

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF THE MBINGA DISTRICT 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

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

Act means Local Government Finance Act No. 9 of 1982

Financial Statements means:

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

Council means - Mbinga 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 the Mbinga District Council for the year ended 30th June 2005. Audit findings arising from examination of accounting records, appraisal of the Mbinga District Council activities as well as evaluation of the Internal Control system which require management attention and action are set out under paragraph three of this letter.

1.2 Brief history of client establishment

Mbinga District was established under section 5 (1) of the Local Government District Authorities Act No. 7 of 1982. Besides the Act the Council operates within the frame work of the following instruments:-

- Local Authority Financial Memorandum 1997
- Public Finance Act No. 21 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 District Council of Mbinga 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

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

During the year 2004/2005 the Council received income from the following sources Donor funds.

Sources of fund	Amount (Shs)
Compensation of taxes	230,543,100.00
Central Government grant	6,707,376,936.00
Council own sources	386,164,109.00
Total	7,324,084,145.00

1.5 Management structure

The Mbinga 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 Economic and Trade, Health, Education, Works, Planning and Environment, 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 II 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 Mbinga 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 Council had managed to collect a total sum of Shs.6,16,707,209,80 from own sources against estimated revenue of Shs.630,018,000 thus registering a deficit of Shs.13,310,790.2 which is 2% of estimated revenue. In addition, the Council received grants amounting to 6,707,376,936,10 from government making a total revenue of Shs.7,324,080,145.90. during the year.

Expenditure

The Council spent Shs.7,289,153,465.42 during the year against total income of Shs.616,707,209.80 or 8.5% of total revenue, leaving unspent amount of Shs.6,672,446,255.65. However, performance against budget is 93.4%.

A comparison of, the internal revenue of Shs.616,707,209.80 against expenditure of Shs.7,289,153,465.42 (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 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 of Mbinga District 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 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 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 AND FINANCIAL STATEMENTS

To: The Regional Commissioners,
Ruvuma Region,

District Executive Director and Accounting Officer,
Mbinga District Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
MBINGA DISTRICT 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 Mbinga District Council shown on annexure I 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 Mbinga 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 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 Mbinga District Council, consistently applied and adequately disclosed, evaluating the overall financial statements presentation, and assessing the extent of compliance with the 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 Mbinga District 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 9 of 1982.

Further to my opinion, the procurement of computers, Shs.20,300,185 office equipment Shs.890,000 and buildings Shs.90,102,266 was generally done in accordance with the Public Procurement act No. 21 of 2004.

Matters of emphasis

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

1. Shs.10,040,345.30 were payments made without relevant supporting documents, hence its correctness could not be established.
2. The payment vouchers totaling Shs.2,809,550 were not produced for audit scrutiny.
3. The financial statement disclosed outstanding debtors of Shs.29,695,595 without age analysis.
4. The balance sheet showed unsettled liabilities of Shs.91,299,219, smooth operation of the Council might be affected upon settlement.

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

Financial Control Issues

3.1.1 Unsupported payments Shs. 10,040,345.30

It was noted during audit inspection that payments totaling Shs.10,040,345.30 were not supported by relevant documents as listed below: -

PV	Amount (Shs)	C/N	A/C	Payee	Details
10/7	1,497,000.00	017997	Vi	A. Limited	Quotations not attached
6/8	969,770.00	014596	I	MBICOBA	Acknowledgement receipt missing
11/9	1,400,000.00	003818	ROAD TOLL	Jacks Construction	Certificate of completion missing
18/3	3,435,300.00	002842853	VI	Surgical Ltd DSM	Quotations not attached
4/5	1,227,855.00	015945	XXVI	A. Sandali	No any supporting document
6/5	1,510,420.30	015947	XXVI	M. A. Ngalomba	No any supporting document
Total	10,040,345.30				

Implication

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

Recommendation

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

3.1.2 Missing payment vouchers Shs.2,809,550.00

The under listed payment vouchers were not produced for audit scrutiny viz:

PV	Amount (Shs)	C/N	A/C	Payee
51/7	53,000.00	-	I	NMB Manager
70/8	78,500.00	-	I	NMB Manager
4/10	440,000.00	017149	V	DED Mbinga
42/11	478,050.00	020746	XXVI	A. A. Ahmed
73/11	1,005,000.00	014749	I	Universal Communications
46/3	60,000.00	021781	V	D.I.Mahundi
27/5	200,000.00	021945	V	E. F. Ndunguru
28/5	495,000.00	021946	V	A. A. Ahmed
TOTAL	2,809,550.00			

Implication

In the absence of the payment vouchers, the nature of the payments made and expenditure charged in the council accounts cannot 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 accountable documents, as per Orders NO.92 through 102 of the Local Authority Financial Memorandum 1997.

3.1.3 Stores purchased and paid for but not accounted for Shs.841,400.00

Verification made in the stores ledger revealed stores worth Shs.841,400.00 not accounted for in the stores ledger as listed below viz:-

PV	A/C	Amount Shs	Payee
3/7	I	752,500.00	M/S Denis N. Mpangala L.P.O No. 04428 of 28.6.2004
10/1	XXVIII	88,900.00	R.S.Kajugusi L.P.O. No. 041738 of 11.01.2005
	TOTAL	841,400.00	

Implication

In the absence of stores records for goods paid for implies that goods were neither received nor utilized as intended.

Recommendation

The council management should confirm accountability and utilization of the stores purchased by quoting ledger folio on which they were taken on charge for audit verification. Moreover the stores operations should adhere to the LAFM Orders named above.

3.1.4 Outstanding debtors Shs.29,695,595.00

Debtors amounting to Shs.29,695,595.00 were noted outstanding as at 30th June 2005 without age analysis and comprises the following balances:

Category	Amount Shs.
Loan	1,795,333.00
Salary Advance	1,014,200.00
Debtors (Sundry)	26,886,062.00
Total	29,695,595.00

Implication

Non clearance of the debtors affects the financial position and operation of the council.

Recommendation

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

3.1.5 Current Liability Shs.91,299,219.00

The balance sheet reflects current liability amounting to Shs.91,299,219.00 in respect of:-

Category	Amount Shs	Remark
Misc. Deposit	74,691,189.00	Not analysed
Account payable	16,608,029.00	
TOTAL	91,299,219.00	

Implication

This implies that if the council did not settle debts, then the smooth operation of the Council might be affected during settlements.

Recommendation

The council management should analyse the balances and expedite clearance of the debts.

3.1.6 Bank Reconciliation Statements

The bank reconciliation statements for the year ended 30th June 2005 submitted along with financial statements disclosed un cleared items as shown below:-

Account	Unpresented Cheques Shs	Cash in transit
G/Fund I	100,000.00	
Development II	-	7,390,000.00
Deposit III	1,377,855.00	-
Education V	140,000.00	-
X	78,500.00	-
Total	1,696,355	7,390,000

Implication

Non clearance of the items implies inadequate internal control and hence may lead to loss of Council's funds.

Recommendation

The council management should take necessary action to clear the outstanding items in the bank reconciliation and strengthen internal control system.

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 shortfalls in the achievement of desired goals for improvement of roads health, education and Agriculture Sector as per annual implementation reports. However, the average projects performance level reached at 12.7% for road fund, 22% for DADPS, 40% for PEDP and 0% for CSPD (UNICEF).

Areas which scored low percentage rating are shown in the expenditure table outlined below:-

(i) **Road Fund:**
(Financial Implementation)

Budget Line	Activity	Budget Plan Shs.	Actual Expenditure Shs	Variance Shs	Expenditure Performance In %
I	(a) Routine Maintenance - Kilimani - Mitomoni 21.5kms	7,600,000.00	0	7,600,000.00	0
III.	- Mbinga - Makatani 12km	5,900,000.00	0	5,900,000.00	0
IV	- Longa - Kipololo 9km	4,100,000.00	0	4,100,000.00	0
V	- Mahenge - Kilanga 7km	2,000,000.00	0	2,100,000.00	0
VI	Lipumba - Lukarasi 7km	2,200,000.00	1,100,000.00	1,100,000.00	50
VII	Lipumba - Kihangimahuka 9.4km	2,800,000.00	2,510,423.67	289,576.33	90
X	Mbinga - Masimeli 5km	3,200,000.00	0	3,200,000.00	0
XI	Tukuzi - Ugano 9km	2,700,000.00	0	2,700,000.00	0
XIII	Ngima - Litembo 10km	3,300,000.00	0	3,300,000.00	0
I	(b) Periodic Maintenance Longa - Litohe 6km	42,000,000.00	0	42,000,000.00	0
2	(c) Cross drainage Mbinga - Ndembo road (Bridge & Culverts) Mungaka Bridge	42,900,000.00	0	42,900,000.00	0
TOTAL		118,700,000.00	3,610,423.67	115,089,576.33	12.7

(ii) **DADPS**

Budget Line	Activity	Budget Plan Shs.	Actual Expenditure Shs	Variance Shs	Expenditure Performance In %
1	Improvement of irrigation scheme	21,728,728.00	8,486,098.00	13,242,630.00	39
2	Improvement of cashew nuts crop.	11,816,485.00	219,500.00	11,596,985.00	12
3	Rehabilitation of deeps	6,230,550.00	1,503,500.00	4,727,050.00	24
TOTAL		39,775,763.00	10,209,098.00	29,566,665.00	22

(iii) **PEDP**

Budget Line	Activity	Budget Plan Shs.	Actual Expenditure Shs	Variance Shs	Expenditure performance in %
1	Building of 50 teacher houses.	180,000,000.00	72,126,700.00	107,873,300.00	40
2	Rehabilitation of Offices and classrooms	90,862,200.00	45,000,000.00	45,862,200.00	49.5
3	Administration	45,431,100.00	22,715,550.00	22,715,550.00	50
4	Building of 55 classrooms	108,500,000.00	54,000,000.00	54,500,000.00	49.8
5	Making of 7,453 desks	74,538,000.00	0	74,538,000.00	0
6	Supervision District level	26,920,000.00	15,460,000.00	11,460,000.00	57.4
7	Training school committee	35,000,000.00	8,880,000.00	26,120,000.00	25.37
8	Building of 35 latrines	49,320,000.00	24,660,000.00	24,660,000.00	50
TOTAL		610,571,300.00	242,842,250.00	367,729,050.00	40

UNICEF (CSPD)

Budget Line	Activity	Budget Plan Shs.	Actual expenditure Shs	Variance Shs	Expenditure performance in %
1	Training 16 primary school teachers on importance of using iodated minerals (Program Jan - June 2005)	1,056,000.00	0	1,056,000.00	0
2	Vaccination of vitamin 'A' drops to children aged between six months and five years on African child day.	2,000,000.00	0	2,000,000.00	0
	TOTAL	3,056,000.00	0	3,056,000.00	0

Implication

Failure to achieve the desired level of project implementation within the stipulated period reflects weakness on the project implementation, hence implies the council inability to deliver the desired services within the District.

Recommendation

The council management should increase 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 the Mbinga District Council during exit meeting. Management of the Mbinga 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 extended to the audit team. It is my hope that such good working relationships will be extended during future audits.

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5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF MBINGA DISTRICT COUNCIL

