

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF SONGEA 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 Songea District Council for the year ended 30th June, 2005.

Council means - Songea 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 Songea District Council for the year ended 30th June, 2005. Audit findings arising from examination of accounting records, appraisal of the Songea District activities as well as evaluation of the internal Control system which require management attention and action are set out under paragraph 3 of this report.

1.2 Brief history of client establishment

Songea District Council was established under Section 5(1) of the Local Government Act No. 7 of 1982. Beside the Act, the Council operates within the frame of the following instruments: -

- Local Authority Financial Memorandum 1997
- Public Procurement 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 Songea 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

Source of fund of Songea District Council

Songea District Council income are obtained through

- Own sources (Taxes, fees, produce less and cess of property)
- Government Grants
- Donor Funds

During the year 2004/2005 the council received income from the following sources:-

Sources	Shs.
Produce cess	223,753,801.37
Property taxes	5,614,740.06
Compensation of taxes	109,390,084.00
Other general income	46,176,900.05
Government Grants	5,666,400,593.07
Donor funds	-
Total	6,051,336,118.55 =====

1.5 Management structure

The Songea 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 that 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 Section 34 (I) provides for establishment of Procurement Management Unit.

The Internal Control set up of Songea 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.384,935,525.43 from own sources against a revenue budget of Shs.285,340,968 reflecting an over collection of Shs.99,594,557.43 or 34.9% of the internal revenue budget. In addition, the council received grants amounting to Shs.5,666,400,593.07 from the government and 147,921,874 from Donors making a total revenue of Shs.6, 051,337,118.55 during the year.

Expenditure

The Council spent Shs.6,390,581,508.35 during the year 2004/05 against total Income of Shs.6,051,337,118.55 or 105% of total revenue, making over expenditure of Shs.339,244,389.8. However, performance against budget figures was not disclosed in the financial statements.

A comparison of the internal revenue of Shs.384,935,525.43 against expenditure of Shs.6,390,581,508.35 (net of depreciation) is only 6% 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 of Songea District Council.

1.9 Audit Objectives

The main objective of conducting the audit is to enable me to express a professional opinion on the statements of the Songea District 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 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 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 the Songea District Council are adequately safeguarded against losses from unauthorized use or disposition.
- To determine whether the management of the Songea District Council has taken adequate corrective action on the previous years audit recommendations.

1.10 Audit Scope

The audit of Songea 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 Songea District 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 Songea District Council 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.
- Interviews 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: The Regional Commissioner,
Ruvuma Region.

District Executive Director and Accounting Officer
Songea District Council

RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
SONGEA 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 Songea District Council shown as annexure I of this 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 District 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 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.

Opinion

In my opinion the financial statements fairly reflect, in all material respects, the financial position of Songea 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 No. 9 of 1982.

Matters of Emphasis.

1. Five (5) General earning receipts books were not produced for audit inspection when called for. Accountability of revenue collections made vide these receipt books could not be ascertained.
2. Payments of Shs.10,611,700 were made without being supported by expenditure particulars.
3. Payments of Shs.23,544,800 was made on the strength of proforma invoice. In the absence of suppliers invoice and delivery not, the receipt of items paid for could not be confirmed.
4. Shs.14,580,000 was paid as cost to the additional work to a contract. However, there was no application letter from the contract for additional works, and no approval from the District Council tender board for the additional costs.
5. Stores worth Shs.8,509,000 were not confirmed to have been taken on ledger charge and utilized.

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 Earning Receipt books not produced

Five (5) General revenue earning receipt books (GRRs) were not produced for audit inspection when called for as detailed below:-

S/No	GRR No.	Officer/Dept.
1.	202451 - 202500	Nhahokora
2.	205601 - 205660	WEO - Litisha
3.	210701 - 210750	WEO - Muhukuru
4.	200301 - 200350	WEO - Manabengo
5.	201051 - 201100	WEO - Mpitimba

Implication

Accountability of revenue collections made vide these receipt books could not be ascertained, hence this could lead to the loss of council's revenue without notice.

Recommendation

The relevant receipt books should be traced and produced for audit verification, and the internal control system should be strengthened.

3.1.2 Unsupported payments Shs.10,611,700

It was noted during audit inspection that payments totaling Shs.10,611,700 were not supported by relevant documents.

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 verification, and in future the management should strengthen the control system over payments.

3.1.3 Missing acknowledgement receipts Shs.7,807,333.40

Acknowledgement receipts in support of the amount paid to institutions amounting to Shs.7,807,333.40 were not attached to the vouchers.

Implication

Receipt of the money by the institutions can not be confirmed in the absence of acknowledgement receipts, hence this might lead to the loss of council money.

Recommendation

The management should confirm that acknowledgement receipts are traced and submitted for audit scrutiny, and in future management should ensure proper keeping of accountable documents.

3.1.4 Payments made on the strength of proforma invoice

Shs.23,544,800

Payment of Shs.23,544,800 were made on strength of proforma invoices viz:-

PV. No.	Account	Cheque	Amount Shs.	Payee	Items (details)
31/12	VI (Health)	046804 Of 14/12/04	15,490,700	Medical Store Dept. - Iringa	Purchase of health/Dispensaries equipments.
25/6	VI (Health)	060485 of 10/6/05	8,054,100	Medical Store Dept. - Iringa	1Pc of dental chair electrical hydroric
Total			23,544,800		

Implication

In the absence of Supplier's invoice and delivery notes, the receipt of items paid for could not be confirmed hence could lead to the loss of the council's funds.

Recommendation

The Council management should confirm receipt of the stores paid for advance and produce relevant invoices and delivery notes for audit verification. In future the Council's management should effect payments after delivery of goods or services.

3.1.5 Questionable payments of lunch allowances Shs.1,085,000

The amount totaling Shs.1,085,000 was paid to DED employees as lunch allowances while on duty after office hours. However the dates worked were not stated (disclosed) viz.

PV.No.	Cheque	Account	Amount Shs.	Payee
51/1	054957	I (G.F)	360,000	DED - Songea
92/1	0549981	"	300,000	DED - Songea
38/1	060135	I(G.F)	425,000	DED - Songea
Total			1,085,000	

Implication

In the absence of dates worked, the audit could not be certain whether the employees were on duty after office hours.

Recommendation

Management should strengthen internal control system on payment of allowances.

- 3.1.6 **Questionable payment of additional work cost Shs.14,580,000**
Road fund
 The Council paid Shs.14,580,000 to a Contractor M/S BECCO Ltd. Box 176 Songea being additional work costs for periodic maintenance of Namtumbo-Libango road as follows:

PV. No.	Cheque No.	Amount Shs.
4/11	03350 of 29/11/04	14,580,000

However audit scrutiny of the voucher disclosed the following irregularities:-

- (i) Application letter from the contractor for additional works was not made available, hence the reason for additional costs was not ascertained.
- (ii) The additional costs had not been approved by the District Council Tender Board.
- (iii) No variation order had been issued to support the payment for additional work.

Implication

In the absence of proper documents, it could not be confirmed whether payments to additional work 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.

- 3.1.7 **Stores not taken on ledger charge**
 Verification made in the stores ledgers revealed stores worth Shs.8,509,000 were not accounted for in the stores ledgers.

Implication

In the absence of up to date store records for the goods paid for may lead to loss of public fund.

Recommendation

The Council management should confirm accountability and utilization of the stores purchased by quoting ledger folio for audit verification.

- 3.1.8 **Outstanding Debtors Shs.18,416,708.40**
 Debtors amounting to Shs.18,416,708.40 were noted outstanding as at 30th June 2005.

Implication

Non clearance of the debtors affects the financial position and operations of the council

Recommendation

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

3.1.9 Current liability Shs.60,924,102.09

The Balance Sheet reflects creditors amounting to Shs.60,924,102.09

Implication

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

Recommendation

The council's management should ensure clearance of debts.

3.1.10 Bank reconciliation statements

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

Category	Amount Shs.	Remarks
Unpresented cheques	49,786,460.79	Not analysed
Deposit in Transit	28,799,083.40	Analysed
Total	78,585,544.19 =====	

Implication

Non clearance of the items implies inadequate internal control system. Hence may lead to the 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 Operational 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 agricultural sector as per annual implementation reports. However, the average projects performance reached at 93% for Road fund, 42% DADPS, and 77% for Health.

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

Budget Line	Activity	Budget Plan Shs.	Actual Expenditure Shs.	Variance Shs.	Expenditure Performance in %
1.	HEALTH Building of maternity home Namtumbo	20,000,000	18,000,000	2,000,000	90
	To Develop identification of children living on hard area/surroundings in 25 Wards.	53,609,400	34,500,000	19,109,400	64
	Total	73,609,400	52,500,000	21,109,400	77
2	ROAD FUND Periodic maintenance, routine maintenance, spot improvement and culverts construction	 151,290,126	 140,793,388.70	 10,496,737.30	 93
	Total	151,290,126	140,793,388.70	10,496,737.30	93
3.	DADPS Building of Irrigation Scheme and other infrastructure. Luhimba, Lusava and Kitanda	 20,267,874	 14,879,761	 5,388,113	 73
	Total	73,137,857	45,524,761	27,613,096	42
4.	Irrigation Msindo Nambau -Construction of road wiith the project.	17,869,983	-	17,869,983	0
	- Construction of Water tape at Nambau	32,000,000	30,645,000	1,355,000	96
	- Supervision and follow-up	3,000,000	-	3,000,000	0
	Total	73,137,857	45,524,761	27,613,096	42

Implication

Failure to achieve the desired level of project implementation within the stipulated period reflects weakness in the project implementation hence implies the council 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. Further the management should show how the unspent balances was accounted for in the year 2005/2006.

4.0 CONCLUSION

The detailed audit finding presented above have been communicated to the management of the Songea District Council during exit meeting. The management of the Songea 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.

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

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DODOMA.

Permanent Secretary and Paymaster General,
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5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF SONGEA DISTRICT COUNCIL

