

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



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

- 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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ABBREVIATIONS AND DEFINITION OF TERMS

Financial Statements means: Financial Statements and notes of the Mbarali District Council for the period ended 30th June 2005.

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

Financial statements means: The Consolidated Balance Sheet, Consolidated Income and Expenditure statement, Consolidated cash flow statement, Notes and related schedules of Mbarali District Council for the year ended 30th June 2005

DED District Executive Director

INTOSAI International Organization of Supreme Auditing Institutions

ISA International Standards on Auditing

LAPF Local Authority Provident Fund

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

I have completed the Audit of Mbarali District Council for the year ended 30th June 2005. Audit findings arising from examination of accounting records appraisal of Mbarali 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 Mbarali 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 instructions:

- Local Authority Financial Memorandum 1997
- 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 Mbarali 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, licences, 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

Mbarali District Council income are 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 Tshs.4,020,059,750 from the following sources:

Source of fund	Amount (Shs)
Own sources	459,956,146
Government Grants	<u>3,560,103,605</u>
Total	<u>4,020,059,751</u>

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 Mbarali District Council abide by this order and Procurement Act.

1.6 Management structure

The Mbarali 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, Finance, Economic and Trade, Health, Education, Works, Planning and Environment Agriculture, Livestock and Co-operatives as well as Social Welfare and Community Development.

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

1.7 Financial Performance Issue

The Mbarali District Council collected an amount of Shs.459,956,146 from own sources against a revenue budget of Shs.566,979,740 reflecting an under collection of Shs.107,023,595. In addition, the Council received grants amounting to Shs.3,560,103,605 making total revenue of Shs.4,020,059,751 during the year.

Expenditure performance

The Council spent Shs.3,763,265,096 during the year 2004/06 against total Income of Shs.4,020,059,751 or 94% of total revenue, making under expenditure of Shs.256,794,654. Further the expenditure performance against approved budget of Shs.3,295,681,462 was 114%.

A comparison of the internal revenue of Shs.459,956,146 against expenditure of Shs.3,763,265,096 (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 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 Mbarali District Council for the period ended 30th 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 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 Mbarali 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.

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). 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 Regional

District Executive Director and Accounting Officer,
Mbalari District Council

**Re: Audit Report on the Financial Statement of the Mbarali
District Council for the year ended 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 the Mbarali District Council shown as annexure I of this 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 Mbarali 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 Mbarali 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.

Opinion

Except for the material matters pointed out below, in my opinion the financial statements fairly reflect, in all material respects, the financial position of Mbarali 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.

Matters requiring rectification:

- 1 Revenue amounting to shs.8,023,392 pertaining to loan recoveries were noted under posted in the cash book (education account) and in the Revenue statement respectively. Thus the total revenue figure reflected in the income statement has been understated by the same amount and hence affects the operations of the council.
- 2 The expenditures on Item No G00-250511 under Education Account was noted to have been understated by Shs.8,658,800. Thus the total expenditure figure of Shs.3,754,606,296 reflected in the income statement was understated by the same amount and hence affects the councils operations during the year.
- 3 The figure for accumulated depreciation Shs.117,271,173 charged in the Balance sheet differ with the figure in schedule submitted together with the accounts Shs.285,205,322. Hence the total assets reflected in the Balance sheet have been overstated by Shs.107,934,149.
- 4 Long term outlays Shs.165,185,951 was noted to have not been incorporated during preparing the Balance sheet and hence the total assets reflected in the Balance sheet have been understated by Shs.165,185,951.

5. The bank reconciliation statements submitted together with the final accounts for the year ended 30th June, 2005 disclosed uncleared items On Uncredited Shs.226,917,902, Debit in bank not in cash book receipts Shs.162,975,783, Unpresented Cheques Shs.408,982,223 and Credit in bank not in cash book Shs.18,525,064. Non-clearance of these items has an effect on the correctness of the financial statements.

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

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

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

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Current year's findings

3.1.1 Revenue receipts short - posted in cash book - Shs.8,023,392

Revenue collections Shs.8,023,392 pertaining to loan recoveries were noted short posted in the cash book (education account) and in the Revenue statement respectively as follows:-

Receipt No.	Date	Amount as per receipt (Shs)	Amount posted in cash book (Shs)	Difference (Shs)
00029287	16/9/2004	25,000	10,000	15,000
00029288	16/9/2004	25,000	10,000	15,000
00029290	16/9/2004	15,000	10,000	5,000
00029291	16/9/2004	4,993,392	10,000	4,983,392
00029292	16/9/2004	3,000,000	10,000	2,990,000
00029296	16/9/2004	25,000	10,000	15,000
	Total	8,083,392	60,000	8,023,392

Implication

The total revenue figure reflected in the income statement has been understated by the same amount and hence affects the operations of the council.

Recommendation

The council authorities should ensure that the amount has been posted in the cashbooks and banked.

3.1.2 Error in the Expenditure Statement

The expenditures on Item No G00-250511 under Education Account was noted to have been understated by Shs.8,658,800 as follows:

Item	Sub-vote	Amount as per Statement (Shs)	Audit figure (Shs)	Difference (Shs)
G00-250511	Education	905,000	9,563,800	8,658,800

Hence the total expenditure incurred during the year should read Shs.3,763,265,095 and not as reported in the statement.

Implication

The total expenditure figure of Shs.3,754,606,296 reflected in the income statement was understated by Shs.8,658,800 and hence affects the Councils operations during the year.

Recommendation

The management should revise the financial statements to ensure that the Council’s financial statements are correctly stated.

3.1.3 Incorrect figure in the Balance sheet

The net book value of Furniture and Fittings Shs.149, 576,308 was incorrect in the sense that figure for accumulated depreciation Shs.117,271,173 charged in the Balance sheet differ with the figure in schedule submitted together with the accounts Shs.285,205,322.

Further more, Long term outlays Shs.165,185,951 was noted to have not been incorporated during preparing the Balance sheet and hence the balance of Shs.612,747,865 reflected in the Balance sheet is incorrect. In this regard the value of Long term outlays in the balance sheet should read Shs.777,933,816.

Implication

This implies that Balance sheet as 30th June 2005 might not reflect the correct balance in the financial statement.

Recommendation

The management should ensure that the errors reflected in the balance sheet are rectified to present correct financial position

3.1.4 Outstanding Debtors Shs. 163,012,839

The Balance Sheet reflects outstanding debtors totalling to Shs.163,012,839 as follows:

Type	Balance (Shs.)
Imprests	79,542,790
Salary advances	11,155,416
Sundry debtors	<u>72,314,633</u>
Total	<u>163,012,839</u>

Implication

Non recovery of debts might have negative impact on implementation of other activities.

Recommendation

Management should put more efforts in collecting of debts to facilitate the implementation of other activities.

3.1.5 Outstanding Creditors Shs.191,876,485

The outstanding creditors reflected in the Balance Sheet for the under review amounted to Shs.191,876,485 consisting of the following:-

Category	Amount (Shs)
Deposit	22,445,821
Sundry Creditors	<u>169,430,664</u>
Total	<u>191,876,485</u>

Implication

It appears that no rigorous action appears to have been taken to settle the outstanding creditors.

Recommendation

The Council authorities should ensure settlement of these creditors.

3.1.6 Bank reconciliation statements

The bank reconciliation statements submitted together with the final accounts for the year ended 30th June 2005 disclosed uncleared items as follows: -

Account	Amount (Shs)
Uncredited receipts	226,917,902
Debit in bank not in cash book	162,975,783
Unpresented cheques	408,982,223
Credit in bank not in cash book	18,525,064

Implication

If these balances remain uncleared for a long period may have an effect on the correctness of the financial statements.

Recommendation

Immediate clearance of the outstanding items is called for.

4.0 CONCLUSION

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

Annexure I

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

ORGANIZATION STRUCTURE OF MBARALI DISTRICT COUNCIL

