

**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL**

**ON THE FINANCIAL STATEMENTS OF IRINGA DISTRICT COUNCIL  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2005**

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March, 2006

**AR/LG/023/2005**

## 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**

- 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 Iringa District Council for the year ended 30<sup>th</sup> June, 2005.

Council means - Iringa 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 Iringa District Council 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 Iringa 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 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 III (1) of the Local Government (District Authorities) Act, and the Local Authority financial Memorandum, the Iringa 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

Iringa 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)	263,579,099.60
Government Grants	8,890,283,624.45
Donors Grants	1,647,749,787.99
<b>Total revenue</b>	<b>10,801,612,512</b>

## 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

Iringa 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 Iringa 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.263,579,100 from own sources against the internal revenue budget of Shs.668,595,425.31 reflecting a collection shortfall of Shs.405,016,325 or 71%. 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.11,188,844,806 making total income of Shs.11,452,423,906 during the year.

## **Expenditure**

The Council spent Shs.11,659,465,545 during the year against total income of Shs.11,452,423,906 or 102% of total revenue, reflecting over expenditure t amount of Shs207,041,639.

A comparison of the internal revenue of Shs.263,579,100 against expenditure of Shs.11,659,465,545 (net of depreciation) is only 2.3% 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 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 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,  
Iringa District Council.

### RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF IRINGA 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 Iringa 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 Iringa 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 Iringa 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 Council 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 30<sup>th</sup> June 2005 and the financial position as at that date.

### **Matters requiring rectification:**

There are long outstanding observations relating to the financial year 2003/04 which have not been replied.

<b>F/Y</b>	<b>Description</b>	<b>Amount outstanding (Shs.)</b>
2003/04	Payment not supported by proper documentation	74,002,935

### **Matters arising from 2004/05 annual accounts**

	<b>Shs</b>
• Outstanding advances and imprests	32,638,568.80
• Outstanding creditors	160,316,698
• Outstanding debtors	43,156,192
• Unpaid loan	35,504,460
• Missing evidence of expenditure	53,478,585

Uncleared items in bank reconciliation statement (details are given in para 3.8)

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**

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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 RECOMMENATIONS

#### 3.1 Status of the previous audit recommendations

During the course of the current year's audit we reviewed implementation of the previous year's report. We have noted with satisfaction that the Council made progress in implementing audit recommendations out of which all directives were implemented, leaving one directive unattended as shown below:

Fly	Description	Amount outstanding (Shs)
2003/2004	Payments not supported by proper documentation	74,002,935

#### Implication

Laxity in implementation of audit recommendations.

#### Recommendation

The management attention is drawn to the advantages of acting promptly on audit recommendations with a view to securing Public accountability by arresting financial and accounting control deficiencies.

#### 3.2 Position of audit queries

A test check of accounts and related records of the Council for the year under review resulted in issuance of 9 audit queries being issued the more significant of which form the basis of this report. As at this reporting date (February 2006) 6 queries had been replied satisfactorily and closed. In addition 2 audit queries relating to financial year 2003/2004 are still outstanding.

F/Y	Queries Issued	Queries replied	Outstanding queries
2003/2004	8	6	2
2003/2004	9	5	4
<b>Total</b>	<b>17</b>	<b>11</b>	<b>6</b>

##### 3.2.1 Current year's audit findings

#### 3.3 Outstanding advances and imprests Shs.32,638,568.81

The final accounts for the year under review reflected outstanding advances and imprests totalling Shs.32,638,568.81 as follows:

S/N	Description	Amount	
1.	General fund account	2,318,100	
2.	Development account	20,000	
3.	Education account	237,020	
4.	Health account	17,020,538.56	
5.	Chief account	2,909,900	
6.	Water account	574,300	
7.	NAEP account	1,200,000	
8.	DADS account	806,100	
9.	PFM account	503,000	
10.	Road fund account	138,000	
11.	DRDP account	600	
12.	VTTTP account	489,800	
13.	Children labour	15,500	
14.	CSPD-JNSP account	53,475	
15.	PADEP capacity	83,000	
		<b>26,369,333</b>	<b>26,369,333</b>

#### SALARY ADVANCES

1.	General fund account	1,111,900	
2.	Education account	3,539,398	
3.	Health account	1,530,697.55	
		87,207	<b>6,269,203.25</b>
			<b>32,638,568.81</b>

#### Implication

The Council's advances and imprests are not recovered as per the requirements of financial Regulation.

#### Recommendation

The Council management should make effort to recover the outstanding advances and imprests from holders and communicate the findings for verification.

#### 3.4 Outstanding creditors Shs.160,316,698.65

A review of the Balance Sheet as at 30<sup>th</sup> June, 2005 revealed outstanding creditors amounting to Shs.160,316,698.65 as follows: -

S/N	Description	Amount Shs.
1.	General fund	60,475,159.45
2.	Development account	893,000
3.	Misc. deposit	79,964,226.37
4.	Education account	105,347.70
5.	Health account	1,627,295.38
6.	CHF account	70,713
7.	Agriculture/livestock	3,151,204.25
8.	ASPS seeds	100
9.	Women youth	14,179,512
	<b>Total</b>	<b>160,316,598.65</b>

**Implication**

The Council's inability to clear its creditors could lead the Council to lose its credit worthiness

**Recommendation**

The Council management should ensure that all outstanding creditors are settled forthwith in order to maintain its credit worthiness.

**3.5 Outstanding debtors Shs.32,064,822**

The Local Authority Finance Memorandum (1997) Order 120 stipulates that "It shall be the duty of Treasurer to make adequate financial and accounting arrangements to ensure proper recording of all monies due to the Council and the proper collection, custody, and banking of such monies.

The Balance Sheet as at 30<sup>th</sup> June 2005 disclosed the figure of outstanding debtors amounting to Shs.32,064,822. However, as at the time of writing this report (February, 2006), no evidence of recovery has since been made.

**Implication**

Laxity in collecting debts from debtors could the Council fail to meet its obligations.

**Audit recommendation**

The Council management should make efforts to collect amount due from debtors and results communicated to audit.

**3.6 Outstanding loan Shs.35,504,460**

The Balance Sheet as at 30<sup>th</sup> June 2005 disclosed the figure of outstanding loan issued to Elimu department amounting to Shs.35,504,460 as follows:

S/N	Description	Amount (Shs)
1.	General fund	925,600
	Education account	34,578,860
	Total	35,504,460

**Implication**

Non-recovery of outstanding loans could make the Council fail to discharge its obligations.

**Recommendation**

The Council management should ensure recovery of the outstanding loans and recovery particulars produced for audit verifications.

### 3.7 Missing evidence of expenditure of capital fund Shs.53,478,585

During the year under review the Council donated a sum of Shs.53,478,585 from capital fund as follows:

Description	Amount (Shs)
Council contribution	50,978,585
Community contribution	2,500,000
<b>Total</b>	<b>53,478,585</b>

However, evidence of expenditure of sums stated above and acknowledging receipts from the recipient could not be made available for audit verification.

#### Implication

Laxity in documentation of Council's expenditure.

#### Recommendation

The Council management should produce evidence of expenditure of Shs.53,478,585 or produce statement of expenditure and acknowledging receipts from the recipients.

### 3.8 Uncleared Bank reconciliation items as at 30<sup>th</sup> June 2005

The Bank reconciliation statements as at 30<sup>th</sup> June 2005 reflected uncleared items as follows: -

S/N	Title of accounts	Description	Amount Shs.
1.	General fund	<ul style="list-style-type: none"><li>Receipt in cash book not in bank statement</li><li>Unpresented cheques</li><li>Receipt in bank statement not in cash</li></ul>	8,556,992.43 19,897,364.68 12,120,404.15
2.	Development account	<ul style="list-style-type: none"><li>Receipt in cash book not in bank statement</li></ul>	3,200,000
3.	Local government capital grants	<ul style="list-style-type: none"><li>Unpresented cheques</li></ul>	17,236,249
4.	Account No.4	<ul style="list-style-type: none"><li>Unpresented cheques</li></ul>	1,658,044.17
5.	Education	<ul style="list-style-type: none"><li>Receipt in cash book not in bank statement</li><li>Payment in bak statement not in cashbook</li><li>Unpresented cheques</li></ul>	20,670,344 21,584 106,529,379.84
6.	Health account No.6	<ul style="list-style-type: none"><li>Receipt in cash book not in cash book</li><li>Receipt in bank statement not in cash book</li></ul>	43,401,716.70 783,834
7.	Water account NO.7	<ul style="list-style-type: none"><li>Payment in bank cash book</li><li>Unpresented cheques</li></ul>	901,268 846,032.52
8.	Road Fund	<ul style="list-style-type: none"><li>Unpresented cheques</li><li>Stale cheques</li></ul>	21,677,818 90,000
9.	NAEP II	<ul style="list-style-type: none"><li>Receipts in cash book not in bank</li></ul>	7,414,334

		statements	
		• Unpresented cheques	81,533,000
10.	VTTT Fund account	Receipt in cas book not in bank statement	30,000
11.	Women and Youth	Unpresented cheques	1,000,000
12.	Community Health	• Unpresent cheques • Receipt cash book not in bank statement	329,277 1,472,475
13.	Child labour	• Unpresented cheque	1,600,000
14.	DADS accounts	• Unpresented cheque	15,152,725.26

### Implication

Clearing of the above outstanding could not be established.

### Recommendation

Management of the Council should ensure that all outstanding items are cleared and results communicated for audit verification.

## 4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of Iringa District Council during exit meeting. The Management of Iringa 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 Iringa District Council - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF IRINGA DISTRICT COUNCIL

