

**THE UNITED REPUBLIC OF TANZANIA**

NATIONAL AUDIT OFFICE (NAO)



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

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DAR ES SALAAM.

March, 2006

AR/LG/074/2005

## **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 Standards 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 attached schedules Masasi District Council for the year ended 30<sup>th</sup> June, 2005.

Council means-Masasi District Council, both as Councilors as well as an operating entity.

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

### **1.1 Introduction:**

I have completed the audit of Masasi 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 Masasi District Council was established on 7<sup>th</sup> July 2000 through Government Notice No 260 in terms of the provisions of sections 8 and 9 of the Local Government Act (District Authorities) 1982. Besides the Act, the council operates within the framework of the following instruments.

- Local Authority Financial Memorandum 1997.
- Public Procurement Act No 21 of 2004.
- Local Government Finances Act No 9 of 1982.

### **1.3 Operational objectives**

According to the Local Government (District Authorities) Act, the District Council of Masasi 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 increase schools enrolment. Other short-term objectives include; improvement of teaching environment and poverty alleviation, improvement of health facilities, management of water sources, clean water supply, improvement of road sector and reduction of HIV/AIDS prevalence. Also, the Council intends to manage and control the spread of communicable diseases, sustaining administrative overheads and running costs as well as creating conducive working environment.

#### **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.

#### **1.5 Management**

The Masasi 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. Also, the structure has positions of Internal Auditor and Legal Officer with responsibilities of advising the Director on matters falling under their jurisdiction. However, for time being, these two posts are vacant.

In addition the structure provides for functional departments namely: Administration, Finance and Trade, Health, Education, Works, Water, Planning Natural Recourses & Environment. Others are social welfare & Community Development, Economic & Trade and Agriculture Livestock & Co-operatives.

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

#### **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 Masasi District Council complies with the statutory requirements, but is lacking an Audit Committee which is part of transparency and good governance and job rotation is not practiced. Nevertheless weaknesses arising from review of internal control system are given under part 3 of this report.

## **1.7 Out-turn Revenue**

The District Council collected an amount of Shs.1,011,721,474 from own sources and received grants of shs.7,332,232,933 from the central government and shs.23,697,271 from donors making total receipts of shs. 8,367,651,678. Comparatively, the internal sources represented only 12.1% of total funds collected during the year.

### **Expenditure**

The Council spent Shs. 8,395,268,079 during the year against total income of shs. 8,367,651,678 or 100.33% of total revenue, resulting into over-expenditure of shs.27,616,400. 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.1,011,721,474 against expenditure of shs.8,272,759,750 (net of depreciation) is only 12%, implying that the District council's internal sources 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 auditor of all government revenues and expenditure, including the revenues and expenditures of this District 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 District Council for the year ended 30<sup>th</sup> 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 District 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 District 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:** The Regional Commissioner,  
Mtwara Region.

District Executive Director and Accounting Officer,  
Masasi District Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF MASASI 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 Masasi District Council for the financial year ended on 30 June 2005; attached at the end of this report.

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

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

Order Nos. 9 through 16 of the LAFM requires the Council Management to establish and support a sound system of Internal Control within the Council. Order No. 53 places responsibility on the Council to prepare and present the financial statements based on GAAS. 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. Those 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 Masasi 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.

The financial statements have been prepared and presented based on the accrual principle of accounting pursuant to Order Nos. 56 through 58 of the LAFM. Under the accrual basis, all revenues and all the related costs are matched with the period in which they were earned and incurred.

### **Opinion**

In my opinion the financial statements fairly reflect, in all material respects, the financial position of Masasi 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 of emphasis**

Without qualifying my opinion, I wish to point out the following matters for the attention of the full Council:

1. The Consolidated Balance Sheet reflected Debtors amounting to Shs.324,750,616 and Creditors worth Shs.157,263,492 without age analysis and the policy on Debtors and Creditors was not disclosed.
2. Authenticity and regularity of expenditure amounting to shs.283,814,500 could not be ascertained due to instances of missing payment vouchers and improperly vouched expenditure.
3. Stores worth shs. 142,336,533 were not accounted for
4. The accounts included irregular payments of Shs. 30,290,996
5. An Audit Committee has not been established as required by the Law
6. Revenues adding to shs. 12,400,000 are still in arrears.
7. Audit queries raised in the previous year management letter have not been replied.

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**

31 March 2006.

### 3.0 AUDIT FINDINGS AND RECOMMENDATIONS

#### 3.1 Follow - up of previous audit findings

All audit observations raised on the Council's accounts for the six months period ended on 30<sup>th</sup> June 2005 are still outstanding.

##### Recommendation

The management is advised to make serious efforts to clear the outstanding items as some of the findings affect accounts of the subsequent financial years.

#### 3.2 Current Audit Findings

##### 3.2.1 Revenue Collections not Banked - Shs. 563,750

Examination of revenue collections and related banking records revealed under-banked amount of Shs.563,750. No action has been taken to make good the difference. The following are the details of the questioned amount.

Account	Receipt Number	Date	Amount collected Shs.	Amount Banked shs.	Date Of bps.	Difference Shs.
Self Reliance	212331	8.2.05	563,780			
	212332	9.2.05	123,740			
	212334	11.2.05	1605.000.			
	212335	14.2.05	55,780.	1,784,550	16.2.05	563,750.00
		<b>Total</b>	<b>2,348,300</b>	<b>1,784,550</b>		<b>563,750.00</b>

##### Implication

- The Council does not make regular checks and there is a high risk of misappropriation of revenue.
- Total revenue for the year has been understated.

##### Recommendation

The Council should ensure that all revenue collections are banked intact as required by order no.189 of the LAFM 1997. In addition, management should confirm banking of the amount in question.

##### 3.2.2 Arrears of revenue-shs12,400,000

We noted that the Council did not collect due revenue amounting to shs.12,400,000 as proceeds of hiring out a Motor grader and wheel Loader. We further noted that there was a prior condition for the hirer M/S V.R.B. Construction Co Ltd to pay in advance, and had agreed through letter ref. No. MSS/02/53/94; but this condition was not observed. No reasons were given for waiving the condition.

##### Implication

There is lack of seriousness in safeguarding assets of the council and hence possibility of loss of revenue.

### **Recommendation**

The management should explain on the above irregularities and ensure prompt collection of the outstanding revenues.

#### **3.2.3 Questionable Payments - shs 5,265,575**

We noted two instances involving payment of shs. 5,265,575 made by the Council to individuals instead of companies contracted. The first case relates to Contract No. DED/VI/9/2003/3 for maintenance of Masasi Television Studios by M/s Swiss Electronics but a payment of shs.2,765,575 was made to Mr. Alfred Bukulu vide Pv No. 0022564 and C/NO 006378 of 18/9/2005.

The second case in point, involved two payments in respect of purchase and installation cost of Telephone Control Machine made to Mr. Octavian T. Hinju vide Pv. No. 22032/8 and Chq No. 002557739 of shs.500,000 and Pv. No. 22406/10 and Chq No.006685 of shs.2,000,000 instead of M/s Tibeco General Enterprises.

#### **Implications**

- The move was intended to assist the service providers to evade payment of income tax.
- The Council is not assured of settlement of its legal responsibility to pay the real service providers.

#### **Recommendation**

The management should obtain a receipt from M/s Swiss Electronics and M/s Tibeco General Enterprises as an evidence of settlement of the liabilities. For future contracts, name of payee should correspond to the LPO and invoices and payments should be made to Account Payee to facilitate tax assessments.

#### **3.2.4 Unvouched and Improperly Vouched Expenditure-shs. 283,814,543**

An examination of payment vouchers against Cash Book revealed missing payment vouchers amounting to Shs.145,933,804. In addition, payments adding to Shs.137,880,739; are lacking necessary supporting documents such as original pay sheets, Contract agreements, acknowledgement receipts, bills, final invoices and distribution particulars. Out of the unsupported payments, expenditure worth shs.88,610,077 was made on the strength of proforma invoices. In the absence of those records, 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 missing vouchers and supporting documents for the expenditure of Shs.283,814,543 should be submitted to audit for verification.

#### **3.2.5 Questionable additional works-shs 5,616,900**

An amount of shs.5,616,900 was paid to M/s Katende Company vide Pv 0024961/2 and C/No 0022285 as consideration of additional works for rehabilitation of Administration block at Mkomaindo Hospital. Nonetheless, it was not possible to verify the additional works since there were no approved Bills of Quantities (BOQ).

### **Implications**

- There is a risk of certifying payments for services not rendered.
- The control measures for management and supervision of public works were contravened.

### **Recommendation**

Evidence of the additional works paid for should be produced. Also, the internal check system should be improved to cast out irregular payments.

#### **3.2.6 Irregular and questionable fumigation costs-shs 20,999,996**

A test check of payment records revealed that the Council procured fumigation services from M/s Deric 2000 Co. Ltd vide LPO No 5176 dated 2.11.2004 for shs.20,999,996 without specifying the actual area to be sprayed. We further noted that the District Tender Board had approved the fumigation services for Mkomaindo Hospital only, but the management extended to dispensaries without recourse to the Board. Furthermore, it was revealed that the management did not call for tenders as is appropriate, instead it opted for quotations. Even so, there were no obvious exigencies that could justify the management decision. Ref. Pv. No. 0024050/12 and C/No 017269 of Health account.

### **Implications**

- The Council did not get the best service and value as the procurement process was not competitive enough.
- Extension of works to dispensaries without approval amounts to violation of tender procedures.

### **Recommendation**

The Council management should comply with the procurement legislation.

#### **3.2.7 Furniture not supplied shs 5,100,000**

During audit inspection it was noted that an amount of shs.6,800,000 was paid to Masasi Business Company vide Pv. No. 0024608 and C/No. 019963 dated 3<sup>rd</sup> February 2005 for supply of school desks and chairs.

However, only 50 desks and 50 chairs had been delivered and taken on ledger charge, leaving 150 desks and 150 chairs worth shs.5,100,000 yet to be received.

#### **Implications**

- The objective of procuring the furniture has been undermined and there is possibility of the supplier not fulfilling his obligation.
- The procurement agreement does not compel the supplier to deliver within a specified period.

#### **Recommendation**

The Council management should make close follow-up to ensure that all desks and chairs are delivered promptly. In addition, deliveries should be inspected properly and certified by the head of department as per requirements of Order Nos. 256 and 257 of the Local Authority Financial Memorandum 1997 respectively.

#### **Recommendation**

We recommend that management should comply with the financial Orders in full, make follow-up to the respective departments and account for the above items.

### **3.2.8 Questionable purchase of TSM9 forms-shs.9,291,000**

The Council ordered 12,388 Ea TSM 9 forms worth Shs.9,291,000 from M/s Pride computer Ltd of Dar es salaam vide LPO no. 5026 of 20/9/2004. The supplier was paid on the same day through Pv No. 0023194 and C/No No. 006300. Four days after the order, the forms were supplied vide Delivery Note no. 00105 of 24/9/2004 and invoice no. 0210 of 24/9/2004. Nevertheless, we noted that the procurement procedures were not followed since neither tendering documents nor quotations were available for verification. In addition, we noted that the payment was made four days before receiving the above cited invoice.

#### **Implications**

- The Council management does not plan its requirements well in advance.
- Procurement guidelines were infringed and the Council did not get the most competitive price.

#### **Recommendation**

The management should explain on the above shortcomings and in future should endeavor to abide by financial regulations.

### **3.2.9 Stores not accounted for-shs.174,261,133**

An examination of stores records revealed that goods worth Shs.142,336,533 ordered and paid for during the year under review were not taken on Ledger charge. It was further noted that the Council had no utilization particulars to confirm actual delivery and disposal of the items.

Further, the stores ledger showed that desks and chairs worth shs.6,648,000 were issued to one secondary school vide issue voucher No. 4240 but the mentioned voucher could not be produced for further follow-up.

Furthermore, various spare parts for heavy duty photocopier worth shs.3,471,100 were bought vide Pv No. 0024074, C/NO 006449 and Pv 002463, C/No 021322 but the items were not physically available and there were no evidence that they were fitted to the machine since the supplier, invoices No. 5414, No. 8448, and 8452 all of 27/12/2004, and 8730 of 27/1/2005 did not include labour charges.

Moreover, physical survey of the DMO's General Stores against ledger balances noted discrepancies amounting to Shs.21,805,500.

#### Implications

- There is a possibility of misuse or non-delivery of the goods paid for without management detection.
- The checking mechanism to ensure deliveries match with the orders and the management of stores in general are weak.

#### Recommendation

- The council management should streamline stores management and controls to avoid possible losses in addition to proper accountability of the questioned goods should be given.
- In future, inspection of deliveries should be properly made and certified by the head of the relevant department as per respective requirements of Order Nos. 256 and 257 of the Local Authority Financial Memorandum 1997.
- The discrepancies noted should be investigated, explained and any losses made good by the responsible officers.

#### 3.2.10 Imprests not recorded shs.2,321,500.

Imprests amounting to shs.2,321,500 were issued to two officers as indicated below but were neither recorded in the imprest register nor retired before the end of the financial year contrary to laid down regulations.

Account name	Pv No.	Amount shs.	C/No	Date
Development	0022876	1,218,000.00	006398	12.10.04
Development		1,103,500.00	006438	10.12.04
	<b>Total</b>	<b><u>2,321,500.00</u></b>		

### Implications

- The figure of Current Liabilities in the Balance sheet was understated to the tune of the outstanding imprests.
- The system of issuing and liquidation of imprests is weak thus there is a risk of mislaying track of imprests.

### Recommendation

The system for recording financial transactions should be streamlined besides liquidation of the amount in question.

#### 3.2.11 Loan granted to Non-employee-shs. 599,000

We noted that an amount of shs.599,000 was paid to Mr. Castol Robert Fish of Ndanda, vide Pv 26064/4 and C/No 019232 in form of a loan to meet fees and fare costs while attending training at CBE. Our follow-up noted that, the Loanee is not an employee of the Council and there was no agreement to guarantee recovery of the loan.

### Implications

- The loan is not secured and possibility of recovery is slim.
- The management violated financial regulations governing issuance of loans.

### Recommendation

The management should explain on the above weaknesses and ensure the amount is recovered. In future all financial regulations should be strictly observed.

#### 3.2.12 Overdrawn Bank Accounts- Shs. 3,307,186.55

An examination of Bank reconciliation statements dated 30<sup>th</sup> June 2005 against cash books noted that three bank accounts were overdrawn by shs. 3,307,186.55 without prior approval of the Minister contrary to section 12(i) of the LGPA No.9 of 1982. Details of the overdrawn accounts are shown below.

Account Name	Amount overdrawn Shs.
General Fund Account	1,534,887.61
Maji Mwena Account	477,095.90
NALEP 1 Account	<u>1,295,203.04</u>
<b>Total</b>	<b><u>3,307,186.55</u></b>

### Implications

- The internal check system is not adequate to monitor bank balances and budget.

### Recommendation

The Director of the Council should ensure that, payments do not exceed budgetary provisions and comply with the Law.

### **3.2.13 Diverted funds-shs. 1,258,000**

An amount of shs. 1,258,000 was paid from Education account vide Pv No. 0024482 and C/No 021311 as compensation for case No 25/2001. This amount should have been paid out of General Fund Account but we noted that no adjustment was made before the closure of the accounts.

#### **Implication**

Non refund of the amount to the respective account amounts to diversion of funds to activities not approved by the Full Council thus undermining the approved education activities.

#### **Recommendation**

The Council management is advised to make necessary adjustments and in future should spend according to the approved budget. Whenever there is a need to reallocate funds prior approval should be obtained from the relevant authorities.

### **3.2.14 Outstanding Debtors and Creditors**

The Consolidated Balance Sheet reflected Debtors amounting to Shs.324,750,616 comprising Revenue Debtors, Advances and Imprests. On the other hand, the statement reflected Creditors worth Shs.157,263,492. Nevertheless, the accounts did not include age analysis of both Debtors and Creditors. Also, the Council did not state its policy on Debtors and Creditors and no provision for doubtful or bad debts was made.

#### **Implication**

Lack of age analysis limits assessment of recoverability of debts and determination of bad and doubtful debts as well as implementation of Debtors and Creditors policy if any.

#### **Recommendation**

The management is advised to improve debts collection efforts and come up with a policy for both Debtors and Creditors.

#### **4.0 CONCLUSION**

The detailed audit findings presented above have been communicated to the management of the Masasi District Council during exit meeting held in October 2005. The Management of Masasi District 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, except for the delay in getting the documents and information on time, 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. F. M. H. Mhilu  
**Ag: CONTROLLER AND AUDITOR GENERAL**

CC: The Permanent Secretary,  
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**DAR ES SALAAM.**

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

ORGANIZATION STRUCTURE OF MASASI DISTRICT COUNCIL

