

**THE UNITED REPUBLIC OF TANZANIA**  
**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL  
ON THE FINANCIAL STATEMENTS OF CHUNYA 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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## Table of Contents

|   | Page  |
|---|-------|
| 1.0 Background information to the Audit                                   | 5     |
| 1.1 Introduction  | 5     |
| 1.2 Brief history of the client establishment                             | 5     |
| 1.3 Operational objectives  | 5     |
| 1.4 Financing   | 5     |
| 1.5 Brief description of internal control system                          | 6     |
| 1.6 Management structure  | 6     |
| 1.7 Financial Performance Issues  | 7     |
| 1.8 Audit mandate   | 7     |
| 1.9 Audit Objectives  | 7     |
| 1.10 Audit methodology  | 8     |
| 1.11 Audit Scope  | 8-9   |
| 1.12 Presentation of audit findings                                       | 9     |
| 2.0 Audit report and financial statements                                 | 10-12 |
| 3.0 Audit findings and recommendations                                    | 13    |
| 3.2 Current audit findings  | 13    |
| 4.0 Conclusion  | 13-14 |
| 5.0 Annexure  | 15    |
| Financial Statements and notes to the financial statement -<br>annexure I |       |
| Organization structure of Chunya District Council - annexure II           |       |

## ABBREVIATIONS AND DEFINITION OF TERMS

Financial Statements means:

The Consolidate Balance Sheet, Consolidated statement of Income and Expenditure, Consolidated Cash flow statement, Notes and related schedules of Chunya District Council for the period ended 30<sup>th</sup> June 2005.

Council means: Chunya District Council, both as Councilors as well as an operating entity.

|         |   |
|---------|---|
| CAG     | Controller and Auditor General                              |
| DED     | District Executive Director                                 |
| INTOSAI | International Organization of Supreme Auditing Institutions |
| LAPF    | Local Authority Provident Fund                              |
| ISA     | International Standards on Auditing                         |
| PV      | Payment Voucher   |

## 1.0 BACKGROUND INFORMATION TO THE AUDIT

### 1.1 Introduction

I have completed the audit of Chunya District Council for the year ended 30<sup>th</sup> June 2005. Audit findings arising from examination of accounting records appraisal of Chunya District Council activities as well as evaluation of the Internal Control system which require management attention and action are set out under paragraph 3 of this report.

### 1.2 Brief history of client establishment

The Chunya District Council was established under section 5 (i) of the Local Government Act No.7 of 1982. Beside the Act, the council operates within the framework of the following instruments:

- Local Authority Financial Memorandum 1977
- Public Finance Act No. 20 of 2004
- Local Government Finance Act No. 9 of 1982.

### 1.3 Operating Objectives

According to section III (1) of the Local Government (District Authorities) Act and the Local Authority Financial Memorandum, the Chunya District Council has the following objectives.

- (a) To maintain and facilitate the maintenance of peace, order and good governance within its area of jurisdiction.
- (b) To promote the social welfare and economic well being of all persons within its area of jurisdiction.
- (c) Subject to the national policy and plans for rural and urban development, to further the social and economic development of its area of jurisdiction.
- (d) Collection of Public funds through taxes, 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

Chunya District Council income is obtained through own sources (i.e. Taxes, fees, fines, sales of property, produce less), Government Grants and Donor funds.

During the year 2004/2005 the council received a total amount of Shs.4,186,973,459 from the following sources:

| Source of fund    | Amount (Shs)                |
|-------------------|-----------------------------|
| Own sources       | 542,261,315                 |
| Government Grants | 3,293,330,128               |
| Donors            | <u>351,382,016</u>          |
| <b>Total</b>      | <b><u>4,186,973,459</u></b> |

### **1.5 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 through the issue of a detailed job description for each post in the Finance Department, production of an organization chart for the Finance Department showing lines of reporting and supervision, Division of responsibilities for related operations between several officers and periodic rotation of duties.

Accountability of all areas of operations is the responsibility of the Director or his designated representative to check effectiveness of the control system. The Council is also required to employ its own Internal Auditor who report directly to the director. Similarly, the Public Procurement Act NO. 21 of 2004 section 28 (I) requires the Council to establish a Tender Board and Section 34 (I) provides for establishment of Procurement Management Unit. The Internal Control set up of Chunya District Council abide by this order and Procurement Act

### **1.6 Management structure**

The Chunya District Council operates under directives of the Full Council which is a supreme body for legislative responsibilities. Under the Full Council there are three Committees which are directly answerable to it. The Chief Executive for the District Council is the District Executive Director (DED) who is responsible for the day-to-day activities. The structure has positions of Internal Auditor and Legal Officer with responsibilities of advising the Director on matters falling under their jurisdiction.

In addition, the structure provides for functional departments namely: Administration, Economic, Finance and Trade, Health, Education, Works, Planning and Environment and Agriculture, Livestock and Co-operatives as well as Social Welfare and Community Development.

The pictorial management structure of the District Council is shown as appendix ii to this report.

## **1.7 Financial Performance Issues**

### **Revenue collection performance**

The Chunya District Council collected an amount of Shs.542,261,315 from own sources against a revenue budget of Shs.511,557,113 reflecting an over collection of Shs.30,704,202 or 6%. In addition, the Council received grants and donor funds amounting to Shs.3,644,712,144, making total revenue of Shs.4,186,973,459.44.

### **Expenditure performance**

The Council spent Shs.3,912,687,817 during the year 2004/05 against total Income of Shs.4,186,973,459 or 93% of total revenue, resulting in under expenditure of Shs.274,285,642. Further the expenditure performance against approved budget of Shs.3,122,374,919 was 125%.

A comparison of the internal revenue of Shs.542,261,315 against expenditure of Shs.3,912,687,817.14 (net of depreciation) is only 14% implying that the District Council cannot sustain either its recurrent or development expenditure without depending on grants.

## **1.8 Audit Mandate**

By virtue of the provision of Article 143 of the Constitution of the United Republic of Tanzania, and section 45 of the local government of Finance Act No. 9 of 1982, (revised 2000) the Controller and Auditor General is the appointed auditor of all government revenue and expenditure, including this District Council.

## **1.9 Audit Objectives**

The main objective of conducting the audit is to enable me to express a professional opinion on the statements of the Chunya District Council for the period ended 30<sup>th</sup> June 2005 and in particular: -

- To determine whether transactions were executed in accordance with management authorization and recorded properly in books of account to permit the preparation of the financial statements in accordance with the International Accounting Principles and requirements of the Local Government Finance Act No.9 of 1982 and Local Authority Financial Memorandum 1997.
- To determine whether funds have been collected properly and used exclusively to meet eligible expenses as per approved budget and regulations governing government expenditure.
- To ascertain whether all relevant supporting documents records and accounts have been kept in respect of all District Council activities.
- To verify whether goods and services bought were acquired through laid down procurement procedures and the Public Procurement Act No. 3 of 2001 have been complied.

- To perform compliance tests to determine whether the management complied in all material respects with the Public Procurement Act No 3 of 2001.
- To evaluate whether the internal control procedures instituted are effective to provide relevant and reasonable information to the management, for implementing and monitoring activities and that the assets of the Chunya District Council are adequately safeguarded against losses from unauthorized use or disposition.
- To determine whether the management of the District Council has taken adequate corrective action on the previous years audit recommendations.
- To verify whether the Council has implemented audit recommendations made in previous audits.

### **1.10 Audit Methodology**

In auditing financial statements together with the related records and schedules, the following steps were followed: -

- A review of the council's regulations, guidelines and other Authority's documents as was deemed necessary under the circumstances.
- Examination of receipts and payments to confirm compliance with existing legislation, financial regulations and other instructions or directives.
- A review of the internal control structure by assessing significant policies and procedures and establish its adequacy.
- Conduct compliance tests on the system of awarding contracts and their execution.
- 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.

### **1.11 Audit Scope**

The audit was carried out in accordance with International Standards on Auditing (ISA) and INTOSAI audit procedure. The audit covered the evaluation of the effectiveness of the financial accounting system and internal control over the activities of the council, examination and verification of the accompanying financial statements, the performance report and other auditing procedures as was considered necessary under the circumstances for the purpose of forming an opinion on the financial statements. The audit was carried out on a test check basis, therefore the audit findings are confined to the extent that records, documents

and information requested for the purpose of audit were made available to us.

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

#### **1.12 Presentation of Audit Findings**

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

The first part comprises the opinion on the critical examination of the financial statements submitted for audit and the circumstances surrounding their preparation and presentation.

The second part comprises the detailed findings on the gaps and shortfalls in the internal control system which, if rectified on time, will greatly improve the effectiveness of the internal control system applied.

## 2.0 AUDIT REPORT ON FINANCIAL STATEMENTS

**To:** The Regional Commissioner  
Mbeya Region

District Executive Director and Accounting Officer,  
Chunya District Council

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

I have audited the Consolidated Balance Sheet, Consolidated Statement of Income and Expenditure, Consolidate Cash-flow Statement and the related notes and schedules of Chunya District Council shown as annexure I of this report for the financial year ended on 30<sup>th</sup> June 2005.

### **Responsibility of Council Management on the financial statements**

These financial statements are the responsibility of the management of Chunya District Council.

Order Nos. 9 through 16 of the LAFM require 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 (ISA) and procedures that are consistent with those recommended by the International Organization of Supreme Audit Institutions (INTOSAI). 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 evidences supporting the amounts and disclosures in the financial statements. It also included 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 Chunya District Council, consistently applied and adequately disclosed, evaluating the overall financial statement presentation, and assessing the extent of compliance with the relevant statutory requirements. I believe the audit provides a reasonable basis for my opinion.

**Opinion**

In my opinion, the financial statements fairly reflect, in all material respects, the financial position of Chunya District Council as at 30<sup>th</sup> June 2005 and the results of its operations and cash flows for the year then ended, in accordance with the International Financial Reporting Standard.

Further to my opinion, the procurement of motor vehicles was generally done in accordance with the Public Procurement Act No. 21 of 2004.

**Matters of emphasis:**

- Shs.2,612,706.60 was paid to a contractor and supported by Certificate No.3 for Construction of female ward at Chunya Health Centre at a contract sum Shs.6,282,958.25. However, the certificate No 3 could not show the previous payments made vide certificate Nos. 1 and 2 which were not availed to audit when called for.

- The Balance sheet as at 30<sup>th</sup> June 2005 reflected outstanding creditors of Shs.62,840,329 which included unpaid LAPF deductions of Shs.34,390,395 and trade creditors of Shs.28,449,934. Non-settlement of these debts may affect the Council's operations during settlement.

The details of these matters are given under part 3 of this report.

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<sup>st</sup> March 2006

### **3.0 AUDIT FINDINGS AND RECOMMENDATIONS.**

#### **3.1 Current audit findings**

##### **3.1.1 Doubtful payments - Shs.2,612,706.60**

A total amount of Shs.2,612,706.60 was paid to M/s Fah Construction Company Vide PV.10/7 and supported by Certificate No.3 from development account being Construction of female ward at Chunya Health Centre at a contract sum Shs.6,282,958.25. However, the certificate No 3 could not show the previous payments made vide certificate Nos. 1 and 2 which (Nos. 1 and 2) were not availed to audit when called for.

##### **Implication**

This situation might result into of overpayments to the contractor.

##### **Recommendation**

The Council management should ensure that the amount paid are not exceeded the contract sum. Also ensure availability of certificates Nos. 1 and 2 for audit purposes.

##### **3.1.2 Creditors outstanding Shs.62,840,329**

The Balance sheet as at 30<sup>th</sup> June 2005 reflected outstanding creditors of Shs.62,840,329 included unpaid LAPF deductions of Shs.34,390,395 and trade creditors of Shs.28,449,934.

##### **Implication**

Non-settlement of these debts may affect the council's operations during its settlements.

##### **Recommendation**

The council management should ensure clearance of these debts.

#### 4.0 CONCLUSION

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

Lastly, I would like to express my appreciation for the cooperation extended to the audit team. It is my hope that such good working relationships will be extended during future audits.

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

**Copy to:** The Permanent Secretary,  
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Permanent Secretary and Paymaster General,  
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**DAR ES SALAAM**

## 5.0 ANNEXURES

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

**Annexure I**

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF CHUNYA DISTRICT COUNCIL

