

**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL**

**ON THE FINANCIAL STATEMENTS OF NACHINGWEA DISTRICT COUNCIL  
FOR THE FINANCIAL YEAR ENDED 30<sup>TH</sup> JUNE, 2005**

The Controller and Auditor General  
National Audit Office  
Samora Avenue / Ohio Street  
P.O. Box 9080,  
Tel: 255 (022) 2115157/8  
Fax: 255 (022) 2117527/2255333  
E-mail [ocag@nao.or.tz](mailto:ocag@nao.or.tz)  
Dar es Salaam, Tanzania

**February, 2006**

**AR/LG/ 049/2005**

## **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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## Terms and Abbreviations

Financial Statements means The Consolidated Statement of Income and Expenditure, Consolidated Cashflow Statement and notes of the Nachingwea District Council for the period ended 30<sup>th</sup> June, 2005.

Council means	Nachingwea District Council, both as Councillors as well as an operating entity
DED	District Executive Director
INTOSAI	International Organization of Supreme Auditing Institutions
ISA	International Standards on Auditing
LGLB	Local Government Loan Board

## **1.0 BACKGROUND INFORMATION TO THE AUDIT**

### **1.1 Introduction**

We have completed the Audit of Nachingwea District Council for the year ended 30<sup>th</sup> June 2005. Audit findings arising from examination of accounting records, appraisal of Nachingwea District Council activities as well as evaluation of the Internal Control system which require management attention and action are set out under paragraph 3 of this report.

### **1.2 Brief history of client establishment**

The Nachingwea District Council was established under section 5 (i) of the Local Government Act No.7 of 1982. Besides the Act, the Council operates within the framework of the following instruments:

- Local Authority Financial Memorandum 1977
- Public Finance Act No. 20 of 2004
- Local Government Finance Act No. 9 of 1982.

### **1.3 Operating Objectives**

According to section III (1) of the Local Government (District Authorities) Act and the Local Authority Financial Memorandum, the Nachingwea District Council has the following 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**

Nachingwea District Council income is obtained through own sources (i.e. Taxes, fees, fines, sales of property, produce less), Government Grants and Donor funds.

During the year 2004/2005 the council received a total amount of Shs 3,838,179,446.72 from the following sources:

Source of fund	Amount (Shs)
Own sources	327,908,956.74
Government Grants	3,510,270,489.98
<b>Total</b>	<b>3,838,179,446.72</b>

### 1.5 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 is the responsibility of the Director or his designated representative to check effectiveness of the control system. 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 set up of Nachingwea District Council abide by this order and Procurement Act but is lacking an audit committee which is part of transparency and good governance, Nevertheless weakness raised from review of internal control system are included under part 3 of this report.

### 1.6 Management structure

The Nachingwea District Council operates under directives of the Full Council which is a supreme body for legislative responsibilities. Under the Full Council there are three Committees which are directly answerable to it. The Chief Executive for the District Council is the District Executive Director (DED) who is responsible for the day-to-day activities. The structure has positions of Internal Auditor and Legal Officer with responsibilities of advising the Director on matters falling under their jurisdiction.

In addition the structure provides for functional departments namely: Administration, Finance and Trade, Health, Education, Works, Town

Planning and Environment and Agriculture, Livestock and Co-operatives as well as Social Welfare and Community Development.

The pictorial management structure of the District Council is shown as annexure II to this report.

### **1.7 Revenue collection performance**

The Nachingwea District Council collected an amount of Shs.327,908,956.74 from own sources against a revenue budget of Shs.321,047,243 reflecting an over collection of Shs 6,861,713.74 or 2%. In addition, the Council received grants amounting to Shs.3510,270,489.98, making total revenue of Shs. 3,838,179,446.72 during the year.

#### **Expenditure performance**

The Council spent Shs.4,207,975,849.8 during the year 2004/05 against total Income of Shs. 3,838,179,446.72 of total revenue, making over expenditure of Shs. 369,796,403. However, expenditure performance against approved budget was not ascertained in the absence of expenditure Budget.

A comparison of the internal revenue of Shs. 327,908,956.74 against expenditure of Shs. 4,207,975,849.8 (net of depreciation) is only 8% 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 this District Council.

### **1.9 Audit Objectives**

The main objective of conducting the audit is to enable me to express a professional opinion on the statements of the Nachingwea District Council for the period ended 30<sup>th</sup> June 2005 and in particular: -

- To determine whether transactions were executed in accordance with management authorization and recorded properly in 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 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 Nachingwea District Council are adequately safeguarded against losses from unauthorized use or disposition.
- To determine whether the management of the District Council has taken adequate corrective action on the previous years audit recommendations.
- To verify whether the Council has implemented audit recommendations made in previous audits.

#### **1.10 Audit Methodology**

In auditing financial statements 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.

### **1.11 Audit Scope**

The audit of Nachingwea District Council for the period ended 30<sup>th</sup> 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 management who are responsible for setting up and maintaining an adequate system of internal control.

### **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.

## 1.0 AUDIT REPORT AND FINANCIAL STATEMENTS

**TO:** The Regional Commissioner  
Lindi Regional

District Executive Director and Accounting Officer,  
Nachingwea District Council

**Re: Audit Report on the Financial Statement of the Nachingwea District Council for the year ended 30<sup>th</sup> June 2005**

I have audited the financial statements and notes of Nachingwea District Council as given on annexure 1 attached for the financial year ended 30<sup>th</sup> June 2005.

### **Responsibility of Council Management on the financial statements**

These financial statements are the responsibility of the management of Nachingwea District Council.

Order Nos. 9 through 16 of the LAFM require 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 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 (ISA) and procedures that are consistent with those recommended by the International Organization of Supreme Audit Institutions (INTOSAI). 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 evidences supporting the amounts and disclosures in the financial statements.

It also included 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 Nachingwea District Council, consistently applied and adequately disclosed, evaluating the overall financial statement presentation, and assessing the extent of compliance with the relevant 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 Nachingwea District Council as at 30<sup>th</sup> June 2005 and the results of its operations and cash flows for the year then ended, in accordance with the International Financial Reporting Standard.

Further to my opinion, the procurement of office furniture and equipments, motor vehicles and machineries was generally done in accordance with the Public Procurement Act No. 21 of 2004.

### **Matters of emphasis**

1. Payment vouchers totaling Shs. 9,130,628.65 were not produced for audit when called for.
2. Payment vouchers totaling Shs. 26,921,264.60 were not supported by relevant supporting documents.
3. The Council purchased stores worth Shs. 12,635,400 but the same were not recorded in Stores Ledgers
4. Outstanding audit observations for the previous years were not cleared for long period contrary to financial regulations.

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

Dr. Frank Mosses Hiza Mhilu

**Ag. CONTROLLER AND AUDITOR GENERAL**

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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 year audit Report**

##### **3.1.1 Outstanding Water Bills Shs. 2,893,800**

Outstanding Water Bills as at 30<sup>th</sup> June 2004 Shs. 2,893,800 are yet to be cleared

##### **3.1.2 Unvouched Expenditure Shs. 12,263,803**

Payment vouchers totalling TShs.12,263,803.00 are yet to be produced

##### **3.1.3 Improperly vouched Expenditure Shs. 41,217,480**

Payment vouchers totalling Shs.41,217,480 are yet to be supported by relevant supporting documents.

##### **3.1.4 Stores not taken on ledger charge Shs.8,328,250**

Stores worth Shs.8,328,250 ordered and paid for are yet to be accounted for in Stores Ledgers.

##### **3.1.5 Payment to Institution not supported by acknowledgement receipt Shs. 28,996,605.00**

Statutory deductions Shs 28,996,605 paid to various institutions are yet to be acknowledged by receipts from the payees.

##### **3.1.6 Transfer of Funds TShs.14,125,000**

A total of shs.14,125,000 transferred from Development Water Account to General Fund Account is yet to be reimbursed.

##### **3.2.7 Stores not supported by Issue voucher Shs. 10,460,000**

Stores valued at shs. 10,460,000 are yet to be supported by the relevant issue vouchers. Punitive

##### **3.2.8 Missing notes to the Annual Financial Statements**

Explanatory notes in support of the Summary items of Accounts reported in the Consolidated Balance sheet and Consolidate Income and Expenditure Statement are yet to be prepared.

##### **3.1.9 Comparative Itemized Income and Expenditure Statement Missing**

The detailed itemized Income and Expenditure Statements for the period under review are yet to be prepared.

##### **3.1.10 Creditors Shs.85,905,557**

Outstanding Creditors reflected in the Balance Sheet as 30<sup>th</sup> June 2004 as detailed below are yet to be settled

Trade Creditors	Shs. 32,439,367
Statutory Deductions	Shs. 44,316,894
LGLB (Loan)	Shs. <u>9,149,296</u>
	Shs. <u>85,905,557</u>

**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 as per statutory requirements.

**3.2 Current audit findings**

**3.2.1 Missing Payment vouchers Shs.9,130,628.65**

Payment vouchers totaling Shs. 9,130,628.65 were not produced for audit when called for.

**Implication**

In the absence of the payment vouchers, the nature of the payments made and expenditure charged in the council accounts could not be confirmed.

**Recommendation**

The management should confirm that all payment vouchers are traced and submitted for audit scrutiny.

**3.2.2 Improperly Vouched Expenditure Shs.26,921,264.60**

Payment vouchers totaling Shs. 26,921,264.60 were not supported by relevant supporting documents.

**Implication**

In the absence of the relevant supporting documents, the correctness of the expenditure incurred could not be confirmed to be a proper charge of public funds.

**Recommendation:**

The management should make follow-up in regard of missing pay sheet and submit for audit scrutiny

**3.2.3 Transfer of Funds Shs.2, 000,000**

Shs. 2, 000,000 was transferred from Development Water Account to General Fund Account. However, The same were not reimbursed to the giving account.

**Implication**

Non-reimbursement of the transfers to the General fund will affect the financial position of the account. Also it implies that the planned activities under Development account were not accomplished.

**Recommendation**

The management should ensure that refunds are made to the respective account and submit receipt particulars for audit verification. In future management should adhere to the budget provisions.

**3.2.4 Stores not taken on ledger charge Shs. 12,635,400**

The Council purchased stores worth Shs. 12,635,400 but the same were not recorded in Stores Ledgers

**Implication**

This implies that the purchased goods might not be delivered or used for intended purpose.

**Recommendation**

The management should confirm delivery and utilization of the goods supplied. In future the management should abide to public procurement regulations.

**3.2.5 Outstanding Debtors Shs. 60,735,033**

The figure for Debtors reflected in the Balance sheet was Shs.60,735,033 which comprises the following:

Category	Amount Shs.
Imprests	53,466,126
Advances	3,746,957
Sundry Debtors	3,521,950
	<b>60,735,033</b>

**Implication**

Non-clearance of the debtors affects the financial position and operation of the council.

**Recommendation**

The Council Management should make follow-up on the clearance of outstanding debtors.

**3.2.6 Outstanding Creditors Shs.152,686,407.32**

The balance sheet reflected a total amount of Creditors of Shs.152,686,407.32 comprising the following: -

Category	Amount Shs.
Sundry Creditors	70,455,046.83
Statutory Deductions	63,809,974.29
Overdraft	18,421,386.20
	<b><u>152,686,407.32</u></b>

### **Implication**

This implies that, non-settlement of these debts may affect the council's operations during its settlements.

### **Recommendation**

The council management should ensure clearance of these debts.

## **4.0 CONCLUSION**

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

Lastly, I would like to express my appreciation for the co-operation extended 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**

Copy: Permanent Secretary,  
Prime Minister's Office,  
Regional Administration and Local Government,  
P.O. Box 1923,  
**Dodoma**

The Permanent Secretary and Paymaster General,  
Ministry of Finance  
P. O. Box 9111  
**Dar es Salaam**

## 5.0 ANNEXURES

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

**Annexure I**

**FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.**

ORGANIZATION STRUCTURE OF NACHINGWEA DISTRICT COUNCIL

