

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND ANDAUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF MTWARA- MIKINDANI TOWN
COUNCIL
FOR THE YEAR ENDED 30TH 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
DAR ES SALAAM.

March, 2006

AR/LG/076/2005

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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ABBREVIATIONS

CAG	Controller and Auditor General
CD	Council Director
DED	District Executive Director
DPs	Development Partners
LAAM	Local Authority Accounting Manual
GDP	Gross Domestic Product
LAFM	Local Authority Financial Memorandum
GOT	Government of Tanzania
GAAS	Generally Accepted accounting Standards
IFMS	Integrated Financial Management System
IG	Investment Grant
LGA	Local Government Authorities
LGRP	Local Government Reform Programme
M&E	Monitoring and Evaluation
NGO	Non-governmental Organisation
MoF	Ministry of Finance
OCAG	Office of the Controller and Auditor General
PER	Public Expenditure Review
ISA	International Standard on Auditing
PMO-RALG	Prime Minister's Office - Regional Administration and Local Government
PRSP	Poverty Reduction Strategy Paper
PS	Permanent Secretary
PSRP	Public Service Reform Programme
RAS	Regional Administrative Secretary
RS	Regional Secretariat

Financial Statements means:

The Consolidated Balance Sheet, Consolidated Income and expenditure Statement, Consolidated Cash-flow Statement, Notes and related schedules of Mtwara-Mikindani Town Council for the year ended 30th June 2005.

Council means - Mtwara-Mikindani Town Council, both as Councillors as well as an operating entity.

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction:

I have completed the audit of Mtwara- Mikindani Town Council for the period 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 Mtwara- Mikindani Town Council was established in 1984 in terms of the provision 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 the Local Government (District Authorities) Act, the Town Council of Mtwara -Mikindani has the following objectives:

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

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

1.4 Financing

The Council has two sources of funds; which are own source and external source. The internal source includes collection of Public funds through taxes, fees, licenses and charges. On the other hand, external source includes subsidies from central government as well as grants and loans from donor community. From these sources, total Income during the year was Shs.2,918,668,755 made up of Shs.147,459,028 from own sources, Shs.2,386,618,628 from government grants and Shs. 384, 591,099 from donors.

1.5 Management

The Mtwara- Mikindani Town 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 Town Council is the District Executive Director (DED), who is responsible for 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. However, for the time being both posts are vacant.

In addition the structure provides for functional departments namely: Administration, Finance and Trade, Health, Education, Works, Town Planning & Environment and Agriculture, Livestock and Co-Operatives as well as social welfare and Community Development.

1.6 Internal Control System

A system of internal control that should be adopted by Councils is given under order 9 through 11 of the Local Authority Financial Memorandum; 1997. The Order requires the finance committee to adopt written procedures for proper control of finances. In addition, the Director and the Treasurer should ensure there is assignment of specific responsibilities to individual officers, an organization chart of the Finance Department, division of responsibilities and periodic rotation of duties. Accountability of all areas of operations by the Director or his designated representative to check effectiveness of the control system is also mandatory. The Council is further required to employ its own Internal Auditor who reports directly to the Director. Similarly, the Public Procurement Act No.21 of 2004, Section 28 (1) requires the Council to establish a Tender Board and Sect.34 (1) provides for Establishment of Procurement Management Unit.

The Internal Control set up of Mtwara- Mikindani Town Council abides by this order and Procurement Act, but is lacking an Internal Auditor and Legal Officer. Weaknesses arising from review of internal control system are included under part 3 of this report.

1.7 Out-turn

- **Revenue**

The District Council collected an amount of shs.147,459,028 from own sources and received total grants of shs.2,771,209,727. The internal sources represented only 5% of total funds available for use during the year. This implies that the Town council cannot sustain either its recurrent or development expenditure without grants.

- **Expenditure**

The Council spent Shs.2,499,271,518 during the year against total income of shs.2,972,042,899 or 84% of total revenue, leaving unspent amount of shs.472,771,381. However performance against budget could not be assessed since budget figures were not disclosed in the financial statements.

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 auditor of all government revenues and expenditures, including the revenues and expenditures of this Town Council.

1.9 Audit objectives.

The main objective of carrying out the audit is to enable me to express an independent opinion on the financial statements of the Town Council for the year ended 30th June, 2005 and in particular:-

- To determine whether transactions were executed in accordance with the financial regulations, and recorded properly in the books of account for easy preparation of the financial statements.
- To determine whether the revenues due have been collected and used to meet expenses as per approved budget and governing regulations.
- To ascertain whether all supporting documents, records and accounts have been properly kept in respect of all Town Council activities.
- To verify whether goods and services bought were acquired through laid down procedures.
- To perform compliance tests to confirm whether management complied in all material respects with regulations.
- To evaluate whether the internal control procedures instituted are effective to provide relevant and reasonable information to the management, for

implementing and monitoring activities and that the assets of the authority are adequately safeguarded against losses from unauthorized use or disposition.

- To verify whether the Council has implemented audit recommendations made in previous audits.

1.10 Audit Scope

The audit was carried out in accordance with the International Standards on Auditing. The audit covered the evaluation of effectiveness of the financial accounting system and Internal Control over the activities of the Town Council, examination and verification of the accompanying financial statements and other auditing procedures as was considered necessary for the purpose of forming an opinion on the financial statements. The audit was conducted on a test check basis; therefore the findings are confined to the extent that records and information requested for the purpose of the audit were made available to us.

As 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 so that we would have a reasonable expectation of detecting material misstatement in the financial statements resulting from irregularities or fraud. The responsibility for detection and prevention of irregularities and fraud, rests with the Council management who are responsible for setting up and maintaining an adequate and effective system of internal control.

1.11 Audit Methodology

In examining the financial statements together with the underlying records the following audit steps were followed;

- A review of the council's regulations, guidelines and other Authority's documents as was deemed necessary under the circumstances.
- Examination of receipts and payments to confirm compliance with existing legislation, financial regulations and other instructions or directives.
- A review of the internal control structure by assessing significant policies and procedures and establish its adequacy.
- Review of financial statements, progress reports, various implementation reports and other associated information.
- Conduct compliance tests on the system of awarding contracts and their execution.

- Interview and discussion with some of the staff and other key stakeholders in the implementation of various activities.
- Conduct local inspection to verify physical implementation of planned activities as well as assessing the progress made.
- Hold entrance and exit meetings with the auditee to discuss the audit objectives and results of the audit, respectively.

1.12 Presentation of audit findings

The audit was carried out according to the mandate stated above, applying professional standards and audit procedures that were considered appropriate in each situation. The audit findings are divided into two parts. The first part comprises the opinion on the critical examination of the financial statements submitted for audit and the circumstances surrounding their preparation and presentation. The second part comprises the detailed findings on the gaps and shortfalls in the internal control system and compliance, which if rectified on time, will greatly improve the effectiveness of the internal control system applied.

2.0 AUDIT REPORT ON THE FINANCIAL STATEMENTS

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

Town Director and Accounting Officer,
Mtwara-Mikindani Town Council.

RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF MTWARA-MIKINDANI TOWN 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 Mtwara-Mikindani Town Council shown on appendix 2 of this report 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 Mtwara-Mikindani Town Council.

Order Nos. 9 through 16 of the LAFM requires 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, 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 Mtwara-Mikindani Town 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.

Adverse Opinion

Having regard to the fundamental matters pointed out below the financial statements do not fairly reflect the financial position of Mtwara-Mikindani Town Council.

Fundamental disagreements and Limitation of Scope of Audit

1. The financial statements are not fairly presented due to mistreatment of over 30% compared to total expenditure. The income and expenditure statement is overstated by Shs.411,323,986 and unapplied capital receipts of Shs.350,000,000 is not reflected in balance sheet.
2. There has been laxity over contracts management and supervision resulting into payments for substandard and incomplete works.
3. Documents worth shs.60,469,087 were not submitted for audit examination.
4. Supervision, management and execution of public works contracts worth shs. 123, 262, 608; did not abide by the terms of the contracts as works were partially done and there were substantial delays contrary to the agreed programme. In addition, certificates of work done for minor works worth shs. 13,148,020 were signed prior to the contracts.
5. Authenticity and regularity of expenditure amounting to shs.57,749,087 could not be ascertained, due to instances of missing payment vouchers and necessary supporting documents such as original pay sheets, acknowledgement receipts, final invoices, delivery notes and expenditure particulars.
6. Nine licence books were neither recorded on the counterfoil register nor produced for audit examination when called for. Moreover, accrued revenue amounting to shs.4,922,375.24 was not disclosed in the financial statements as debtors.

The details on 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.

31 March 2006.

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow - up of previous audit findings

Financial year	Para	Audit observation	Amount queried Shs.	Amount outstanding Shs.	Comments
2003/04	1.2	Missing receipt books	73 EA	5 EA	Two (2) books open receipts and three (3) books fixed receipts worth shs 40,000
	3.2	Improperly vouched expenditure shs	15,932,866.40	1,100,600	Original pay-lists and final invoices for the outstanding amount are still awaited
	3.6	Irregular payment of night out allowances shs	1,800,000	1,800,000	Not attended
	3.10	Questionable purchase of Mobile phones shs	1,340,000	1,340,000	Not attended
	3.12	Stores not taken on ledger charge shs	9,182,920	6,928,420	Management should account for the balance.

Recommendation

We recommend that all the outstanding items should be attended promptly.

3.2 Current Audit Findings

3.2.1 Accrued revenue not collected shs 4,922,375.25

Scrutiny of invoices against the register of invoices has revealed that as at 30th June 2005 a total of shs.4,922,375.24 had accrued from property tax and town levy. However, we noted that the outstanding amount was not disclosed in the financial statements as debtors.

Implication

Non-disclosure of the accrued amount understated total income for the year besides undermining the accounting basis adopted in the preparation of financial statements. Also there is likelihood of incurring losses as a result of mislaying the information pertaining to the respective debtors.

Recommendation

The management is advised to make post Balance Sheet adjustments to accommodate the accrued amount of shs. 4,922,375.25

Management response

The Council management agreed to implement the recommendation.

Audit comment

Verification will be done after adjustments are effected.

3.2.2 Licence books not posted in counter folio register

Scrutiny of counter foil register revealed that nine licence books received vide a Local Delivery Note were not recorded. In addition, the Regional Trade Officer did not submit issue vouchers when called for. Details of the books in question are as follows:-

<u>Serial number</u>	<u>Qty</u>
B. 00929901 - 30,000	1
B. 00929001 - 100	1
B. 00936101 - 200	1
B. 00929201 - 300	1
B. 00929601 - 700	1
B. 00929301 - 400	1
B. 00929701 - 800	1
B. 00936001 - 100	1
B. 00872101 - 200	1

Implication

Failure to post the books in the counter foils register implies poor internal control over accountable documents and a risk of misuse of the documents without management detection.

Recommendation

The Council Management should account for the missing books and in future regular checks be conducted to ensure all accountable documents are recorded promptly and are secured.

Management response

All books not posted in the counter foils register will be posted.

Audit comment

Verification will be done later, but the management should always observe the requirement of timely recording.

3.2.3 Unvouched and improperly vouched expenditure-shs. 57,709,087

An examination of payment vouchers against Cash Book revealed missing payment vouchers amounting to Shs. 483,000. In addition, payments adding to Shs. 57,226,087 lacked necessary supporting documents such as original pay sheets, acknowledgement receipts, final invoices, delivery notes and

expenditure particulars. In the event, the authenticity and regularity of the expenditure incurred could not be established.

Implication

There is weak control over custody of accounting records.

Recommendation

The Council management is advised to strengthen the internal check system and improve custody of accounting records. In addition, the questioned expenditure of Shs. 57,709,087 should be regularized by submitting the missing vouchers and supporting documents.

Management response

The Council Management agreed to implement the recommendation.

Audit comments

The council is advised to hasten the improvement process for better accountability. Implementation of the recommendation will be evaluated in the next audit.

3.2.4 Items not supported with distribution particulars- shs 2,720,000

During the year under review, gas cylinders worth shs. 2,720,000 were bought for use by dispensaries. However, distribution of the items bought could not be ascertained in the absence of distribution particulars. The following are details of the bought items.

Pv No	Amount shs.	LPO No.	Chq No.	Qty EA	Supplier
8/6	952,000	04483 of 3/6/05	054645	26 Cylinder	M/s Spare 86
30/7	884,000	03456 of 16/7/04	053694	26 Cylinder	M/s Spare 86
27/1	884,000	04141 of 17/1/05	054267	26 Cylinder	M/s Spare 86
	2,720,000				

Implication

The items might be misappropriated or distributed contrary to the plan.

Recommendation

Management should obtain details of distribution for verification. In future, disposal of all items of store should be properly documented.

Management response

The council management did not give response to this observation.

Audit comment

All audit findings should be attended timely as required by law.

3.2.5. Outstanding Loan from UNICEF-shs. 2,535,000

An imprest of shs. 2,535,000 was paid to one officer vide PV 43/12 and Cheque No. 054211; on understanding that the amount would be refunded by the beneficiary, M/s UNICEF. Nevertheless, during audit inspection, November 2005, there was no evidence of recovery.

Implication

Failure to recover the loan, leads to forfeiture of the activities the funds were budgeted for as well as inviting unnecessary loss.

Recommendation

A follow-up should be made to recover the loan and recovery particulars availed to audit for verification.

Management response

No response

Audit comment

The Council management is reminded to attend all audit findings timely as required by the law.

3.2.6. Questionable repair of hospital linen-shs 972,000

An amount of shs.972,000 was paid from Health Account vide PV No. 10/3 and Cheque No. 054439 for repair of 27 pcs of new bed linen in six dispensaries. It was further noted that the payment was supported by unnumbered proforma invoice dated 25/2/2005. A random follow-up, made on 24/10/2005, at three centres namely Likombe, Mikindani and Ufukoni, confirmed that the services paid for had not been provided.

Implication

There was an obvious intention to defraud.

Recommendation

The management should investigate the matter and take appropriate measures against officers involved including recovery of the amount paid.

Management response

No response

Audit comment

The Council management is reminded to attend all audit findings timely as required by the law.

3.2.7 Questionable contracts and certification of cleaning services- Shs.13,148,020

A test review of minor contracts for cleaning services revealed that the contracts were being signed after the works had been done, as a matter of formality, since the certificates of work done were signed prior to the contracts as shown below: However, the exigencies which led to informal commitments were not given.

Pv No	Chq No	Amount Shs	Payee	Contract Date	Certified Period
5/7	053667	271,401	Shabia K. Kilanzi	MM/TC/F3/Vol.III/140	1.6.04 - 16.6.2004
6/7	053668	464,365	Fatuma	16.6.2004	
19/7	053683	125,025	Namtumba	MM/TC/F3/Vol.III/139 of	1.6.04 - 16.6.2004
20/7	053684	350,000	Hawa Mkosano	16.6.2004	
23/3	054452	75,000	Dadi Ally	MM/TC/F.3/Vol.III/139 of	1.6.04 - 8.7.2004
25/3	054454	130,000	Asha Kapinga	8.7.2004	
79/6	054717	300,000	Hassani Shahama	MM/TC/F.3/Vol.III/138 of	1.6.04 - 12.7.2004
			Mtwara/Mikindani	9.7.2004	
16/4	054527	40,000	Loading &	MM/TC/M.I/57/187	of 1.2.05 - 28.2.2005
37/4	054548	90,000	handling	18/2/05	
			Juma Rashidi	MM/TC/M.I/57/65	of 28.2.05 - 3.3.2005
			Yusufu Shahama	2/3/2005	
				MM/TC/M.I/57/83	of 1.5.05 - 30.5.2005
				16/5/2005	
				MM/TC/M.I/57/71	of 22.3.05-30.3.2005
				29/3/2005	
				MM/TC/M.I/57/75	of 1.4.05 - 8.4.2005
				6/4/2005	
	Total	1,845,791			

In addition, it was revealed that the Health Engineer certified payments amounting to shs.11,302,229 being costs of general cleanness within Township without consulting the ward health officers who are the immediate supervisors.

Implications

- There is no proper segregation of duties and the contracting procedures followed are not adequate.
- There is a risk of certifying payments for services not rendered.

Recommendation

It is recommended that, in future minor works should be procured using Local Purchase Orders as stated in the Regulation 71(d) of the Public Procurement (Goods, Works, Non-consultant Services and Disposal of Public Assets by Tender) Regulations of 2005; before commencement of the intended activity. In addition, duties of supervision and certification of works should be properly segregated to avoid overrides.

Management response

Management agreed to implement the recommendations.

Audit comment

Verification will be made in the next audit.

3.2.8 Stores not accounted for- Shs.26,981,760

An examination of stores records revealed seven instances whereby goods worth Shs.4,177,600 which were ordered and paid for during the year under review were not delivered. Nevertheless, there was no evidence of reports and explanations from the suppliers contrary to Regulation 122(2) of the Public Procurement (Goods, Works, Non-consultant Services and Disposal of Public Assets by Tender) Regulations of 2005. Further, twelve instances were noted in that, goods ordered were certified to have been delivered but were not taken on ledger charge. Even so, utilization particulars were not produced for audit verification.

In addition, short-deliveries of goods worth shs.5,620,000 occurred as detailed below:

A/c	PV No.	CHQ	LPO	ITEM	RATE	QTY PAID	QTY REC.	DIF.	VALUE SHS
Health	49/5	054615	04517 of	Tool specimen	200	600Ea	125 Ea	475 Ea	95,000
	50/5	054616	20/5/05	container	7,000	30Pkt	1Pkt	29Pkt	203,000
			04520 of	Urine pregnancy					
			20/5/05	test					
Dev	17/9	050459	03699 of	Desks	28,000	71Ea	58Ea	13Ea	364,000
Donor	4/11	040654		Iron sheet 28g 2 ½	9,800	73	63 sheets	10 sheets	98,000
	1/4	040676	04373 of	Tables & Chairs	54,000	Sheet	20Set	20Set	1,080,000
	5/4	040680	1/4/05	Tables & Chairs	54,000	40 Set	NIL	200 Set	1,080,000
	6/4	040681	04398	Tables & Chairs	54,000	20 Set	50 Set	50 E	2,700,000
			04395 of			100 Set			
			24/4/05						
								Total	5,620,000

Implication

- There is a possibility of misappropriation of the goods paid for without management detection.
- Weak controls over the procurement of goods and its accountability.

Recommendation

Follow up should be made to ensure that all items paid for are delivered and used for the intended purposes. Also, the council management should streamline the procurement system as well as stores management to avoid possible losses.

Management response

Management agreed to implement the recommendations.

Audit comment

Immediate follow-up is necessary

3.2.9 Delayed and incomplete contracted works - Shs.123,262,608

Physical inspection of public works at different sites revealed that contractors for works worth shs.123,262,608 did not abide by the terms of the contracts. The works were partially done and there were substantial delays contrary to the agreed programme. We also noted that, inferior materials were used resulting into substandard works. In addition, the contractors lacked the necessary equipment and adequate supervision. In spite of the above weaknesses, the contractors were awarded certificates of completion of works. The following are details of the contracts involved:

Contract No.	Contract sum shs.	Activity and details
CC 40/6/11/113	15,118,870/=	Yak General Enterprises & Const. Rehabilitation of two main market buildings. Poor performance and its incomplete
CC 40/6/11/86 of 11/11/2004	20,553,800/=	ZOR General Engineering spot improvement of the road. Mkangala Mbawala Chini 6.5 Km. Head and wings of the concrete culverts need to be reconstructed (7 lines). Inferior materials were used
CC 40/6/11/106	16,081,900/=	Malaika building contractors and civil works. Periodic maintenance Karume road 0.8 Km. Completed was delayed but there is no evidence that liquidation damages was assessed and charged
CC 40/6/11/94	5,304,200/=	Tindossy Ex. Contractors Co. Ltd. Installation of three (3) lines concrete culverts - Indian quarters. Completion delayed but reasons were not disclosed.
CC 40/6/11/95	5,370,400/=	YAK General Enterprises and construction. Installation of three (3) lines concrete culverts - Indian quarters. Completion delayed but reasons were not disclosed.
CC 40/6/11/107	20,108,000/=	YAK General Enterprises and construction. Periodic maintenance Kunambi road 1.6 Km. Completion delayed but reasons were not disclosed
CC 40/6/11/287	23,200,438/=	Wanyumbani construction. Construction of classrooms. Naliendele Secondary School (Rahaleo) Completion delayed but reasons were not disclosed.
CC 40/6/11/87	17,525,000/=	Las construction company Ltd. Spot improvement of Lwelu road 6.3 Km. The road was not well reshaped in some areas and was not completed on time.
Total	123,262,608/=	

Implication

- The council did not realise full value for monies paid.
- There is weak control over contracts award, management and supervision.
- Certification of incomplete and inferior works suggests existence of fraud.

Recommendation

It is recommended that the contactors should be compelled to complete the outstanding works and make good the defects by invoking the appropriate contract clauses. In addition, contracting capacity of the council as well as management and supervision should be improved for future benefits.

Management response

Management agreed to implement the recommendations.

Audit comment

Verification will be made after rectification and completion of the works.

3.2.10 Misstatement of surplus for the year

The consolidated income and expenditure statement for the year ended 30th June, 2005 reflected surplus of 472,771,38. However, it was noted that Capital Income amounting to shs 411,323,986; received during the year, was expensed instead of capitalizing thus affecting the results. In addition, inter-account transfers of shs 13,991,467 was wrongly treated as revenue. Moreover, an amount of shs. 350,000,000 meant for purchase of motor vehicle was booked in the Miscellaneous Deposit Account instead of reflecting the amount under “capital receipts unapplied”.

Implications

- The year-end income was overstated by shs. 411,323,986 and both the figures of Assets and Capital in the Balance Sheet were understated by the same amount.
- Management may mislay track of the unapplied capital receipts of shs. 350,000,000 since it was not reflected in the Balance Sheet.
- The figure for total revenue is overstated by shs. 13,991,467

3.2.11 Debtors and Creditors

The Consolidated Balance Sheet reflected total Debtors amounting to Shs. 22,846,678 comprising Sundry Debtors shs.4,766,375, imprests Shs.6,563,288, Advances Shs.3,691,965 and loans Shs.7,825,050. In addition, Creditors worth Shs.64,388,764 appeared as Sundry Deposits. However, the management did not state its policy on debtors and creditors and a schedule of age analysis was not included.

Implication

- There is laxity in recovering outstanding imprests and debts.
- Lack of age analysis schedules has limitation of assessing recoverability of debts and implementation of Creditors policy if any.

Recommendation

The management is advised to come up with debts collection policy as well as creditor's policy and ensure that the outstanding amounts are cleared.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Mtwara-Mikindani Town Council during exit meeting held in October 2005. The Management of Mtwara-Mikindani Town Council has promised to take appropriate action with a view to rectify the situation. I shall appreciate to receive formally the action taken in this respect.

During the course of audit, the audit team faced difficulties in obtaining some of the requested documents and information within reasonable time; thus the audit work was not completed in time.

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

Dr. Frank Mosses Hiza Mhilu
Ag: Controller and Auditor General.

CC: The 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 9191,
DAR ES SALAAM.

The Regional Commissioner,
Mtwara Region
P.O Box 544,
MTWARA.

5.0 ANNEXURES

- Financial Statements and notes to the financial statements - annexure I
- Organization structure of Mtwara-Mikindani Town Council - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF MTWARA-MIKINDANI TOWN COUNCIL

