

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF NJOMBE DISTRICT COUNCIL
FOR THE 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

- Contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- Helping to improve the quality of public services by supporting innovation on the use of public resources;
- Providing technical advice to our clients on operational gaps in their operating systems;
- Systematically involve our clients in the audit process and audit cycles; and
- 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
DED	District Executive Director
GAAS	Generally Accepted Accounting Standards
GDP	Gross Domestic Product
GOT	Government of Tanzania
IG	Investment Grant
ISA	International Standard on Auditing
LAAM	Local Authority Accounting Manual
LAFM	Local Authority Financial Memorandum
LGA	Local Government Authorities
MoF	Ministry of Finance
MSD	Medical Store Department
OCAG	Office of the Controller and Auditor General
PMO-RALG	Prime Minister's Office - Regional Administration and Local Government
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 Njombe District Council for the year ended 30th June, 2005.

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

1.2 Brief history of client establishment

The Njombe 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 work of the following instruction:

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

1.3 Operational objectives

According to section III (1) of the Local Government (District Authorities) Act, and the Local Authority financial Memorandum, the Njombe 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

Njombe District Council is partly self financed by its revenue collection and largely has continued to receive grants and donations from the Government and Institution as follows: -

Sources	Amount
Revenue collections (own source)	965,527,381
Government Grants	6,620,640,541
Donors Grants	260,744,872
Total revenue	7,792,490,529

1.5 Management structure

The District Executive Director (DED) is the Accounting Officer of the Council under the Local Government Finance act No.9 of 1982 section 33 (4). He is assisted by District Treasurer and Heads of Department.

The main responsibilities of District Executive Director are as follows:

- To ensure existence of adequate formal and satisfactory financial management in the Council.
- Securing compliance by the operating departments with the prescribed financial procedures.
- Receiving the internal and external audit reports after consultation with relevant records of department ensuring appropriate recommendation are acted upon.
- To make assurance that Councilors are kept informed of the financial officers of the Council.
- To ensure that no expenditure is committed or incurred unless it is within the legal powers of the Council and at all times they should secure the best value for money for expenditure incurred.

The pictorial management structure of the District Council is shown as annexure II to this report.

1.6 Brief description of internal control system

Internal audit

Njombe District Council has established the unit of Internal audit and audit committee to examine and evaluate the adequacy and effectiveness of internal control in the Council

The Internal Control set up of Njombe 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.965,527,380.78 from own sources against the internal revenue budget of Shs.784,750,906 reflecting over collection of Shs.180,776,474.78. or 123%. The large difference between the actual revenue collection and estimates was not explained but would appear to be a result of unrealistic revenue budget. In addition the Council received grants amounting to Shs.6,826,963,148.11 making total revenue of Shs.7,792,490,528.89 during the year.

Expenditure

The Council spent Shs.7,950,246,343.35 during the year against total income of Shs.7,815,490,528.89 or 101.% of total revenue, reflecting over expenditure of Shs.134,755,814.46 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.965,527,380.78 against expenditure of Shs.7,950,246,343.34. (net of depreciation) is only 12% 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 30(I) of the Local Government Public Finance Act No.6 of 2001, the Controlled Auditors General is the appointed Auditor of all government revenue and expenditure including the Iringa 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 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 the 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 search specifically 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 District 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 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 ON THE FINANCIAL STATEMENTS

To: The Regional Commissioner,
Iringa Region.

District Executive Director and Accounting Officer,
Njombe District Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
NJOMBE DISTRICT COUNCIL FOR THE YEAR ENDED ON 30TH JUNE
2005**

I have audited the Consolidated Balance Sheet, Consolidated Statement of Income and Expenditure, Consolidated Cashflow Statement and the related notes and schedules of the Njombe 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 Njombe 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 regard 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 Njombe 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, except for the matters pointed out below, the financial statements of the Secretariat comply with the generally accepted accounting standards; and that they fairly reflect, in all material respects, the results of its operations and cash flows for the year ended on 30th June 2005 and the financial position as at that date.

Matters requiring rectification:

1. Missing Bills of Quantities Shs.7,641,200.
2. Outstanding debtors Shs.69,188,251.31.
3. Outstanding creditors Shs.14,138,499.15.
4. Missing supporting schedules of fixed assets Shs.3,191,629,564.71
5. Missing evidence of expenditure Shs.804,060,029.70

Details of these matters are given under para 3 of this report

Without Prejudice to the qualified opinion given above, the procurement of office supplies and services were generally done in accordance with the requirements of the Public Procurement Act No.21 of 2004 and the related Regulations.

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 RECOMMENATIONS

3.1 Audit findings and recommendation

3.2 Project activities not supported by bills of quantity reports Shs.7,641,200.00

A/C	PV. No.	payee	Amount Shs.	Remarks
DADS	1/3/2005	E. I Changu	1,045,000	Construction of village market at Kidegembwe.
"	15/2/2005	D.H. Mwelelwa	1,024,000	Rehabilitation of Wanging'ombe livestock market.
"	13/2/2005	S.M. Mbilinyi	1,040,000	Construction of bridge and culvert at M/Kali vill.
"	12/3/2005	E.O. Chanafi	1,652,200	Construction of dipping facility at Ikuna village.
"	3/3/2005	G.C.Mgoda	1,944,500	Repair and rehabilitation of cattle dip.
"	15/3/2005	N.Y. Mohamedi	935,500	Rehabilitation of bridge at Ibumila.
		Total	7,641,200	

Implication

In the absence of progress reports of bill of quantities, the actual cost of the projects could not be established.

Recommendation

Proper costs and information relating to the projects mentioned above could not be established.

3.3 Outstanding debtors Shs.69,188,251.00

The balance sheet for the year under review (2004/2005) disclosed revenue debtors amounting to Shs.69,188,251.31 as follows: -

Type	Balance Shs.
Imprest	58,028,271.00
Salary advances	356,910.00
Loans	8,100,000.00
Total	691,882,511.00

Implication

- There is huge increase of the debtors from Shs.11,839,214.00 during the previous year to current debtors of Shs.691,882,511.00. Indicate revenue not collected hence depressing the Council in meeting.
- It desired work plans and operations.

Recommendation

The Council management should ensure that outstanding balances of debtors are recovered and control measures taken on an increase in debtors list.

3.4 Outstanding creditors Shs.14,138,499.15

A review of sundry creditors as reflected in the balance sheet as at 30th June 2005 disclosed outstanding creditors amounting to Shs.14,138,499. However, no recovery had been made as at the time of audit (February,2006).

Implication

Failure to make clearance of the outstanding creditors could result into huge accumulation in the Council’s books of accounts.

Recommendation

The Council management should ensure that the balances due to creditors are cleared and results communicated for audit verification.

3.5 Fixed assets not supported by schedules shs.3,191,629,564.71

The Consolidated balance sheet as at 30th June 2005 disclosed various fixed assets valued Shs.3,191,629,564.71 However, no supporting schedules were made available for audit verification as follows:

Buildings	2,972,587,311.66
Heavy machine	46,956,434.60
Motor vehicles	172,071,818.45
Chipping machine	14,000
Total	<u>3,191,629,564.70</u>

Implication

Non-submission of fixed asset supporting schedules could indicate non-existence of the assets and laxity in control over recording of Council’s assets.

Recommendation

The Council management should submit the fixed asset schedules for audit scrutiny.

3.6 Missing schedule of payment Shs.773,648,156.70

The Consolidated statement of income and expenditure for the year ended 30th June 2005 disclosed funds amounting to Shs.773,648,156.70 spent as administration and General. However, the schedule to support the authenticity of the payments could not be produced for audit verification.

Implication

Non- availability of schedules to support the above expenditure could lead to laxity in control over authorization and recording of Council expenditures.

Recommendation

The Council management should ensure that the schedule to support the above expenditure are available and results communicated for audit verification.

3.7 Missing evidence of expenditure Shs.804,060,029.70

The Consolidated statement of income and expenditure (Revenue Accounts) as at 30th June 2005 disclosed expenditure classified as other expenditure.

However, no evidence of this expenditure classified as other expenditure was made available.

Implication

Non-submission of evidence of the above expenditures could lead to laxity in control of Council funds.

Recommendation

The Council should ensure that all expenditures are fully supported by evidence (schedules) and proper authorization by Council management.

3.8 Payments made without proper documentation Shs.2,267,540,195

We have noted that during the year under review (2004/2005) payment amounting to Shs.2,267,540,195 were made without proper documentation as follows:

PV. No.	payee	Amount	Remarks
6/8/2004	M/S Electric enterprises	2,273,000	Missing acknowledging receipt
12/8/2004	M/s Mlando workshop building and civil contraction	1,200,000	"
38/9/2004	Bilali Investment general supply	2,476,000	"
38/7/2004	The J.R.General supplies (T) Ltd	1,847,144	"
113/12/2004	New page general enterprises	3,410,500	"
79/2/2005	Motor vehicle insurance	3,736,000	"
38/2/2005	2% with holding tax	1,000,000	"
113/6/2005	M/S Tanesco Njombe	2,248,576,751	"
2/10/2004	Systress (T) Ltd	2,020,800	"
7/01/2005	RC. Constitute for Wangana	1,000,000	"
		2,267,540,195	

Implication

Laxity in documentation of Council funds and follow-up of acknowledging receipt from receipts

Recommendation

The Council management should obtain acknowledging receipts from recipients and results communicated fro audit verification.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of Njombe District Council during exit meeting. The Management of Njombe 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,
Box 9111,
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5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF NJOMBE DISTRICT COUNCIL

