

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



REPORT OF THE CONTROLLER AND AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF MAKETE DISTRICT COUNCIL
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2005

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March, 2006

AR/LG/026/2005

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

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

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

Our Vision

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

Our Mission

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

Therefore, our Core Values are

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

We do this by

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

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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 Makete District Council for the year ended 30th June, 2005.

Council means - Makete 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 Makete District Council accounts 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 Makete District Council was established in February 2000 vide Government Notice No. 319A under the Local Government (Urban Authorities) (Establishment of Municipalities) Order 1999.

1.3 Operational objectives

According to Section 54 (1) of the Local Government (Urban Authorities) Act, and the Local Authority Financial Memorandum, the Makete 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 is partly self financed by its revenue collection and largely has continued to receive grants and donations from the Government and institutions as follows:

Source	Amount Shs.	%
Revenue collection from own sources	219,391,560	9
Government grants and Donors	2,338,105,228	91
TOTAL	2,557,496,788	

1.5 Management Structure

The Makete 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 Director (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 Chairman 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 District Council has established an internal audit unit and it has also established a Tender Board in compliance to this requirement.

1.7 Financial Performance Issues

Revenue

The District Council collected an amount of Shs.219,391,560 from own sources. In addition, the Council received grants amounting to Shs.2,338,105,228 making total revenue of Shs.2,557,496,788 during the year.

Expenditure

The Council spent Shs.2,540,744,655 during the year against total income of Shs.2,557,496,788 or 99% of total revenue, resulting into a surplus of Shs.10,752,133. 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.219,391,560 against expenditure of Shs.2,540,744,655 (net of depreciation) is only 9% implying that the 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 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 District 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 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 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 FINANCIAL STATEMENTS

To: Regional Commissioner,
Iringa Region,

District Executive Director and Accounting Officer,
Makete District Council.

RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF MAKETE 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 Makete 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 Makete 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 Makete 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.

Qualification

In my opinion, the financial statements fairly reflect, in all material respects, the financial position of Makete 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.

Further to my opinion, the construction of teacher's houses, classrooms, latrines, bridges, maintenance of roads, procurement of desks, stationery and other supplies were generally done in accordance with the Public Procurement Act No. 21 of 2004 and the related Regulations.

Matters of emphasis

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

1. Payment vouchers for Shs.17,156,000 were not produced for inspection.
2. Goods worth Shs.5,111,200 purchased from various sources were not recorded in stores ledgers.
3. Advances and imprest balances amounting to Shs.17,204,201 were outstanding as at the reporting date.
4. Receipts in the Council cash books amounting to Shs.80,502,571.20 had not been credited to the appropriate bank account

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

Dr.Frank Mosses Hiza Mhilo

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 Follow up of previous year's Audit findings

I am pleased to note that the District Council has appropriately acted upon all of the matters raised in my previous years audit reports and the issues have now been cleared.

3.1.2 Missing payment vouchers Shs.17,794,018

Payment vouchers for Shs.17,156,000 were not produced for inspection

A/C	PV.No.	Payee	Amount (Shs)
2/5	59/2/05	Edith Kagomba	1,600,000.00
2/5	55/2/05	-	180,000.00
2/5	7/12/04	DED Makete	1,376,000.00
2/5	5/10/04	Telephone Bill	638,018.00
2/5	41/12/04	DED Makete	14,000,000.00
			17,794,018.00

Implication

- In the absence of payment vouchers the authenticity of the expenditure could not be confirmed
- Inadequate control over records keeping.

Recommendation

The Council management should ensure the availability of the missing vouchers.

3.1.3 Items of stores not recorded in stores ledgers Shs.5,111,200.00

Stores involving Shs.5,111,200.00 purchased by the Council during the period under review were found to have not been recorded in the relevant stores ledgers/registers as a result, we could not ascertain actual delivery of these items.

PV/LPO/JV	A/C	Item	Quality	Rate	Amount
7/6/05	2/2	Diesel	4000LTS	1,300	520,000.00
6/6/05	2/2	Diesel	200LTS	1,300	260,000.00
5/6/05	2/2	Diesel	150LTS	1,200	180,000.00
31/4/05	2/5	Primary ENG. Book 3 (P)	270PCS	1,200	783,000.00
30/10/05	2/1	Diesel	100PCS	2,900	151,200.00
76/11/0	2/7	Diesel	600lts	1,260	720,000.00
5/2/05	2/20	Diesel	3sets	1,200	348,000.00
7/120/04	2/6	Diesel	694lts	116,000	694,000.00
13/6/05	2/24	Diesel	500lts	1,000	650,000.00
5/5/2005	2/2	Diesel	150ltsoil 5 lt	1,300	190,000.00
18/3/05	2/24	Petrol	350lts	1,200 oil	
				2,000	190,000.00
			150lts	1,300)	615,000.00
		Total			5,111,200.00

Implication

This indicates poor control over purchases and goods receiving procedures.

Recommendation

The management should confirm delivery and accountability of the stores purchased.

3.1.4 Unsupported payments Shs.2,438,118.00

Payments amounting to Shs.2,438,118.00 were not adequately supported by relevant documents. The missing supporting documents included acknowledgement receipts from various institutions. In the absence of such receipts, it could not be confirmed whether the payments were proper charges to Council funds.

A/C	PV	Payee	Amount (Shs)
2/3	16/5/05	Geresiana Mbilinyi	719,400
2/3	15/5/05	Mahua stationery	407,00.00
2/3	8/5/05	-	373,700.00
2/5	41/11/04	DED-Iringa	300,000.00
2/5	5/10/04	TTCL	638,018.00
		Total	2,438,118

Implication

In the absence of proper supporting documents authenticity of the expenditure could not be confirmed.

3.1.4 Outstanding advances and imprest balances Shs.17,204,201

The uncleared balance of advances and imprests reflected in the balance sheet was Shs.17,204,201.00 including advances Shs.817,400.00 and imprests Shs.16,386,801.00. We have not been given evidence to confirm clearance of these outstanding balances.

Implication

- Poor control over advances and imprests.
- Outstanding imprests and advances tie up Council funds and limit implementation of other activities.

Recommendation

The Council management should take necessary action to have these balances cleared.

3.1.5 Sundry creditors Shs.54,249,710.00.00 as follows

Category	Amount (Shs.)
LAPF	9,088,807.00
Local Government loans Board	4,610,925.00
Njombe Mechanical repair	3,418,264.00
Unclaimed salaries	5,295,955.00
Deposit General	31,835,759.00
Total	54,249,710.00

Implication

Unpaid creditors might attract payment of unnecessary and avoidable interest charges.

Recommendation

The Council should with hold payment to creditors only within a reasonable and agreed credit period.

3.1.6 Receipt in cash books not in bank statement Shs.80,502,571.20

a review of the bank reconciliation statements revealed two non reconciling items as follows:

Department/account	Item	Amount
Works-A/C No.6502000004	Receipts in cash book not in bank statements	11,679,247.90
Education - A/C No. 6502000005	-"-	68,823,323.30
	Total	80,502,571.20

Implication

Funds collected may not be credited to the appropriate bank account

Recommendation

The management of the Council should make follow up of the outstanding and non reconciling items for clearance.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Makete District Council during exit meeting. The Management of Makete 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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Permanent Secretary and Paymaster General,
Ministry of Finance,
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5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

ORGANIZATION STRUCTURE OF MAKETE MUNICIPAL COUNCIL

