

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



REPORT OF THE CONTROLLER AND AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF MUFINDI DISTRICT COUNCIL  
FOR THE FINANCIAL YEAR ENDED 30<sup>TH</sup> 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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## DEFINITION OF TERMS AND ABBREVIATIONS

CAG	Controller and Auditor General
DED	District Executive Director
GDP	Gross Domestic Product
LAFM	Local Authority Financial Memorandum
GOT	Government of Tanzania
GAAS	Generally Accepted accounting Standards
IFMS	Integrated Financial Management System
LGA	Local Government Authorities
OCAG	Office of the Controller and Auditor General
ISA	International Standard on Auditing
PMO-RALG	Prime Minister's Office - Regional Administration and Local Government
RAS	Regional Administrative Secretary
RS	Regional Secretariat
URT	The united Republic of Tanzania

Financial Statements means:

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

Council means - Mufindi 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 Mufindi District Council accounts for the year ended 30<sup>th</sup> June 2005. Audit findings arising from examination of accounting records, appraisal of activities, and evaluation of the internal control system which require Management attention and action, are set out under part three of this report.

### **1.2 Brief history of client establishment**

The Mufindi District Council was established in 1984 in terms of the provisions of section 8 and 9 of the Local Government (District Authorities) Act 1982. Beside 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 54 (1) of the Local Government (Urban Authorities) Act, and the Local Authority Financial Memorandum, the Mufindi District Council has the following operational objectives:

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

### **1.4 Financing**

The Council has two sources of funds; which are own source and external source. The internal source includes collection of Public funds through taxes, fees, licenses and charges. On the other hand, external source includes subsidies from central government as well as grants and loans from donor community. From these sources, total Income during the year was Shs.6,973,713,227 made up of Shs.694,774,242 from own sources, Shs.6,278,938,985 from government grants and other incomes.

## **1.5 Management Structure**

The Mufindi District Council operates under directives of the Full Council which is a supreme body for legislative responsibilities.

The Council is headed by the District Executive (DED) who is accountable to the Finance and Administration Committee and Full Council for its day-to-day operations. The Council is administered under the Chairmanship of the Council and the District Executive Director of the Council assisted by Heads of Departments.

The structure has positions of Internal Auditor and Legal Officer with responsibilities of advising the District Executive Director on matters falling under their jurisdiction.

The pictorial management structure of the District Council is shown as appendix II of 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, an organization chart of the Finance Department, division of responsibilities and periodic rotation of duties. Accountability of all areas of operations by the Director or his designated representative to check effectiveness of the control system is also mandatory. The Council is further required to employ its own Internal Auditor who reports directly to the Director. Similarly, the Public Procurement Act No.21 of 2004, Section 28 (1) requires the Council to establish a Tender Board and Sect.34 (1) provides for Establishment of Procurement Management Unit.

The Internal Control set up of Mufindi District Council complies with this order and Procurement Act, but is lacking an internal auditor and Legal officer. Weaknesses arising 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.694,774,242 from own sources against the internal revenue budget of Shs.618,458,879, reflecting an over collection of Shs.76,315,363 or 12.3% In addition the Council received grants amounting to Shs.6,278,938,985 making total revenue of Shs.6,973,713,227 during the year.

## **Expenditure**

The Council spent Shs.7,385,435,942 during the year against total income of Shs.6,973,713,227 or 5.6% of total revenue, resulting into an over expenditure of 411,722,715. However, performance against budget could not be assessed since budget figures were not disclosed in the financial statements.

A comparison of the internal revenue of Shs.694,774,242 against expenditure of Shs.7,385,435,942 is only 9.4% 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 provisions of Article 143 of the Constitution of the United Republic of Tanzania, and Section 45 of the Local Government Public Finance Act No.9 of 1982, (revised, 2000); the Controller and Auditor General is the auditor of all government revenues and expenditures, including the revenues and expenditures of this Municipal Council.

### **1.9 Audit objectives**

The main objective of carrying out the audit is to enable me to express an independent opinion on the financial statements of the District Council for the year ended 30<sup>th</sup> June, 2005 and in particular:-

- To determine whether transactions were executed in accordance with the financial regulations, and recorded properly in the books of account for easy preparation of the financial statements.
- To determine whether the revenues due have been collected and used to meet expenses as per approved budget and governing regulations.
- To ascertain whether all supporting documents, records and accounts have been properly kept in respect of all District Council activities.
- To verify whether goods and services bought were acquired through laid down procedures.
- To perform compliance tests to confirm whether management complied in all material respects with regulations.
- To evaluate whether the internal control procedures instituted are effective to provide relevant and reasonable information to the management, for implementing and monitoring activities and that the assets of the authority are adequately safeguarded against losses from unauthorized use, or disposition.

- To verify whether the Council has implemented audit recommendations made in previous audits.

#### **1.10 Audit Scope**

The audit was carried out in accordance with the International Standards on Auditing. The audit covered the evaluation of effectiveness of the financial accounting system and Internal Control over the activities of the District Council, examination and verification of the accompanying financial statements and other auditing procedures as was considered necessary for the purpose of forming an opinion on the financial statements. The audit was conducted on a test check basis; therefore, findings are confined to the extent that records and information requested for the purpose of the audit were made available to us.

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

#### **1.11 Audit Methodology**

In examining the financial statements together with the underlying records the following audit steps were followed;

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

- Hold entrance and exit meetings with the auditee to discuss the audit objectives and results of the audit, respectively.

#### **1.12 Presentation of audit findings**

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

The audit findings are divided into two parts. The first part comprises of 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 of the detailed findings on the gaps and shortfalls in the internal control system and compliance, which if rectified on time, will greatly improve the effectiveness of the internal control system applied.

## **2.0 AUDIT REPORT ON THE FINACIAL STATEMENTS**

**To:** Regional Commissioner,  
Iringa Region,

District Executive Director and Accounting Officer,  
Mufindi District Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF  
MUFINDI DISTRICT COUNCIL FOR THE YEAR ENDED ON 30<sup>TH</sup> JUNE 2005**

I have audited the Consolidated Balance Sheet, Consolidated Statement of Income and Expenditure, Consolidated Cash-flow Statement, and the related notes and schedules of Mufindi District Council attached as appendix 1 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 Mufindi 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 Mufindi District Council consistently applied and adequately disclosed, evaluating the overall financial statement presentation, and assessing the extent of compliance with the statutory requirements. I believe the audit provides a reasonable basis for my opinion.

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

### **Opinion**

In my opinion, the financial statements of the Mufindi District Council have been prepared based on the generally accepted accounting standards; and they fairly reflect, in all material respects, the results of its operations and cash-flows for the year ended on 30<sup>th</sup> June 2005 and the financial position as at the date.

Further to my opinion, the procedures for procurement of fuel, office stationery, vehicles, and other services were generally done in accordance with public Procurement act No. 21 of 2004 and the related Regulation

### **Matters of emphasis**

Without qualifying the audit opinion above attention is drawn to the following matters:

1. Seven market dues receipts missing Shs.300,000.
2. Unvouched and improperly vouched expenditure Shs.19,552,981.
3. Stores not accounted for Shs.17,339,251 not delivered Shs.15,890,300.

Dr. Frank Mosses Hiza Mhilu

**Ag. CONTROLLER AND AUDITOR GENERAL**

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Office of the Controller and Auditor General  
The National Audit Office  
Dar es Salaam  
31 March 2006

### 3.0 AUDIT FINDINGS AND RECOMMENDATIONS

#### 3.1 Follow up of previous year's Audit findings

- (i) **Debtors outstanding Shs.129,237,453**  
Debtors amounting to Shs.22,755,569 were still outstanding at the time auditing.
- (ii) **Liabilities Shs.91,097,841**  
Liabilities amounting to Shs.53,508,095 have been settled leaving an outstanding balance of Shs.37,589,746.

#### **Recommendation**

Effort should be increased to clear the above outstanding balances.

#### 3.2 Current year's audit findings

- (i) **Revenue earning receipt books not produced**  
7 Market dues receipt books worth Shs.300,000 were not made available to audit.

#### **Implication**

Revenue collected vide these receipt books could not therefore be confirmed to have been properly received and accounted for.

#### **Recommendation**

The management should confirm the accountability of the missing receipt books or produce them for audit scrutiny.

- (ii) **Unvouched and improperly vouched expenditure Shs.19,552,981**

Examination of payment vouchers revealed the following unvouched and improperly vouched expenditure.

<b>Nature of irregularity</b>	<b>Amount involved Shs.</b>
Missing supporting documents	8,725,662
Payments not supported by original signed paylists	9,461,719
Missing payment vouchers	453,000
Payment based on proforma invoice	912,600
<b>Total</b>	<b>19,552,981</b>

#### **Implication**

The correctness of these payments could not be established.

#### **Recommendation**

The missing documents should be produced for auditing.

**(iii) Stores not accounted for Shs.17,339,251**

Fuel worth Shs.17,339,251 purchased by the Council during the period from July 2004 to June 2005, was not recorded in the relevant store ledgers.

**Implication**

Receipt and utilization of the fuel could not be confirmed by audit

**Recommendation**

The management should confirm receipt of the fuel and also give utilization account.

**(iv) Imprests omitted from the imprests register Shs.4,142,400**

3 Imprests amounting to Shs.4,142,400 paid to 3 officers were not recorded in the imprests register.

**Implication**

Follow up of retirement of these imprests could not easily be done.

**Recommendation**

The management should show how the above imprests were cleared.

**(v) Overpayment to a supplier Shs.1,917,940**

A sum of Shs.2,039,940 was paid to a private garage in July 2004 for servicing motor vehicle No. SM 2866. However, the attached invoices Nos. 5003 and 4991 dated 8/9/04 amounted to Shs.449,000 only. An amount of Shs.1,590,940. was therefore overpaid.

**Implication**

Extra cost to the Council.

**Recommendation**

The management should recover the excess amount paid.

**(vi) Stores paid for but not delivered Shs.15,870,300**

Stores worth Shs.15,870,300 purchased and paid for were still not supplied at the time of audit.

**Implication**

Controls over stores are inadequate.

**Recommendation**

The supplier should deliver the goods or refund the amount paid.

**(vii) Different figures for cash balance**

The cash balance figure of Shs.373,969,962 reflected in the consolidated balance sheet did not agree with that of Shs.382,264,760 shown in the bank reconciliation statement.

**Implication**

Understatement of the total assets figure in the balance sheet by Shs.8,294,798.

**Recommendation**

The above two figures need to be reconciled and adjusted accordingly.

**(viii) Outstanding balances in the deposit account Shs.151,233,500**

The balance sheet revealed the total deposit balance of Shs.151,233,500. However, the deposit register was not being maintained.

**Implication**

Poor control of deposits, which could lead to overdrawn accounts.

**Recommendation**

The management should introduce deposit register for proper control of deposits.

**(ix) Outstanding imprests Shs.14,213,854**

The balance sheet revealed outstanding imprests amounting to Shs.14,213,854 as at the end of the accounting period 30<sup>th</sup> June 2005. However, the schedules submitted in support of these outstanding imprests did not indicate recovery or retirement action taken.

**Implication**

Misused of money paid as imprest.

**Recommendation**

The management should ensure that all outstanding imprests are either retired or recovered.

**(x) Stale cheques Shs.9,897,481**

Stale cheques amounting to Shs.9,897,481 which were issued during the period July-December 2004, were incorrectly included in the detailed schedule of unpresented cheques in the bank reconciliation statement, instead of making the necessary adjustment in the cash book and ledger accounts before the closure of the accounts for the year 2004/05.

**Implication**

Delay in adjusting books of accounts so that it could reveal a true picture of the accounts

## Recommendation

Actions should be taken to effect the necessary adjustment.

### (xi) Outstanding debtors and creditors

The financial statements disclosed the existence of outstanding debtors amounting to Shs.32,888,523 and creditors amounting to Shs.28,002,222 as shown below:

#### Debtors

Category	Amount (Shs.)
United timber	5,609,816.00
Sao hill timber	1,248,382.00
Escarpment forest	4,159,081.00
SPM Mgololo	12,445,123.00
Meena Wood	1,547,121.00
House rent	7,679,000.00
H. Kangesa	200,000.00
<b>Total</b>	<b>32,888,523.00</b>

#### Creditors

Category	Amount (Shs)
RAS-Iringa	2,400,000.00
MET	17,527,980.00
Pension	5,913,562.00
TTCL	1,135,680.00
Highland Station	1,025,000.00
<b>Total</b>	<b>28,002,222.00</b>

The accounts did not include details of the individual debtors and creditors with age analysis. Moreover, the Council did not state its policy on debtors and creditors and no provision for Bad and Doubtful debts were made.

#### Implication

The Council is not effective in collecting the outstanding Debts/Revenue. This could result into Council's failure of implementing other planned activities. If debtors were recovered, the Council could meet its liabilities promptly. Refer to the ratio analysis of the above items:

Ratio:  $\frac{\text{Debtors}}{\text{Creditors}} = \frac{32,888,523}{28,002,222} = 1.17$  times  
Creditors 28,002,222= 117%

The result means that Council's debts if collected promptly could pay all Council liabilities and have a cash balance equal to 17% of total creditors.

### **Recommendation**

The management is advised to improve debts collection efforts and clear the outstanding creditors.

#### **4.0 CONCLUSION**

The detailed audit findings presented above have been communicated to the management of the Mufindi District Council during exit meeting. The Management of Mufindi District Council has promised to take appropriate action with a view to rectify the situation. We shall appreciate to receive formally the action taken in this respect.

Lastly I would like to express my appreciation for the co-operation given to the audit team. It is my hope that such good working relationship will be extended during future audits.

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

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## 5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

ORGANIZATION STRUCTURE OF MUFINDI DISTRICT COUNCIL

