

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF SONGEA TOWN COUNCIL
FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2005**

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Office of the Controller and Auditor General
The National Audit Office,
United Republic of Tanzania

(Established under Article 143 of the Constitution of the URT).

The statutory duties and responsibilities of the Controller and Auditor General are given in the Public Finance Act No. 6 of 2001.

Our Vision

We aspire to be an organization that fosters a culture of financial discipline, transparency and accountability within the Government of Tanzania.

Our Mission

We are the Supreme Audit Institution in Tanzania, which strives to provide timely and high quality audit services to all our clients in order to enhance public sector financial performance by educating key stakeholders on the effective management of public finances; providing value added services and functioning independently and impartially in auditing and reporting on public accounts.

Therefore, our Core Values are:

- ✓ We strive to achieve and maintain objectivity in providing impartial audit services so as to promote our independence
- ✓ We pursue excellence in the provision of our audit services
- ✓ We exercise professional integrity by demonstrating high ethical standards
- ✓ We focus on people and have great respect to our stakeholders
- ✓ We encourage and promote innovation amongst our members of staff; and
- ✓ We ensure best resource utilization at national as well as individual public entity level.

We do this by:

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

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ABBREVIATIONS AND DEFINITION OF TERMS

AMREF	African Medicine Research Foundation
BOQ	Bills of Quantity
DED	District Executive Director
GF	General Fund
GRR	General Revenue Receipt
INTOSAI	International Organization of Supreme Auditing Institutions
ISA	International Standards on Auditing
LAFM	Local Authority Accounting Manual
LPO	Local Purchasing Order
NAEP	National Agricultural Extension Programme
PEDP	Primary Education Development Project
PMO-RALG	Prime Minister's Office -Regional Administration and Local Government
STC	Songea Town Council
TD	Town Director
URT	United Republic of Tanzania
NIC	National Insurance Cooperation
WEO	Ward Executive Officer

Act means Local Government Finance Act No. 9 of 1982

Financial Statements mean:

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

Council means: Songea Town 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 Songea Town Council for the year 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 Songea Town Council was established in 1984 in accordance with the provisions of section 8 and 9 of the Local Government Act (District Authorities) 1982. Besides the Act, the council operates within the framework of the following instruments.

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

1.3 Operational Objectives

According to section III (1) of the Local Government (District Authorities) Act and the Local Authority financial Memorandum, the Town Council of Songea has the following operational objectives.

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

1.4 Financing

The Council has two sources of funds, own sources and external sources. The Internal source included collection of Public funds through taxes, fees, licenses and charges. On the other hand external source include subsidies from central government, grants and other funds from the Donor community.

During the year 2004/2005 the council received a total income of Shs.3,830,741,230.70 from the following sources;

	Shs.
Own Sources(as per supporting schedule)	354,357,798
Government (as per supporting schedule)	2,499,876,767.78
Total	2,854,234,565.78
	=====

1.5 Management structure

The Songea Town Council operates under directives of the Full Council and the day to day activities are administered by the Town Executive Director who is the Accounting Officer of the council. The Council is organized into different departments supervised by heads of department who reports to the Town Executive Director. The detailed organization chart is given in Annexure II.

1.6 Brief description of internal control system

A system of internal control that should be adopted by councils is given under order 9 through 11 of the Local Authority Financial memorandum; 1997. The order requires the finance committee to adopt written procedures for proper control of Finances.

In addition, the Director and the Treasurer should ensure there is assignment of specific responsibilities to individual officers through the issue of a detailed job description for each post in the Finance Department, production of an organization chart for the Finance Department showing lines of reporting and supervision, Division of responsibilities for related operations between several officers and periodic rotation of duties.

Accountability of all areas of operations by the Director or his designated representative to check effectiveness of the control system is mandatory. The Council is also required to employ its own Internal Auditor who report directly to the director. Similarly, the Public Procurement Act NO. 21 of 2004 section 28 (I) requires the Council to establish a Tender Board and Sect.34 (I) provides for establishment of Procurement Management Unit.

The Internal Control system of Songea Town Council complies with this order of the Procurement Act but is lacking an audit committee which is part of transparency and good governance. Nevertheless weakness raised from review of internal control system are included under part 3 of this report.

1.7 Out turn

Revenue

The Town Council collected an amount of Shs.354,357,798 from own sources against the internal revenue budget of Shs.369,981,367 reflecting a collection of shortfall of Shs.15,623,569 or 4%. In addition

the Council received grants amounting to Shs.2,499,876,767.78 making total revenue of Shs.2,854,234,565.78 during the year.

Expenditure

The Council spent Shs.2,767,888,477.43 (as per supporting schedule) during the year against total income of Shs.2,854,565.78 or 96% of total revenue, leaving unspent amount of Shs.86,346,088.35.

A comparison of the internal revenue of Shs.354,357,798 against expenditure of Shs.2,767,888,477.43 (net of depreciation) is only 12%, implying that the District Council cannot sustain either its recurrent or development expenditure without depending on grants.

1.8 Audit Mandate

By virtue of the provision of Article 143 of the Constitution of the United Republic of Tanzania, and section 45 of the local government of Finance Act NO. 9 of 1982, (revised 2000) the Controller and Auditor General is the appointed auditor of all government revenue and expenditure, including this Town Council.

1.9 Audit Objectives

The main objective of conducting the audit is to enable me to express an independent opinion on the statements of the Songea Town Council for the period ended 30th June 2005 and in particular:-

- To determine whether transactions were executed in accordance with management authorization and recorded properly in the books of account to permit the preparation of the financial statements in accordance with the International Accounting Principles and requirements of the Local Government Finance Act No.9 of 1982 and Local Authority Financial Memorandum 1997.
- To determine whether funds have been collected properly and used exclusively to meet eligible expenses as per approved budget and regulations governing government expenditure.
- To ascertain whether all relevant supporting documents records and accounts have been kept in respect of all Songea Town Council activities.
- To verify whether goods and services bought were acquired through laid down procurement procedures and the Public procurement Act No. 3 of 2001 have been complied.
- To perform compliance tests to determine whether the management complied in all material respects with the Public procurement Act No 3 of 2001.
- To evaluate whether the internal control procedures instituted are effective to provide relevant and reasonable information to the management, for implementing and monitoring activities and that the assets of the Songea Town Council are adequately safeguarded against losses from unauthorized use or disposition.

- To determine whether the management of the Songea Town Council (STC) has taken adequate corrective action on the previous years audit recommendations.

1.10 Audit Scope

The audit of Songea Town Council for the period ended 30th June 2005 was carried out in accordance with International Standards on Auditing (ISA). The audit covered the evaluation of the effectiveness of the financial accounting system and internal control over the activities of the STC, 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 STC management who are responsible for setting up and maintaining an adequate system of internal control.

1.11 Audit Methodology

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

- A review of the Council's regulations, guidelines and other Authority's documents as was deemed necessary under the circumstances.
- Examination of receipts and payments to confirm compliance with existing legislation, financial regulations and other instructions or directives.
- A review of the internal control structure by assessing significant policies and procedures and establish its adequacy.
- Conduct compliance tests on the system of awarding contracts and their execution.
- Interview and discussion with some of the staff and other key stakeholders in the implementation of various activities.
- Conduct Local inspection to verify physical implementation of planned activities as well as assessing the progress made.
- Hold entrance and exit meetings with the auditee to discuss the audit objectives and results of the audit, respectfully.

1.12 Presentation of Audit Findings

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

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

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

2.0 AUDIT REPORT ON THE FINANCIAL STATEMENTS

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

Town Director and Accounting Officer
Songea Town Council

RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF SONGEA 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 Songea Town Council shown as annexure I in 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 Songea Town Council.

Order Nos. 9 through 16 of the LAFM requires the Council to establish and support a solid system of Internal Control within the Council. Order No. 53 places responsibility on the Council Management to prepare the financial statements based on Generally Accepted Accounting Standards. Further, Section 40 of the Act requires the Accounting Officer to keep and maintain accounts and prepare financial statements in respect of the Council operations in a manner that promotes transparency, accountability and comparability.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion based on the audit. I am also required to satisfy myself whether the funds contributed to the Council were used exclusively and judiciously to meet eligible expenditures with due attention to economy and efficiency, whether the accounts have been kept in accordance with Generally Accepted Accounting Standards, and whether they do comply with the requirements of the Local Government Finances Act No. 9 of 1982 and the Local Authorities Financial Memorandum of 1997.

Basis of opinion

The audit was conducted in accordance with International Standards on Auditing and included such other audit procedures I considered necessary in the circumstances. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes

assessing the significant estimates and judgments made in the preparation of the financial statements, assessing whether the internal control system and the accounting policies are appropriate to the circumstances of the Songea 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.

Qualification

Except for the material matters pointed out below, in my opinion the financial statements fairly reflect, in all material respects, the financial position of Songea Town Council as at 30th. June 2005 and the results of the operations and cash-flows for the year then ended, in accordance with Part IV of the Local Government Finances Act No. 9 of 1982.

Limitation of Scope of Audit and non-compliance with laws:

1. Revenue collected between September 2004 and July 2005 totaling Shs.1,828,478.75 was underbanked.
2. Stores worth Shs.1,641,000 ordered and paid for were not confirmed to have been taken on ledger charge and its accountability could not be verified.
3. Shs.8,276,739.52 were expenditures incurred without payment vouchers, hence its genuineness could not be ascertained by the audit.
4. Shs.3,428,000 was transferred from health account to General fund and development account. The amount has not been re-imbursed to the health account.
5. Shs.72,685,168.95 were payments made without relevant supporting documents, in the absence of these documents, correctness of expenditures could not be confirmed.
6. The financial statements were inconsistently prepared. Audit revealed that figures in the income and expenditure statements differ with the figures in the supporting documents and supplementary schedules.

The details of 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 Current audit findings

3.1.1 Under banking of Revenue collection Shs.1,828,478.75

Revenue collected between 16/9/2004 and 25/7/2005 totaling Shs.1,828,478.75 was under banked.

Implication

The absence of banking particulars implies misappropriation of revenue collection or loss of Public funds.

Recommendation

The Management should confirm the banking of revenue collection by submitting banking particulars for audit verification. In future, management should strengthen accountability of revenue collected.

3.1.2 Unsupported payments Shs.62,926,868.95

It was noted during audit inspection that payment totaling Shs.62,926,868.95 were not supported by documents.

Implication

In the absence of relevant supporting documents the correctness of expenditure incurred could not be confirmed.

Recommendation

The management should confirm that all supporting documents are traced and submitted to audit for verification and in future the management should strengthen the control system of payments.

3.1.3 Payments based on the strength of proforma invoices Shs.9,758,300.

Payment of Shs.9,758,300 was made on the strength of proforma invoice as indicated below: -

Pv	Amount	Cheque No.	Payee	Description
3/7	2,001,600	044968 of 15/7/04	Textile manufacture (T) Ltd	VI(Health)
20/4	3,685,000	055522	Textile manufacture (T) Ltd	VI(Health)
5/7	352,000	04442	Songea new Gapco	V(Education)
10/8	3,600,000	044558	M.J. International (T) Co. DSM	V(Education)
11/8	119,700	044559	Songea New Gapco	V (Education)
Total	9,758,300			

Implication

In the absence of the supplier's invoices and delivery notes, the receipt of the items/services paid for could not be ascertained, hence could lead to loss of Council funds.

Recommendation

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

3.1.4 Missing payment vouchers Shs.8,276,739.52

The underlisted payment vouchers worth Shs.8,276,739.52 were not produced for audit Viz:

Pv	Amount	cheque	A/C	Payee
32/6	4,869,937.23	055644	055644 IV(Health)	Town Director
33/6	578,258.65	055645	055645IV(Health)	Manager NMB
34/6	627,543.64	055646	055646IV(Health)	Manager NMB
59/8	260,000	030317	030317 I (GF)	Manager NMB
18/9	200,000	050439	050439 I(GF)	Nyambo action mart
43/10	1,000,000	038829	038829 I (GF)	Town Director
67/11	100,000	038829	038829 I (GF)	A. Mtara
220/11	274,000	024473	024473 I (GF)	J. Chando
91/12	367,000	021571	021571 I (GF)	Sundry payees
Total	8,276,739.52			

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 to be properly charged to public fund.

Recommendation

The management should confirm that all payment vouchers are traced and submitted for audit scrutiny and in future management should ensure proper keeping of the accountable documents.

3.1.5 Transfer of funds (Loans) not reimbursed Shs. 3,428,000/=

The following inter account transfers were made during the year but no refund to the respective account was done: -

Pv	cheque	A/C	Amount	Transfer red from A/C	Transferred to A/C
23/7	044960 of10/7/04	Health	1,428,000	VI	1 G/Fund
42/9	051618 of 14/9/04	Health	2,000,000	VI	2 (Dev A/C)
Total			3,428,000		

Implication

Non reimbursement of the transfers to the health accounts will affect the financial position of the account. Also it implies that the planned activities under Health account were not accomplished.

Recommendation

The management should ensure that refunds are made to the respective account and submit receipt particulars for audit verification. In future management should adhere to the budget provisions.

3.1.6 Stores not taken on ledger charge Shs.1,641,000/=

Examination of the payment vouchers revealed that stores worth Shs.1,641,000 ordered and paid for were not confirmed to have been taken on ledger charge Viz: -

Pv	Amount	A/C	Cheque	payee	items
64/8	540,000	VI	045049 of 12/8/04	Shera gen. Supp	12 pcs of gas cylinder @ 45,000-Lpo No. 03823 of 7/8/04
JV48/04	201,000	vi	Retirement of imprest l/Vide Pv 38/11	Ottawa enterprises	201 Litres of diesel @1000, cash sale 4597 of 10/11/04
31/9	420,000	R/Fund	047527 of 17/8/04	Ashura Enterprises	200 Lts Engine oil @ 2,100 LPO No.0055
11/9	240,000	R/fund	047533 of 23/9/04		2 pcs Laser jet catridge No.15A @120,000 lpo No.0058
Total	1,641,000				

Implication

In the absence of stores records for the goods paid for this situation implies that goods were neither purchased nor received, hence may lead to loss of public funds.

Recommendation

The Council management should confirm accountability and utilization of the stores purchased by quoting ledger folio on which they were taken on ledger charge for audit verification.

3.1.7 Procurement made without quotations Shs.33,472,875/=

The procurements worth Shs.33,472,875 were made without competitive quotation to obtain competitive price.

Implication

This may imply that the government might not have received the value for money for goods purchased and services made.

Recommendation

The management should account on this anomaly and in future should adhere to the requirements of the Regulations.

3.1.8 Questionable Amount claimed to the Final Certificate Shs.2,070,600/=

The Council entered contract with PF construction Co. Ltd Contract No TD/CW/2004/2005/02 for routine maintenance along Songea Primary School- Mchekanae Street and Miembeni-Chandamali River (Ditch lining) for Shs.16,410,000/= as per Bills of quality (BOQ).

However scrutiny made to the Final Certificate attached to the payment voucher No. 5/9 Shs.1,054,700/= revealed that the management authorized Shs.18,480,600/=. The additional amount of Shs.2,070,600= was not supported by documents and no explanations were given.

Implication

In the absence of proper documents, it could not be confirmed whether additional payments were authorized by the relevant authority and hence this could lead to loss of public funds.

Recommendation

The management should submit proper documents for audit scrutiny and in future proper maintenance of contract documents should be adhered to.

3.1.9 Income and expenditure statement

Audit of the income and expenditure statement for the year ended 30th June 2005 has revealed that figures in the income statement differs with the figures in the supporting documents and supplementary schedules submitted as follows: -

S/No.	Account	Amount as per statement	Amount as per supplementary schedules	Difference
	Income			
1.	520 Urban planning	32,727,636.55	30,959,436.55	1,768,199.95
2.	511 Health	14,989,876.46	12,590,848.46	2,399,028.00
3.	500 finance and Administration	685,847,792.91	504,340,573.91	181,507,219.00
4.	506-508 Education	1,583,428,185.68	1,586,344,890.15	(2,916,704.47)
5.	511-513 Health	258,065,483.72	351,256,603.72	(93,191,120.00)
	Expenditure			

6.	500 Finance and Administration	283,717,395.38	345,703,547.76	(61,986,152.38)
7.	516 Works Department	18,070,738.00	13,743,401.67	4,327,336.33
8.	Road fund	198,265.64	231,770,151.33	231,571,885.69
9.	AMREF	7,195,578.64	7,272,704.78	(77,126.14)

Implication

This implies that the financial statements were inconsistently prepared, hence reflecting incorrect operations and financial position of the Council.

Recommendation

The management should revise the financial statements so as to ensure that the Council's financial operations for the year and financial position as at the end of the year are properly presented.

3.2 Operational performance during the year

The expenditure analysis trend for projects PEDP and Road Fund for the year ended 30th June 2005 highlights specific areas and activities of potential shortfalls in the achievement of planned goal for Improvement of Education and Urban Roads as per Annual Implementation reports.

(a) However, the average project performance level reached 53% and 26% of the planned input for PEDP and Road Fund respectively. Areas which scored low percentage rating rate shown in the expenditure table below:-

(i) PEDP: Financial Performance

Budget Line	activity	Budget plan Shs.	Actual expenditure Shs.	Variance Shs.	Expenditure performance in %
1.	Construction of Teachers Houses (20 Houses)	70,000,000	16,019,900	55,980,000	22%
2.	Construction of classrooms (23 Classrooms)	73,388,798	46,653,070	26,735,728	64%
3.	Construction of Pit Latrines (48 Latrines)	8,460,000	5,841,700	2,618,300	69%
4.	Procurement of Globes	13,000,000	7,360,000	5,640,000	57%
		166,848,798	75,874,670	90,974,028	53%

(ii) **Road Fund: Financial Performance**

Budget Line	Activity	Budget Plan Shs.	Actual Expenditure Shs.	Variance Shs.	Expenditure Performance in %
1.	Routine Maintenance works Matarawe Road	21,829,000	13,556,700	8,272,300	62
2.	Route Maintenance along Songea-Primary School Mchellanae	18,500,600	14,262,600	4,235,000	77
3.	Emergence work Mateka Bridge	8,767,000	6,807,400	1,959,806	78
4.	Bridge construction along Majengo Nangwai Road	49,905,800	35,515,440	14,391,360	71
5.	Emergence work along Makambi bridge Mahenge C and Matogoro	15,675,600	6,000,000	9,675,600	38
		114,677,400	76,145,140	38,534,060	65

- (b) Physical performance highlighted significant shortfall in the achievement of desired target whereby the average physical performance of 4 activities reached 26% of the planned target for PEDP as shown on the table below:-

Budget Line	Activity	Target	Actual expenditure	Variance	Implementation Performance in %
1.	Construction of Teachers Houses	20	0	20	0
2.	Construction of Classrooms	23	8	15	35
3.	Construction of Pit Latrines	48	6	42	13
4.	Procurement of Globes	325	184	141	57
	Average Physical Improvement				26

Implementation of project in general had been rated at 53% and 65% for PEDP and Road Fund respectively, thus indicating unsatisfactory performance in projects implementation. It has been noted that 9 activities were uncompleted resulting in non-utilization of Shs.129,508,088.00 for both projects as per expenditure analysis table shown above. Also the physical implementation for PEDP was reached at average rate of 26%.

Implication

Failure to achieve the desired level of projects implementation reflected the Council inability to utilize the available resources hence delivery of the desired services to the public within the Township were also delayed.

Recommendation

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

4.0 CONCLUSION

The detailed audit finding presented above have been communicated to management of the Songea Town Council during exit meeting. Management of the Songea Town Council has promised to take appropriate action with a view to rectify the situation. I shall appreciate to receive a formal action taken in this respect.

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

Dr. Frank Mosses Hiza Mhilu
Ag: CONTROLLER AND AUDITOR GENERAL

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

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 Songea Town Council - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF SONGEA TOWN COUNCIL

