

**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL**

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

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

March, 2006

*AR/LGI/093/2005*

**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:**

- 1 contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- 2 helping to improve the quality of public services by supporting innovation on the use of public resources;
- 3 providing technical advice to our clients on operational gaps in their operating systems;
- 4 systematically involve our clients in the audit process and audit cycles; and
- 5 providing audit staff with adequate working tools and facilities that promote independence.

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## ABBREVIATIONS AND DEFINITION OF TERMS

DED	District Executive Director
GF	General Fund
GRR	General Revenue Receipt
INTOSAI	International Organization of Supreme Auditing Institutions
ISA	International Standards on Auditing
NIC	National Stores Department
MSD	Medical Stores Department
PEDP	Primary Education Department Plan
URT	United Republic of Tanzania
WEO	Ward Executive Officer

Act means Local Government Finance Act No. 9 of 1982

Financial Statements means

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

Council Means: Tunduru District Council, both as Councillors as well an operating entity.

## 1.0 BACKGROUND INFORMATION TO THE AUDIT

### 1.1 Introduction

I have completed the Audit of Tunduru District Council for the year ended 30<sup>th</sup> June 2005. Audit findings arising from examination of accounting records appraisal of Tunduru District Council activities as well as 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 Tunduru District Council was established under section 5 (i) of the Local Government Act No.7 of 1982. Beside the Act, the council operates within the framework of the following instructions:

- Local Authority Financial Memorandum 1977
- Public Finance Act No. 20 of 2004
- Local Government Finance 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 Tunduru District Council has the following objectives.

- (a) To maintain and facilitate the maintenance of peace, order and good governance within its area of jurisdiction.
- (b) To Promote the social welfare and economic well being of all persons within its area of jurisdiction.
- (c) Subject to the national policy and plans for rural and urban development, to further the social and economic development of its area of jurisdiction.
- (d) Collection of Public funds through taxes, licences, 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

Tunduru District Council income are obtained through own sources (i.e. Taxes, fees, fines, produce cess), Government Grants and Donor funds.

During the year 2004/2005 the council received a total amount of Shs.4,965,317,663.00 from the following sources:

Source of fund	Shs
Own sources	403,215,500.00
Government Grants	4,390,898,453.00
Donor funds	161,183,800
<b>Total</b>	<b>4,955,297,753</b>

## **1.5 Management structure**

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

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

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

## **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 is the responsibility of the Director or his designated representative to check effectiveness of the control system. The Council is also required to employ its own Internal Auditor who report directly to the director. Similarly, the Public Procurement Act NO. 21 of 2004 section 28 (I) requires the Council to establish a tender Board and Section 34 (I) provides for establishment of Procurement Management Unit.

The Internal Control set up of Tunduru District Council abide by this order and Procurement Act but is lacking an audit committee which is part of transparency and good governance, Nevertheless weakness raised from review of internal control system are included under part 3 of this report.

## 1.7 Financial Performance Issues

### Revenue

The District Council collected an amount of Shs.403,215,500 from own sources against the internal revenue budget of Shs.406,502,000 reflecting a collection shortfall of Shs.3,286,500 or 0.8%. In addition the Council received grants amounting to Shs.4,552,082,253.23 making total revenue of Shs.4,955,297,753.23 during the year.

### Expenditure

The Council spent Shs.4,712,951,099.75 during the year against total income of Shs.4,955,297,753.23 or 95% of total revenue, leaving unspent amount of Shs.242,346,653.48. The performance against the budget is 88.3%.

A comparison of the internal revenue of Shs.403,215,500 against expenditure of Shs.4,712,951,099.75 (net of depreciation) is only 8.5% implying that the District Council cannot sustain either its recurrent or development expenditure without depending on grants.

## 1.8 Audit Mandate

By virtue of the provision of Article 143 of the Constitution of the United Republic of Tanzania and section 45 of the Local Government of Finance Act NO. 9 of 1982 (revised 2000) the Controller and Auditor General is the 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 Tunduru District Council for the period ended 30<sup>th</sup> June, 2005 and in particular:-

- To determine whether transactions were executed in accordance with management authorization and recorded properly in books of account to permit the preparation of the financial statements in accordance with the International Accounting Principles and requirements of the Local Government Finances Act No.9 of 1982 and Local Authority Financial Memorandum 1997.
- To determine whether funds have been collected properly and used exclusively to meet eligible expenses as per approved budget and regulations governing government expenditure.
- To ascertain whether all relevant supporting documents records and accounts have been kept in respect of all District Council activities.
- To verify whether goods and services bought were acquired through laid down procurement procedures and the Public Procurement Act No. 3 of 2001 have been complied.
- To perform compliance tests to determine whether the management complied in all material respects with the Public Procurement Act No 3 of 2001.

- To evaluate whether the internal control procedures instituted are effective to provide relevant and reasonable information to the management, for implementing and monitoring activities and that the assets of Tunduru District Council are adequately safeguarded against losses from unauthorized use or disposition.
- To determine whether the management of the District Council has taken adequate corrective action on the previous years audit recommendations.
- To verify whether the Council has implemented audit recommendations made in previous audits.

### **1.10 Audit Scope**

The audit of Tunduru District Council for the period ended 30<sup>th</sup> June, 2005 was carried out in accordance with International Standards on Auditing (ISA). The audit covered the evaluation of the effectiveness of the financial accounting system and internal control over the activities of the council, Examination and verification of the accompanying financial statements, the performance report and other auditing procedures as was considered necessary under the circumstances for the purpose of forming an opinion on the financial statements. The audit was carried out on a test check basis, therefore the audit findings are confined to the extent that records, documents and information requested for the purpose of audit were made available to us.

As Auditors we are not required to search specifically for fraud; therefore our audit cannot be relied upon to disclose all such matters. However, our audit was planned as that we would have reasonable expectation of detecting material misstatements in the financial statements, including those resulting from fraud or irregularities. The responsibility for detection and prevention of fraud and irregularities rests with the council management who are responsible for setting up and maintaining an adequate system of internal control.

### **1.11 Audit Methodology**

In auditing financial statements together with the related records and schedules, the following steps were followed:-

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

- Conduct Local inspection to verify physical implementation of planned activities as well as assessing the progress made.
- Hold entrance and exit meetings with the auditee to discuss the audit objectives and results of the audit, respectively.

#### **1.12 Presentation of Audit Findings**

The audit was carried out according to the mandate stated above, applying professional standards and audit procedures that were considered appropriate in each situation.

The audit findings are divided into two parts. The first part comprises the opinion on the critical examination of the financial statements submitted for audit and the circumstances surrounding their preparation and presentation.

The second part comprises the detailed findings on the gaps and shortfalls in the internal control system which, if rectified on time, will greatly improve the effectiveness of the internal control system applied.

## 2.0 AUDIT REPORT AND FINANCIAL STATEMENTS

To: Regional Commissioner,  
Ruvuma.

The District Executive Director and Accounting Officer.  
Tunduru District Council

RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENT OF THE  
TUNDURU DISTRICT COUNCIL FOR THE YEAR ENDED 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 Tunduru District Council shown as annexure 1 of this report for the financial year ended on 30<sup>th</sup> June, 2005.

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

These financial statements are the responsibility of the management of Tunduru District 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 procedures that are consistent with those recommended by the International Organization of Supreme Audit Institutions. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis evidences supporting the amounts and disclosures in the financial statements.

It also included assessing the significant estimates and judgments made in the preparation of the financial statements, assessing whether the internal control system and the accounting policies are appropriate to the circumstances of Tunduru District Council, consistently applied and adequately disclosed, evaluating the overall financial statement presentation, and assessing the extent of compliance with the relevant statutory requirements. I believe the audit provides a reasonable basis for my opinion.

### **Opinion**

In my opinion, the financial statements fairly reflect, in all material respects, the financial position of Tunduru District Council as at 30<sup>th</sup> June 2005 and the results of its operations and cash-flows for the year then ended, in accordance with Part IV of the Local Government Finances Act No. 9 of 1982.

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

### **Matters of emphasis**

1. Four (4) revenue earning receipt books were issued to revenue collectors but were not produced for audit inspection, hence accountability of revenue collected vide these receipt books could not be ascertained.
2. Payments totaling Shs.4,345,350 were not supported by relevant supporting documents; hence the correctness of expenditure incurred could not be confirmed.
3. Shs.6,632,250 was paid to suppliers for purchase of goods. However the goods were not accounted for in stores ledgers.

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

Dr. Frank Mosses Hiza Mhilu

**Ag. CONTROLLER AND AUDITOR GENERAL**

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Office of the Controller and Auditor General  
The National Audit Office  
**DAR ES SALAAM**

31 March 2006.

### 3.0 AUDIT FINDINGS AND RECOMMENDATIONS

#### 3.1 Current audit findings

##### 3.1.1 Revenue earning receipt books not produced

4 General revenue earning receipt (not quantified) issued to revenue collectors (Kalulu ward) were not produced for audit inspection viz:-

Serial No.	Quantity	To whom issued
04951 - 05000	1	Omary Misonga (Kalulu ward)
05001 - 05050	1	Omary Misonga (Kalulu ward)
05051 - 05100	1	Omary Misonga (Kalulu ward)
05101 - 05150	1	Omary Misonga (Kalulu ward)
	4	Omary Misonga (Kalulu ward)

##### Implication

Accountability of revenue collected vide receipt books could not be ascertained, hence may lead to loss of government revenue.

##### Recommendation

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

##### 3.1.2 Unsupported payments Shs.4,345,350.00

It was noted during the audit inspection that payments totaling Shs.4,345,350.00 were not supported by the relevant supporting documents.

##### Implication

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

##### Recommendation:

The management should make follow-up in regard to the missing paysheet and submit for audit scrutiny.

##### 3.1.3 Missing payment vouchers Shs.21,906,550.66

Under listed payment vouchers Shs.21,906,550.66 were not produced for audit scrutiny viz:-

Pv	Account	Amount (Shs)	Cheque No.	Payee
28/7	V	3,948,350.66	014809	NIC - SONGEA
36/7	V	313,000.00	014818	DED - TUNDURU
73/9	V	17,645,200.00	014999	DED - TUNDURU

<b>TOTAL</b>	<b>21,906,550.66</b>		
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#### **Implication**

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

#### **Recommendation**

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

### **3.1.4 Payments made on the strength of proforma invoices Shs.20,760,800.00**

Payments of Shs. 20,760,800.00 were made on the strength of proforma invoices as detailed below:-

<b>PV</b>	<b>A/C</b>	<b>C/N</b>	<b>Amount</b>	<b>Payee</b>
56/5	V	019775	1,617,300.00	Tanzania Institute of Education DSM
66/5	V	019785	3,842,300.00	Tanzania Institute of Education DSM
108/12	I	016684	3,304,100.00	ELMS Insurance services LTD.
138/1	I	018473-474	425,000.00	C.H Enterprises Ltd Mtwara
1/2	XIX	015914-915	750,000.00	C.H Enterprises Ltd Mtwara
59/11	VI	014044	1,017,600.00	MSD - Mtwara
3/4	DADPS	02516223	4,910,000.00	Africatic Limited
5/4	DADPS	02516225	1,775,000.00	SEAS Agrice Equipment
8/6	DADPS	013030	3,119,500.00	National Artificial Insemination
<b>TOTAL</b>			<b>20,760,800.00</b>	

#### **Implication**

In the absence of suppliers invoice and Delivery Notes, confirmation of receipts and utilization of the items/services paid could not be confirmed, and hence this may lead to loss of public funds.

#### **Recommendation**

The management should produce relevant invoices and delivery notes and confirm receipt of the stores/services for audit verification.

### **3.1.5 Questionable issues of stores Shs.12,416,012.00**

Stores worth Shs.12,416,012.00 were issued in bulk to District Water Engineer department. However it was revealed that no stores ledger was maintained by the department to account for the final utilization of the stores viz:

PV	Amount	A/C	Items	LF NO	Issue voucher No/issues
1/1	8,366,012	II (Dev)	116pcs of raiser Qm and stainless steel roads Q 10mm @ 72120.80 LPO No. 06426 of 3/1/2005 D/Note No. 0228 of 3/1/2005	L.30	District Water Engineer I/V No. 0711 of 5/1/2005
7/11	4,050,000.00	II(Dev)	54pcs of PVC 4" class B @ 75,000.00. LPO No. 06349 of 9/11/04 D/Note No. 0141 of 13/11/04	2/11	District Water Engineer I/V No. 0709 of 30/11/04
<b>TOTAL</b>	<b>12,416,012.00</b>				

### Implication

In the absence of store's ledgers at the user department, accountability of the stores could not be confirmed and hence may lead to loss of government properties.

### Recommendation

The management should ensure that all stores are taken into ledger charge and confirm accountability of the stores in question.

### 3.1.6 Procurement of goods and services made without quotations Shs.4,539,000

The procurement of goods and services worth Shs.4,539,000 were made without competitive quotations

PV	A/C	C/N	Amount	Payee
106/12	I	016680-681	395,000.00	Empire garage
1/12	VII	014356	3,500,000.00	Miselu general enterprises Co. Ltd.
12/12	XIX	015874	146,500.00	Baka Traders
13/12	XIX	015874	130,000.00	Baka Traders
15/12	XIX	015876	103,000.00	Baka Traders
16/12	XIX	015877	114,500.00	Baka Traders
1/6	IV	013799-800	150,000.00	Mpunga and Luha furniture - Tunduru
<b>TOTAL</b>			<b>4,539,000.00</b>	

### Implication

This implies that the government could not have received value for Money to goods and service procured.

**Recommendation**

The management should rectify on these irregularities and in future should comply with the Procurement Regulations of 2005.

**3.1.7 Stores purchased and paid for but not accounted for Shs.6,632,250.00**

The Council paid Shs.6,632,250 to suppliers for purchase of goods. However, verification made in the stores ledgers revealed that the goods were not accounted for in the stores ledgers.

**Implication**

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

**Recommendation**

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

**3.1.8 Outstanding imprests and advances Shs.11,774,809.00**

The balance sheet reflects outstanding imprests and advances amounting Shs.11,774,809.00 viz:-

	Shs.
Imprest	2,186,000.00
Advances	<u>9,588,809.00</u>
<b>Total</b>	<b>11,774,809.00</b>
	=====

**Implication**

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

**Recommendation**

The management should ensure that the retirement particulars are submitted for audit, and in future the management should strengthen control over imprest and advances.

**3.1.9 Miscellaneous Deposits Shs.12,824,865.00**

The balance sheet submitted was closed with the balance of Shs.12,824,865.00 in miscellaneous deposit account.

**Implication**

Outstanding balances in deposit accounts implies non implementation of the intended activities of which the money was deposited for.

### Recommendation

The management should ensure that the balance is used for the intended activities.

### 3.2 Performance during the year

The expenditure trend analysis for the development projects for the year 2004/2005 highlights specific areas and activities of potential short falls in the achievement of desired goals for improvement of roads and education sector as per annual implementation reports. However the average projects performance reached at 66% for PEDP and 60% for Road Fund.

#### PEDP FUND

S/NO	Activity	Amount received	Actual expenditure	Variance Shs.	Expenditure performance in %
1.	Class rooms construction	114,700,000	99,829,965.55	14,870,034.45	87
2.	Construction of Teacher's house	284,400,000	129,926,481.70	154,473,518.30	46
3.	Construction of latrines	22,500,000	14,865,600.00	7,634,400.00	66
4.	Desks	31,188,750	20,143,760.00	11,044,990.00	65
	<b>Total</b>	<b>452,788,750</b>	<b>264,765,807.25</b>	<b>118,022,942.75</b>	<b>66</b>

#### Road Fund

S/NO	Activity	Fund Received Shs.	Actual expenditure Shs.	Variance Shs.	Expenditure performance in %
3.	Period maintenance town ship roads				
3.1	Mandingo - Malombe	14,884,700.00	10,113,262.00	4,711,438.00	68
3.2	NMB-NBS - Tundur Hotel	18,194,398.68	8,902,000.00	9,292,398.68	49
4.0	Bridges and culverts	38,439,480.00	24,190,841.00	14,248,639.00	37
4.2	Naluwale bridge				
5.	supervision	9,000,000.00	7,695,265.80	1,304,734.20	86
	<b>Total</b>	<b>80,515,578.68</b>	<b>50,901,368.80</b>	<b>29,617,209.88</b>	<b>60</b>

### Implication

Failure to achieve the desired targets of project within the stipulated period reflects weakness on the project implementation hence implies the Council's inability to deliver the desired services to the people in

the District.

**Recommendation**

The Council management should increase more efforts in all areas which indicate low performance so as to achieve high level of efficiency and effectiveness on the utilization of available resources.

**4.0 CONCLUSION**

The detailed audit findings presented above have been communicated to management of Tunduru District Council during exit meeting. Management of Tunduru 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.

Lastly, I would like to express my appreciation for the cooperation 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**

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

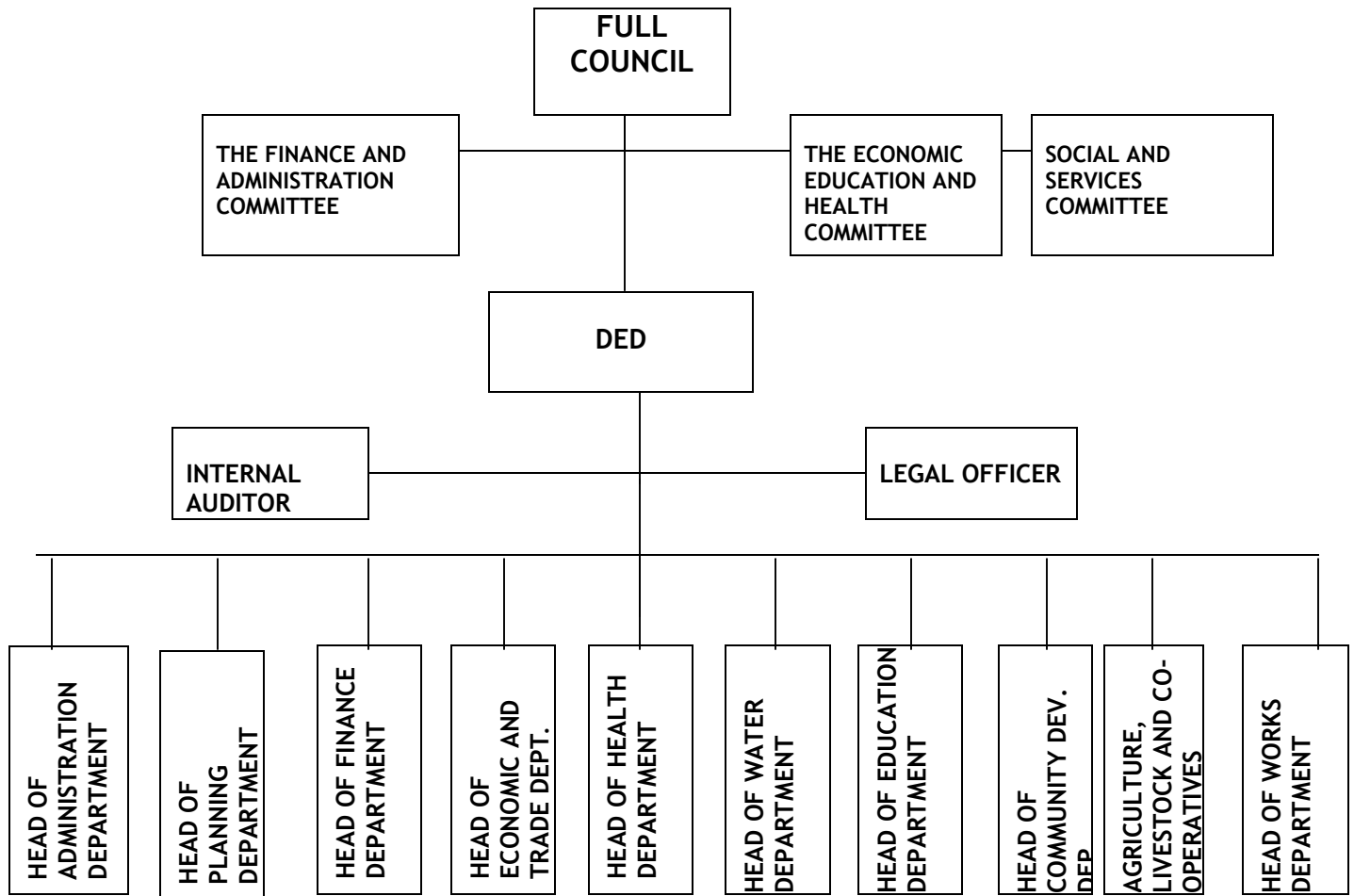
Permanent Secretary and Paymaster General,  
Ministry of Finance,  
Box 9111,  
**DAR ES SALAAM.**

## 5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF TUNDURU DISTRICT COUNCIL



## Tunduru District Council

### Basis for assessment of audit opinion

S/N Para	observation	Basis of assessment	%	Audit Opinion
3.2.2.1	Earning receipt book not produced (open receipts)	Number of books not submitted for audit (4 books)	-	Qualified
3.2.2.2	Unsupported payments Shs. 4,345,350	4,345,350.00 21,906,550.66 <u>20,760,800.00</u>	1.6%	Unqualified
3.2.2.3	Missing payment vouchers Shs. 21,906,550.66	<u>47,012,700.66</u> Basis = <u>47,012,700.66</u> <b>2,879,338,616.56</b>		
3.2.2.4	Payment on proforma invoice Shs. 20,760,800	1.6%		
3.2.2.5	Stores not taken on ledger charge Shs. 12,416,012	Statutory requirements not complied with 12,416,012		
3.2.2.7	Stores not taken on ledger charge Shs. 12,416,012	<u>6,632,250</u> <b>19,048,262</b> Not material		Unqualified