

**THE UNITED REPUBLIC OF TANZANIA**  
**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL**  
**ON THE FINANCIAL STATEMENTS OF LINDI DISTRICT COUNCIL**  
**FOR THE FINANCIAL YEAR ENDED 30<sup>TH</sup> JUNE, 2005**

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AR/LG/046/2005

## **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

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
NAEP	National Agricultural Extension Programme
PEDP	Primary Education Development Project
PMO-RALG	Prime Minister's Office -Regional Administration and Local Government

### Financial Statements mean:

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

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

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

### **1.1 Introduction**

We have completed the audit of Lindi District Council for the year ended 30<sup>th</sup> 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 Lindi District Council was established in 1984 in accordance with the provisions of section 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 Lindi 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.4,645,843,855.41 from the following sources;

	Shs.
Own Sources (as per supporting schedule)	177,692,677.77
Government (as per supporting schedule)	<u>4,469,178,695.64</u>
<b>Total</b>	<b>4,645,843,855.41</b>
	=====

**1.5 Management**

The Lindi 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 Lindi District Council complies with this order of the 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.

## 1.7 Financial Performance Issues

### Revenue

The District Council collected an amount of Shs. 176,665,159.77 from own sources. In addition the Council received grants amounting to Shs. 4,469,178,695.64 making total revenue of Shs. 4,645,843,855.41 during the year.

### Expenditure

The Council spent Shs. 5,273,511,483.70 during the year against total income of Shs. 4,645,843,855.41 or 113.5% of total revenue, with over expenditure amount of Shs. 627,667,628.29. However performance against budget could not be assessed since budget figures were not disclosed in the financial statements.

A comparison of the internal revenue of Shs. 176,665,159.77 against expenditure of Shs. 5,273,511,483.70 is only 3.4% 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 an independent opinion on the statements of the Lindi 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 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 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 Lindi 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 Lindi District Council are adequately safeguarded against losses from unauthorized use or disposition.
- To determine whether the management of the Lindi District Council has taken adequate corrective action on the previous years audit recommendations.

### **1.10 Audit Scope**

The audit of Lindi 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'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

The Regional Commissioner,  
Lindi Region

District Executive Director and Accounting Officer  
Lindi District Council

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS  
OF LINDI DISTRICT COUNCIL FOR THE YEAR ENDED ON 30<sup>TH</sup>  
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 Lindi 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 Lindi District 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 Lindi 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 Lindi District Council as at 30<sup>th</sup> 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. Shs.10,597,500 were found as expenditures with missing vouchers such that the legitimacy of the amount spent could not be ascertained.
2. Payment vouchers amounting Shs. 9,296,700 were not supported by relevant supporting documents.
3. Non-utilization of purchased goods worth Shs.14,492,400 which may lead to paralyzed council services.
4. Shs.61,172,996.50 were disclosed in Final Financial statement as outstanding imprests.
5. Shs.13,135,234.75 was disclosed as outstanding loans and salary advances given to Women economic Groups and employees respectively.
6. Shs. 329,214,630.57 were reflected in the consolidated balance sheet as council liabilities.

The details of these matters are given in 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 Current Audit findings:**

Audit findings for the accounts of Lindi District Council for the year ended 30<sup>th</sup> June 2005 were as follows:

##### **3.1.1 Unvouched Expenditure Shs.10,597,500**

It was revealed that Payment vouchers totalling Shs. 10,597,500 were found missing in the batches made available.

##### **Implication**

This implies that the legitimacy of the amount spent could not be ascertained.

##### **Recommendation**

The missing payment vouchers and supporting documents should be traced and produced for audit purposes. Further that the Management should strengthen the system of record keeping.

##### **3.1.2 Improperly Unvouched Expenditure Shs. 9,296,700**

Payment vouchers totalling Shs.9,296,700 were not supported by relevant supporting documents.

##### **Implication**

In absence of relevant supporting documents the nature of the payment made and expenditure charged in the council accounts could not be confirmed.

##### **Recommendation**

The management should confirm that all missing supporting documents are traced and submitted for audit scrutiny.

##### **3.1.3 Purchased Air Conditioners not physically seen Shs.1,494,000**

It was revealed during audit that 9 (Nine) Air Conditioners were purchased for Maji Department Office use.

It was learn't that only 6(six) Air conditioners were fitted at the district Water Engineer's Office. 3(three) Air Conditioners valuing Shs.1,494,000 were not physically seen.

##### **Implication**

This implies that stores records are not properly kept as a result the balance 3 air conditioners may have not been delivered or get lost.

**Recommendation:**

Management should ensure that the balance of the three air conditioners are traced and properly recovered into stores ledger and or accounted for.

**Uncompleted Projects:**

Examination of records revealed the following projects have not been completed though the agreed period has elapsed.

S/No.	Project	Amount as per contract Shs	Advance Paid Shs.	Agreed period of completion	Status
1.	Road Rehabilitation Chikonji - Nangaru through contract No. LD/UW/05/2004/05 of 30/3/05	87,650,000	36,705,500	1/4/2005 - 23/6/2005	Not completed
2.	Road Rehabilitation Nyangamara - Madingo stretch through Contract No. LD/UW/7/04/05 of 13/4/2005	15,421,000	-	5 weeks to 19/4/2005	Not completed
3.	Road Rehabilitation Rutamba - Mtamba Nyengedi through Contract No. LD/UW/06/2004/05 of 13/4/2004	13,379,500	3,534,000	42 days with effect from 13/4/05	Not completed
4.	Construction of DMO's office through contract No. LD/UW/BC/2004/05 of December, 2004	12,783,296	6,278,647	25/12/2004 - 3/3/2005	Work done 49.49%

**Implication**

This implies that there was inadequate follow up from the management in execution of this contracts, hence this may lead to loss of government funds and or increase cost of implementation.

**Recommendation**

The management should make close follow-up in implementation of the project and take immediate corrective action where necessary.

**3.1.6 Non-Utilization of Purchased Goods Shs. 14,492,400**

The Council purchased 1 Submercible Pump (for Shs.13,172,400) on March 2005 for installation at Kitomanga water Project. Also 33 Globes were found in store on October, 2005. The globes (Valuing Shs.1,320,000) were purchased for the purpose of distributing to Primary Schools. Distribution was not done.

Also 8 Bicycles were found in stores. It was not established when they were bought and their value. The Bicycles were purchased for the aim of giving to specified people who will collect and report any information on fire out break in villages.

**Implication**

This implies that intended use of the goods might not have been implemented as planned which may lead to paralyzing council’s services to citizen.

**Recommendation**

The management should revisit its plans to reveal intended activities and put the said goods in use. Further that the management should submit the details for audit.

**3.1.6 Non-submission of Income statement for Education Account**

Individual Income and Expenditure Statement for Education Account was not produced for audit.

**Implication**

In the absence of Income and expenditure statement for Education Account, the audit cannot ascertain the consolidated Income and Expenditure Statement.

**Recommendation**

The Management should make sure that the statement for Education Account is produced and submitted for audit verification.

**3.1.7 Over Expenditure of Shs. 102,440,582**

The following expenditure items were spent beyond their approved budget:

Account	Item	Amount overspent (Shs)
Education	Stationeries	4,249,045
	Training domestic	11,475,500
	Perdiem domestic	40,599,400
	Diesel	6,344,898
	Catering	2,483,950
	Honorarium	28,813,033
Kilimo	Motor Cycle	2,866,790
	Perdiem	5,616,965
	<b>Total amount overspent</b>	<b>102,440,582</b>

**Implication**

Amount overspent by each item were made out of other expenditure items, hence implementation in another activities might have been affected by shortage of funds.

**Recommendation**

Management should make sure that expenditure is made according to amount budgeted by each items.

**3.1.8 Outstanding Imprests Shs.61,172,996**

The Final Financial Statement disclosed a sum of Shs. 61,172,996 being imprests not retired as at 30/6/2005.

**Implication**

This implies that genuineness of the expenditure in respect of the Imprest could not be ascertained, hence may lead to loss of government funds.

**Recommendation**

The management should ensure that imprests are retired and the retirement particulars are submitted for audit. In future the Management should strengthen control over imprests.

**3.1.9 Outstanding Loans Shs. 8,057,800**

Loans were given to Women Economic Groups and other Employees. The amount disclosed in the Final Account was not supported by Schedules of Loanees.

**Implication**

In the absence of schedule of Loanees has an implication that, a council have no strong effort to make follow-up of outstanding debts which might lead to a loss of Councils money

**Recommendation**

The Management should investigate the circumstances under which loan were not collected and regularize collection of the stated amount by quoting receipt particulars and submit for audit verification.

**3.1.10 Outstanding salary advances Shs.5,077,434**

The final financial statement disclosed a total some of Shs.5,077,434 being outstanding salary advance granted to employees.

### **Implication**

The existence of the outstanding salary advances implies that a council have no strong effort to make follow-up of outstanding debts which might lead to a loss of councils money.

### **Recommendation**

Management should ensure that the outstanding salary advance are cleared and the particulars are submitted for audit. In future the Management should strengthen control over salary advances.

#### **3.1.11 Debtors Shs.1,637,000**

The amount of debtors reflected in the final Accounts represents amount of money given to Youth Economic Group not yet recovered.

### **Implication**

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

### **Recommendation**

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

#### **3.1.12 Liabilities Shs.329,214,630**

The amount of Liabilities reflected in the consolidated Balance sheet include:-

<u>Description</u>	<u>Amount(Shs)</u>
Over Recovery of Loans	3,332,351
Unclaimed salary	1,877,672
Accrued Salary and Expenses	27,183,617
Interest and penalty	3,108,149
LAPF Contribution	57,855,616
PSPF Contribution	26,191,024
Accrued Liabilities	1,441,191
Minimum Compulsory	2,298,400
LGLB	3,430,000
Deposit General	195,078,585
Creditors	<u>7,418,023</u>
<b>Total</b>	<b><u>329,214,630</u></b>

### **Implication**

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

### Recommendation

We recommend that the council should have a proper arrangement in paying liabilities when they fall due.

#### 3.1.13 Uncleared Items of Bank Reconciliation Statements

At the close of the year the following items were not cleared when reconciling balance of bank and cash book balances:-

Account	Unpresented Cheques (Shs).	Uncredited Deposits (Shs).	Debit in error by Bank (Sh).	Receipt in Bank not in Cash Book (Sh_.
General Fund	1,045,623	2,484,512	-	-
Miscellaneous Deposit	4,227,051	1,039,000	-	-
Education	9,575,925	261,945	87,090	-
Rural Water	9,075,135	-	-	-
Health	20,717,214	-	-	-
Trachoma	-	-	-	12,492,025
Road Toll	472,000	-	-	-
Kilimo	1,576,700	-	-	-
G/Grant	359,129	157,000	-	-
RIPS	-	130,000	-	-
PFM	20,600	-	-	-
Land	52,500	-	-	-
<b>Total</b>	<b>47,121,879</b>	<b>4,072,457</b>	<b>87,090</b>	<b>12,492,025</b>

### Implication

Non clearance of outstanding balances might lead to loss of public funds.

### Recommendation

The Management should take immediately action for clearance of the outstanding balances.

## 4.0 CONCLUSION

The detailed audit finding presented above have been communicated to management of the Lindi District Council during our exit meeting. Management of the Lindi 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**

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

## 5.0 ANNEXURES

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

5.1

Annexure I

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF LINDI DISTRICT COUNCIL

