay in getting document from the management. It is my hope that action will be taken to prevent recurrence of these and similar problems in the future.

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 relationships will be extended in the next and subsequent audits.

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

CC: Permanent Secretary,
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DODOMA.

Permanent Secretary and Paymaster General,
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Box 9111,
DAR ES SALAAM.

5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.