

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF LIWALE 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

- 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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Terms and Abbreviations

Financial Statements means The Consolidated Balance Sheet, The Consolidated Statement of Income and Expenditure, consolidated Cash-flow Statement and notes of the Liwale District Council for the period ended 30th June 2005.

Council Means	Liwale 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
LAFM	Local Authority Financial Memorandum

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

We have completed the Audit of Liwale District Council for the year ended 30th June 2005. Audit findings arising from examination of accounting records, appraisal of Liwale 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 Liwale 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 Liwale 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

Liwale 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. 2,852,664,310 from the following sources:

Source of fund	Amount (Shs.)
Own sources	178,502,191
Government Grants	2,674,162,119
Total	2,852,664,310

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 Liwale 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 Liwale 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 Liwale District Council collected an amount of Shs. 178,502,191 from own sources against a revenue budget of Shs. 236,580,000.00 reflecting a deficit of Shs. 58,077,809 or 24.5%. In addition, the Council received grants amounting to Shs. 2,674,162,119 making total revenue of Shs. 2,852,664,310 during the year.

Expenditure performance

The Council spent Shs. 2,748,724,227 during the year 2004/05 against total Income of Shs. 2,852,664,310 making under expenditure of Shs.103,940,083. However, expenditure performance against approved budget was not ascertained in the absence of expenditure budget.

A comparison of the internal revenue of Shs. 178,502,191 against expenditure of Shs. 2,748,724,227 (net of depreciation) is only 6.5% 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 of Finance 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 Liwale 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 books of account to permit the preparation of the financial statements in accordance with the International Accounting Principles and requirements of the Local Government Finance 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 Liwale 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 Liwale 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 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.

2.0 AUDIT REPORT AND FINANCIAL STATEMENTS

TO: The Regional Commissioner
Lindi Regional

District Executive Director and Accounting Officer,
Liwale District Council

**Re: Audit Report on the Financial Statement of the Liwale
District Council for the year ended 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 Liwale District Council shown as annexure II of this 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 Liwale 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 Liwale 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.

Opinion

Except for the material matters pointed out below, in my opinion the financial statements fairly reflect, in all material respects, the financial position of Liwale 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 5 (Five) Revenue Earning Receipt books were not made available for audit inspection. Revenue collected vide these books could not be ascertained.
- 2 Shs.82,545,343.04 were made to various institutions without being supported by acknowledgement receipt.
- 3 Payment vouchers Shs. 4,589,538.60 were not produced for audit scrutiny
- 4 Payment vouchers Shs. 3,474,000 were not supported by relevant supporting documents. Hence its correctness could not be established.
- 5 Stores Shs. 3,256,750.00 were not recorded in Store Ledgers and its utilizations were not confirmed.
- 6 Shs. 2,176,860.00 being amount deposited in Miscellaneous Deposit Account for Water Supply services was transferred to General Fund
- 7 Shs. 2,176,860.00 was transferred from Miscellaneous Deposit Account for Water Supply services to General Fund Account without proper authority.

- 8 Books valued Shs.1,426,000.00 were received by the Council from T.I.E. Dar es Salaam and recorded in the store ledger named “Leja ya Mitihani ya Kitaifa STD IV & VII Ufundi”. The books were then transferred to new ledger (unspecified new ledger). However, the new ledger was not made available for audit and the Books were not found physically in store.
- 9 Shs.7, 000,000 was paid to Zonal Director, A.R.U - Naliendele for supply of Cashew nut and SimSim seeds to be resold to petty farmers. However, the quantity of seeds purchased and details in terms of proceeds arose from re-sale of seeds were not obtained.
- 10 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

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

February 2006.

3.0 AUDIT FINDINGS AND RECOMMENDATION

3.1 Follow-up of previous Audit Reports

3.1.1 Unreceipted Remittances of Hunger Food Shs. 16,896,525

Acknowledgement Receipt from the Ministry Headquarters Shs. 16,896,525 are yet to be produced for audit

3.1.2 Missing Payment Vouchers Shs.5,290,300

Payment vouchers amounting to Shs. 742,000 are yet to be produced for scrutiny.

3.1.3 Questionable payments Shs.2,268,000.00

Questionable payments Shs.2,268,000.00 are yet to be settled

3.1.4 Statutory payments not acknowledged Receipts Shs.9,463,212

Acknowledgement receipts Shs. 8,706,036.00 on salutatory payments are yet to be produced for audit.

3.1.5 Outstanding Debtors Shs.85, 210,550

Outstanding debtors Shs. 85,210,550 are yet to be recovered

3.1.6 Outstanding Creditors Shs.60,425,106

Creditors Shs. 60,425,106 reported in the balance sheet as at 30th June 2004 are yet to be supported by analysis Schedules.

3.2 Current Audit Findings

3.2.1 Revenue earning Receipt books not produced (HW5)

5 (Five) Revenue Earning Receipt books were not made available for audit inspection.

Implication

Accountability of revenue collections made vide these receipt books could not be ascertained, hence this could lead to the loss of council's revenue without notice.

Recommendation

The relevant receipt books should be traced and produced for audit verification

3.2.2 Payment to Institutions not acknowledged Shs.82,545,343.04

Payment totalling Shs.82,545,343.04 were made to various institutions without being supported by acknowledgement receipt.

Implication

Receipt of money by the institutions cannot be confirmed in the absence of acknowledgement receipts. Hence this can lead to loss of council's money.

Recommendation

The management should trace and submit acknowledgement receipts for audit verification.

3.2.3 Missing Payment vouchers Shs.4,589,538.60

Payment vouchers totaling Shs. 4,589,538.60 were not produced for audit scrutiny

Implication

In 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.

3.2.4 Missing Supporting documents Shs.3,474,000

Payment vouchers Shs. 3,474,000 were not supported by relevant supporting documents.

Implication

Money was spent for intended purposes as narrated on the payment vouchers.

Recommendation

All supporting documents should be traced and produced for audit.

3.2.5 Stores not taken on ledger charge Shs.3,256,750.00

It was revealed during audit that Stores valuing TShs.3,256,750.00 were not recorded in Store Ledgers.

Implication

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

Recommendation

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

3.2.6 Unauthorized Transfer of Funds Shs. 2,176,860

A sum of Shs. 2,176,860.00 being amount deposited in Miscellaneous Deposit Account for Water Supply services was transferred to General Fund Account for Recurrent Expenses without obtaining proper authority.

Implication

A transfer of funds implies that the planned activities under giving 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.

3.2.7 Books not accounted for Shs.1,436,000.00

Books valued Shs.1,426,000.00 were received by the Council from T.I.E. Dar es Salaam and recorded in the store ledger named “Leja ya Mitihani ya Kitaifa STD IV & VII Ufundi”. The books were then transferred to new ledger (unspecified new ledger). However, the new ledger was not made available for audit and the Books were not found physically in store.

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 by submitting the stores ledger and utilization particulars for verification.

3.2.8 Sale Proceeds not Accounted for Shs.7,000,000

Shs.7, 000,000 was paid to Zonal Director A.R.U - Naliendele for supply of Cashew nut and SimSim seeds to be resold to petty farmers. However, the quantity of seeds purchased and details in terms of proceeds arose from re-sale of seeds were not obtained.

Implication

The funds might be used for intended purposes.

Recommendation

The management should produce to audit an analysis of proceeds arose from sell of Seeds and show how the money were Accounted for.

3.2.9 Outstanding Debtors Shs. 12,016,740

The figure for Debtors reflected in the Balance sheet was Shs.12,016,740 which comprise the following:

Category	Amount Shs.
Imprests	3,321,740
Mikopo kwa Vikundi	8,695,000
Total	12,016,740

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.

3.2.10 Outstanding Creditors Shs. 13,805,358.70

The balance sheet reflected a total amount of Creditors of Shs.13,805,358.70 comprising the following: -

Category	Amount Shs.
Unclaimed salaries	82,500.00
Cash Book overdraft	983,803.70
Creditors	12,739,055.00
Total	13,805,358.70

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 Liwale District Council during our exit meeting. The management of the Liwale 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 cooperation 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

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5.0 ANNEXURES

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

Annexure I

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF LIWALE DISTRICT COUNCIL

