

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF KILWA DISTRICT 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:

- 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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Terms and Abbreviations

DED	District Executive Director
GF	General Fund
GRR	General Revenue Receipt
INTOSAI	International Organization of Supreme Auditing Institutions
ISA	International Standards on Auditing
LAFM	Local Authority Accounting Manual
LPO	Local Purchasing Order
PEDP	Primary Education Development Project
PMO-RALG	Prime Minister's Office -Regional Administration and Local Government
URT	United Republic of Tanzania

Financial Statements mean:

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

Council means: Kilwa District Council, both as Councillors as well as an operating entity.

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

We have completed the audit of Kilwa District Council for the year ended 30th June 2005. Audit findings arising from examination of accounting records, appraisal of activities, and evaluation of the internal control system which require Management attention and action are set out under part three of this report.

1.2 Brief history of Client Establishment

The Kilwa District Council was established in 1984 in accordance with the provisions 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 III (1) of the Local Government (District Authorities) Act and the Local Authority financial Memorandum, the District Council of Kilwa has the following operational objectives.

- (a) To maintain and facilitate the 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, own sources and external sources. The Internal source included collection of Public funds through taxes, fees, licenses and charges. On the other hand external source include subsidies from central government, grants and other funds from the Donor community.

During the year 2004/2005 the council received a total income of Shs.2,936,696,866.10 from the following sources;

	Shs.
Own Sources (including Grant Levy Compensation)	175,363,459
Government Grant	<u>2,761,333,407</u>
Total	<u>2,936,696,866</u>
	=====

1.5 Management

The Kilwa District Council operates under directives of the Full Council and the day to day activities are administered by the District Executive Director who is the Accounting Officer of the council. The Council is organized into different departments supervised by heads of department who reports to the District Executive Director. The detailed organization chart is given in Annex 2.

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 through the issue of a detailed job description for each post in the Finance Department, production of an organization chart for the Finance Department showing lines of reporting and supervision, Division of responsibilities for related operations between several officers 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 mandatory. The Council is also required to employ its own Internal Auditor who report directly to the Director. Similarly, the Public Procurement Act NO. 21 of 2004 section 28 (I) requires the Council to establish a tender Board and Sect.34 (I) provides for establishment of Procurement Management Unit.

The Internal Control system of Kilwa District Council complies with this order of the Procurement Act. Nevertheless weakness raised from review of internal control system are included under part 3 of this report.

1.7 Financial Performance Issues

Revenue

The District Council collected an amount of Shs. 175,363,459.30 from own sources against the internal revenue budget of Shs.244,988,000 reflecting an under collection of Shs.69,624,541 or 28.4%. The large difference between the actual revenue collection and estimates was not explained. In addition, the Council received grants amounting to Shs. 2,761,333,406.80 making total revenue of Shs. 2,936,696,866.10 during the year.

Expenditure

The Council spent Shs. 3,134,901,211.09 during the year against total income of Shs. 2,936,696,866.10 or 106.7% of total revenue, with an over expenditure amount of Shs. 198,204,344.99. However, performance against budget could not be assessed since expenditure budget figures were not disclosed in the financial statements.

A comparison of the internal revenue of Shs. 175,363,459.30 against expenditure of Shs. 3,134,901,211.09 is only 5.6% implying that the District Council cannot sustain either its recurrent or development expenditure without depending on grants.

1.8 Audit Mandate

By virtue of the provision of Article 143 of the Constitution of the United Republic of Tanzania, and Section 45 of the Local Government Finances Act No. 9 of 1982, (revised 2000) the Controller and Auditor General is the appointed auditor of all government revenue and expenditure, including of this District Council.

1.9 Audit Objectives

The main objective of conducting the audit is to enable me to express an independent opinion on the statements of the Kilwa District Council for the period ended 30th June 2005 and in particular:-

- To determine whether transactions were executed in accordance with management authorization and recorded properly in the books of account to permit the preparation of the financial statements in accordance with the International Accounting Principles and requirements of the Local Government Finances Act No.9 of 1982 and Local Authority Financial Memorandum 1997.
- To determine whether funds have been collected properly and used exclusively to meet eligible expenses as per approved budget and regulations governing government expenditure.
- To ascertain whether all relevant supporting documents records and accounts have been kept in respect of all Kilwa District Council activities.

- To verify whether goods and services bought were acquired through laid down procurement procedures and the Public procurement Act No. 3 of 2001 have been complied.
- To perform compliance tests to determine whether the management complied in all material respects with the Public procurement Act No 3 of 2001
- 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 Kilwa District Council are adequately safeguarded against losses from unauthorized use or disposition.
- To determine whether the management of the Kilwa District Council has taken adequate corrective action on the previous years audit recommendations.

1.10 Audit Scope

The audit of Kilwa District Council for the period ended 30th June 2005 was carried out in accordance with International Standards on Auditing (ISA). The audit covered the evaluation of the effectiveness of the financial accounting system and internal control over the activities of the Council, Examination and verification of the accompanying financial statements, the performance report and other auditing procedures as was considered necessary under the circumstances for the purpose of forming an opinion on the financial statements. The audit was carried out on a test check basis, therefore the audit findings are confined to the extent that records, documents and information requested for the purpose of audit were made available to us.

As auditors we are not required to search specifically for fraud; therefore our audit cannot be relied upon to disclose all such matters. However, our audit was planned as that we would have reasonable expectation of detecting material misstatements in the financial statements, including those resulting from fraud or irregularities. The responsibility for detection and prevention of fraud and irregularities rests with the Council's management who are responsible for setting up and maintaining an adequate system of internal control.

1.11 Audit Methodology

In auditing the financial statement together with the related records and schedules, the following 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.
- 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 which, if rectified on time, will greatly improve the effectiveness of the internal control system applied.

2.0 AUDIT REPORT ON THE FINANCIAL STATEMENTS

To: The Regional Commissioner,
Lindi Region

District Executive Director and Accounting Officer,
Kilwa District Council

Re: **Independent Audit Report on the Financial Statements of Kilwa District Council for the year ended on 30th June 2005**

I have audited the Consolidated Balance Sheet, Consolidated Statement of Income and Expenditure, Consolidated Cash-flow Statement, and the related notes and schedules of the Kilwa District Council shown on the annexure 1 given in the book 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 Kilwa District Council.

Order Nos. 9 through 16 of the LAFM require 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 Kilwa District Council consistently applied and adequately disclosed, evaluating the overall financial statement presentation, and assessing the extent of compliance with the statutory requirements. I believe the audit provides a reasonable basis for my opinion.

Qualification

Except for the material matters pointed out below, in my opinion the financial statements fairly reflect, in all material respects, the financial position of Kilwa District Council as at 30th June 2005 and the results of the operations and cash-flows for the year then ended, in accordance with Part IV of the Local Government Finances Act No. 9 of 1982.

Matters requiring rectification

1. Outstanding issues of the previous audit observations should be cleared as per statutory requirements.
2. Seven (7) open Receipt Books (HW5) were not produced for audit when called for, hence one cannot confirm the revenue collected against the issued books.
3. Payment vouchers totalling Shs. 111,569,171.45 were not supported by relevant documents.

4. Fuel valuing shs.1,720,600.00 purchased but not recorded in stores ledger.
5. A sum of Shs. 4,982,000 was paid in December, 2004 as imprest for buying Guns and Ammunitions but nothing was purchased.

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

Dr. Frank Mosses Hiza Mhilu

Ag. CONTROLLER AND AUDITOR GENERAL

Office of the Controller and Auditor General
The National Audit Office
Dar es Salaam

February 2006.

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow up of Previous Audit Recommendations

3.1.1 Cheques Dispatched not Receipted by Bonafide Payees Shs.3,874,791
Cheques valuing Shs.3,874,791 were not collected for encashment at Bank by right payees.

3.1.2 Unvouched Expenditure Tshs.12,470,226
Payment vouchers totalling Shs.12,470,226 were not produced for audit.

3.1.3 Improperly vouched expenditure Shs.5,275,800
Expenditure of Shs.5,275,800 was not supported by relevant documents.

3.1.4 Final Financial Statements

Itemized Income and Expenditure statement Missing

The council did not prepare and submit along with other annual statements, the detailed Itemized Income and Expenditure Statement for the period under audit.

3.1.5 Missing Statement

The Council did not prepare and submit a Statement of Capital Expenditure and its financing.

3.1.6 Comparability of Financial Statements

For the purpose of Identifying Trends in the Financial Statements the Council is required to prepared comparative Financial statements for the Council throughout the time.

3.1.7 Missing explanatory Notes to the Financial statements

The Council did not prepare explanatory notes to support the various summary items of the Accounts reported in the Consolidated Income and Expenditure Statement.

3.1.8 Statements Wrongly Compiled

(a) Ledger Receipts of TShs.138,853,201 and Ledger Payments of Tshs.90,943,893 relating to Miscellaneous Deposits Account were wrongly reflected in Income and Expenditure Statement.

(b) Fixed Assets Depreciation charges not expensed in accounts.

(c) Capital Expenditure incurred on Road Fund, PEDP and donor Funded Project Accounts were not Capitalized instead wrongly treated as Revenue Expenditure.

3.1.9 Fixed Assets Shs.3,090,534,098

Fixed Assets were understated by Shs.4,874,850. The Council was required to adjust its account.

3.1.10 Outstanding Debtors Shs.87,033,627

The position as at 30th June 2005 was as follows:

Description	Amount Shs.
Imprests	69,921,121
Advances	16,967,206
Unclaimed Salary	145,300
Total	<u>87,033,627</u>

3.1.11 Creditors Shs.99,595,158.66

As at 30th June, the total Creditors was Shillings 99,595,158.66 as summarized below:-

Description	Amount Shs.
Creditors (Deposits)	44,971,530.66
Creditors (Supplies)	53,995,690.00
Imprests	473,930.00
Advances	154,008.00
Total	<u>99,595,158.66</u>

3.1.12 Accrued Expenses and Loans TShs.47,388,365

The balance as at 30th June was indicated Statutory Accrue amounting to Shs.47,388,363.

Implication

Non-response to audit observations implies that statutory requirements are not complied with.

Recommendation

The Management should ensure that all outstanding queries are cleared and audit recommendations are taken into consideration as per statutory requirements.

3.2 Current Audit findings

3.2.1 Revenue Earning Receipt Books not Produced

7 (seven) Open Receipt books (HW5) were not produced for audit when called for.

Implication:

In the absence of Revenue Earning Books one cannot confirm the revenue collected against the issue HW5 books.

Recommendation

We recommend that the management should trace the missing HW5 books and confirm the availability, by submitting evidences for audit scrutiny.

3.2.2 Improperly vouched expenditure Shs.108,394,874

Payment vouchers totalling Shs.108,394,874 were not supported by relevant documents.

Implication

This implies that, the legitimacy of the expenditure incurred or purpose of which the payment were made could not be ascertained.

Recommendation

The management should ensure that the missing supporting documents to the payment vouchers should be produced for audit verification.

3.2.3 Unvouched Expenditure Shs.3,174,297.45

Payment vouchers totalling Shs.3,174,297.45 were not produced for audit.

Implication

Legitimacy of the expenditure or the purpose of which the payments were made could not be ascertained.

Recommendation

The management is required to produce to audit the missing supporting documents for the expenditure incurred and in future Management should adhere to financial Rules and Regulations.

3.2.4 Current Liabilities Shs. 102,234,433

The amount of liabilities constitute the following:-

Description	Amount Shs.
Unpaid Suppliers	53,995,690
Imprests (Over Recoveries)	473,930
Advances (Over Recoveries)	154,008
Statutory Accrued	47,388,365
LGLB	222,440
Total	102,234,433

Implication

This implies that if the council did not settle debts then the smooth operations of the council might be affected during settlements

Recommendation

The council's management should ensure clearance of debts.

3.2.5 Consolidated Bank Reconciliation Statement

Incorrect Figures Used

The figures Reported in the consolidated Bank Reconciliation Statement were not correct as detailed below:

Item	Figure Reported in Statement (Shs.)	Audit figure (Shs.)	Difference (Shs.)
Payment in Bank not in Cash Book	50,900,681	11,031,945	39,868,736
Receipt in Cash Book not in Bank	5,520,018	45,388,734	39,868,736
Unpresented cheques	237,262,524	237,019,334	223,243,189

Implication

Delay in clearing of outstanding items may lead to the loss of Public funds.

Recommendations

Management should make more efforts to clear the outstanding items and confirm by submitting the details for audit verification.

3.2.6 Two (2) Motor vehicles not included as assets in the Balance Sheet

The Council was handed over Two (2) Motor Vehicles by Woodland Management in Lindi Region (UTUMI) Project for Council's use free of charge on 25/8/2004.

However, the Ownership of the Motor vehicles has not been transferred from the giving Donor to Kilwa District Council and the Motor Vehicles' old plate numbers (DFP 107 & DFP 108) and Cards have not been changed.

Consequently, the Motor Vehicles were not included in Balance Sheet as assets of the council.

Implication

This implies that the value of the assets of the Council disclosed in the Balances Sheet have been understated by the value of the two vehicles.

Recommendation

Re-registration of the Motor Vehicles should be done and their values should be ascertained for disclosure in the Council's Accounts.

2.3.7 Debtors Shs.106,785,716

The amount of debtors comprises the following

Description	Amount Shs.
Youth and Women Economic Groups	19,752,089
Imprests	69,921,121
Advances	16,697,206
Unclaimed salaries	145,300
Total	<u>106,785,716</u>

Implication

This implies that non-clearance of debtors affects the financial position and operation of the council.

Recommendation

The council Management should make followup in regard of clearance of outstanding debtors.

3.2.8 Purchased fuel not accounted for Shs. 1,720,600

Fuel valuing Shs.1,720,600 were not recorded in Stores ledger produced and hence utilization of the same could not be verified.

Implication

This implies that, non-recording of fuels purchased may lead to loss or mis-use and hence loss of public funds.

Recommendation

Management should ensure that stores purchased are always accounted for in the stores ledger and respective ledger folio and references quoted for verification.

3.2.9 Transfer of Funds Shs.8,548,594

Funds totalling Shs.8,548,594 were transferred from one account to another within the Council without seeking approval of the relevant authority.

Implication

The giving account could not fulfill its planned activities.

Recommendation

The management should refund the amount from the benefited account and confirm by quoting the relevant receipt particulars for audit verification. In future the Management should adhere to the budget provision.

3.2.10 Execution of Project not in Council's Plans Shs. 118,834,506

The Council engaged in financing construction of Mbwemkuru Bridge along Kilwa and Ruangwa Boarder out of Road Toll Account. It was learnt that the Project was not in the Council's Plan

Implication

This implies that the Road Toll planned activities were not executed.

Recommendation

The Management should stick on the planned activities and in case of a new project proper authority should be sought.

3.2.11 Recovery of Unspent Money Shs.4,982,000

An imprest of Shs.4,982,000 was given to one officer out of Development account for the purpose of buying Guns and Ammunitions at Morogoro in December, 2004.

As at December, 2005 the officer did not bring anything to the Council.

Implication

This implies that the goods were not purchased and thus there is improper monitoring of imprest which may lead to misuse or loss of Public funds

Recommendation

Management should ensure that the whole amount is recovered from the officer concerned and submit the refund particulars for audit. In future the management should strengthen control on imprests.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Kilwa District Council during our exit meeting. Management of the Kilwa District Council has promised to take appropriate action with a view to rectify the situation. We shall appreciate to receive a formal action taken in this respect.

Lastly, I would like to express my appreciation for the cooperation given to the audit team. It is my hope that such good working relationships will be extended during future audits.

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

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5.0 ANNEXURES

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

5.1

Annexure I

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF KILWA DISTRICT COUNCIL

