

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



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

FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2005

The Controller and Auditor General
National Audit Office
Samora Avenue/Ohio Street
P. O. Box 9080,
Tel: 255 (022) 2115157/8
Fax: 255 (022) 2117527/2255333
E-mail ocag@nao.or.tz
DAR ES SALAAM.
March 2006

AR/LG101/2005

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
CD	Council Director
DED	District Executive Director
DPs	Development Partners
GAAS	Generally Accepted Accounting Standards
GDP	Gross Domestic Product
GOT	Government of Tanzania
IFMS	Intergrated Financial Management System
IG	Investment Grant
ISA	International Standard on Auditing
LAAM	Local Authority Accounting Manual
LAFM	Local Government Financial Memorandum
LGA	Local Government Reform Programme
MoF	Ministry of Finance
M&e	Monitoring and Evaluation
NGO	Non-governmental Organization
OCAG	Office of the Controller and Auditor General
PER	Public Expenditure Review
PMO-RALG	Prime Minister's Office-Regional Administration and Local Government
PSRP	Poverty Reduction Strategy Paper
PS	Permanent Secretary
PSRP	Public Service Reform Programme
RAS	Regional Administration Secretary
RS	Regional Secretariat

Act Means Local Government Finance Act No.9 of1982
Financial Statements means:-
The Consolidated Balance Sheet, Consolidated Income and expenditure Statement, Consolidated Cash-flow Statement, Notes and related schedules of Iramba District Council for the year ended 30th June 2005.

Council means- Iramba 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 Iramba 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

Iramba District Council was established in 1984 in terms of the provisions of section 8 and 9 of the Local Government (District Authorities) Act 1982. Besides the Act, the council operates within the framework 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 the Local Government (District Authorities) Act the District Council of Iramba has the following 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 has two sources of funds; which are own source and external source. The internal source includes collection of Public funds through taxes, fees, lincenses and charges. On the other hand, external source includes subsidies from central government as well as grants and loans from donor community. From these sources, total income during the year was Shs.7,569,692,093 made up of Shs.439,345,737 from own sources and Shs.7,130,346,356 from government grants.

1.5 Management

The Iramba 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 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 & Environment, Agriculture, Livestock and Co-operatives as well as Social Welfare and Community Development.

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

1.6 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 Section 34 (1) provides for establishment of Procurement Management Unit.

The Internal Control set up of Iramba District Council complies with the statutory requirements, Nevertheless weakness arises 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.439,345,737 from own sources against the internal revenue budget of Shs.643,045,980 reflecting a collection shortfall of Shs.203,700,243 or 31.7%. 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.7,130,346,356

making total revenue of Shs.7,569,692,093 during the year.

Expenditure

The Council spent Shs.6,788,955,444 during the year against total income of Shs.7,569,692,093 or 89.7% of total revenue, leaving unspent amount of Shs.780,736,649. 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.439,345,737 against expenditure of Shs.6,788,955,444 is only 6.5% 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 Public Finance Act No.9 of 1982, (revised,2000); the Controller and Auditor General is the statutory auditor of all government revenues and expenditures, including the Local Authorities.

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 Iramba 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 Iramba 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 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 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 shortfall 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

The Regional Commissioner,
Singida Region.

District Executive Director and Accounting Officer
Iramba District Council

**Re: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS
OF IRAMBA 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 the Iramba District Council shown as annexure I of this report for the financial year ended on 30th June 2005.

Responsibility of the Council Management on the financial statements

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

Order Nos.9 through 16 of the LAFM requires the Council Management to establish and support a sound system of Internal Control within the Council. Order No.53 places responsibility on the Council to prepare and present the financial statements based on GAAS. 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 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 Internal Standards on Auditing and included such other audit procedures I considered necessary in the circumstances. These standards required 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 District Council, consistently applied and adequately disclosed, evaluating the overall financial statements presentation, and assessing the extent of compliance with the statutory requirements. I believe the audit provides a reasonable basis for my opinion.

The financial statements have been prepared and presented based on the accrual principle of accounting pursuant to order Nos.56 through 58 of the LAFM. Under the accrual basis, all revenues and all the related costs are matched with the period in which they were earned and incurred.

Opinion

In my opinion, the financial statements fairly reflect, in all material respects, the financial position of Iramba District Council as at 30th June and the results of its 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 transactions of purchases of fuel, computer, Printer and Scanner, stationeries, plants and vehicle, hospital supplies and minor works which I have tested as part of the audit, have generally complied with the requirements of the Public Finance Act No.6 of 2001, and Public Procurement Act No.4 of 2004.

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 RECOMMENDATIONS

3.1 Follow - up of previous audit recommendation

Previous years recommendations have been implemented and all outstanding matters have been cleared.

3.2 Current year's Audit Findings

3.2.1 Financial Controls

(i) Missing payment vouchers Shs.8,145,606

The following payment vouchers were missing from their respective batches during audit visit:-

General Fund A/C

<u>Pv. No.</u>	<u>C/No</u>	<u>Amount</u>	<u>Payee</u>	<u>Dr. Code</u>
12/7/2004	011368	1,125,000	Daily traders & General Supply	C00-270302
14/7/2004	011370	358,290	Manager NMB - KBI	C00-270302
18/8/2004	011413	126,038	DED Iramba	C00-250101
20/8/2005	011415	126,038	DED Iramba	C00-250101
135/3/2005	013809-10	590,000	DED Iramba	C00-250313
52/6/2005	012610	<u>5,820,240</u>	DED Iramba	C00-250101
	Total	<u>8,145,606</u>		

Implication

The Authenticity of the expenditure could not be confirmed in the absence of payment vouchers.

Audit recommendation

All missing payments vouchers should be traced and submitted for audit scrutiny.

(ii) Missing supporting documents Shs.2,676,400

The following payments were made without being supported by expenditure documents.

Ruzuku A/C

<u>Pv. No.</u>	<u>C/No.</u>	<u>Amount</u>	<u>Payee</u>	<u>Dr. Code</u>
1/8/2004	005077	866,600	DED-Iramba	5014-250101
7/8/2004	005083	938,600	DED-Iramba	5014-250101
	Total	1,905,200		

General Fund A/C

<u>Pv. No.</u>	<u>C/No.</u>	<u>Amount</u>	<u>Payee</u>	<u>Dr. Code</u>
50/3/05	0133735	771,200	DED-Iramba	C00-280808
	G/TOTAL	2,676,400		

Implication

The authenticity of the expenditure could not be confirmed in the absence of supporting documents.

Recommendation

All missing documents such as pay lists, attendance lists payrolls etc, should be traced and produced for audit verification.

- (iii) **Payments not supported by acknowledgement receipts Shs.4,850,000**
The under listed payments were not supported by acknowledgement receipts from the payees.

General Fund A/C

Pv. No.	C/No.	Amount	Payee	Dr. Code
26/7/2004	011384	2,500,000	RAS-Dodoma	C00-261164
56/12/2004	013585	600,000	Eng. Peter T.Mamu	A00-250526
78/3/2005	013 756	750,000	Secretary ALAT DSM	A00-250526
	Total	3,850,000		
Development A/C				
1/6/2005	002875601	1,000,000	H/Mater Chemchem.S.S	891-6461
	G/Total	4,850,000		

Implication

The payments could have been made to wrong payees.

Recommendation

Acknowledgement receipts should be submitted for audit verification.

- (iv) **Transfer of funds on Loan Shs.22,320,400**
Funds totaling Shs.22,320,400 were transferred as loans between various council's accounts. No refunds were made to the respective accounts.

Implication

Recoveries of this loan could not be possible due to considerable length of time which has past.

Recommendation

Effort should be made to clear these loans.

- (v) **Outstanding Debtors Shs.53,421,434 and Creditors 284,544,030**
The financial statements disclosed the existence of outstanding debtors amounting to Shs.53,421,434 and creditors amounting to Shs.284,544,030 as shown below:

<u>Debtors</u>	<u>Shs.</u>
Imprests	436,664
Advances	1,522,170
General Advances	51,462,600
Total	<u>53,421,434</u>

<u>Creditors</u>	
Deposit	203,470,408
Accruals	11,630,473
Creditors	66,104,217
Bank overdraft	<u>3,338,932</u>
Total	<u>284,544,030</u>

Nevertheless, the accounts did not include details of the individual Debtors and Creditors with age analysis. Moreover, the Council did not state its policy on Debtors and Creditors and no provision for bad and doubtful debts was made.

Implication

Lack of age analysis limits assessment of bad and doubtful debts and implementation of creditors policy.

Recommendation

The management is advised to improve debts collection efforts and timely settlements of Council's liabilities.

(iv) Procurement of goods and Services

(a) Missing Tender Board Minutes

An amount of Shs.7,422,350 was paid to a contractor for construction of a drift along Mwangaza Matongo Road Contract No.DED/IRA/VTTP/D/2005/01 refers. The tender board minutes were not made available to audit.

Implication

The procurement may have not been authorized by the Tender Board.

Recommendation

The Missing documents should be produced for audit verification.

(b) Missing tender Board Authority Shs.3,105,390

Out of Shs.11,284,940 paid to a contractor for improvement of New Kiomboi Bus Terminal, only Shs.8,179,550 was confirmed to have been approved by the tender board. No documents were evidenced to show that the difference Shs.3,105,390 was also approved by the tender board.

Implication

Purchases were not authorized by tender board contrary to the requirements of the Public Procurement Act.

Recommendation

The missing documents should be produced for audit verification.

- (c) **Payments made without competitive quotations Shs.14,738,000**
Payments hereunder were made to various suppliers without competitive quotations contrary to procurements regulations.

General fund A/C

Pv. No.	C/No	Amount	Payee	Dr. Code
58/1/204	013587	3,330,000	M/S. Rosetle Ltd - DSM	A00-260605
21/4/2005	013839	3,848,00	M/S. Rosetle Ltd - DSM	C00-260605
	Total	7,178,000		
Afya A/C				
1/1/2005	014639	3,960,000	M/S Star Services Station	511-261005
22/1/2005	014660	3,600,000	M/S Erasto Emmanuel	512-260100
	Total	7,560,000		
	G/Total	14,738,000		

Implication

The Council could not take advantage of competitive prices.

Recommendation

The Council should comply with Procurement legislation.

- (vii) **Bank Reconciliation**
The bank reconciliation statements revealed that an amount of Shs.2,720,000 sent to the bank was still not credited to the council general fund bank account.

Implication

The bank account shows an incorrect balance.

Recommendation

Clearance of uncredited amount is called for.

4.0 CONCLUSION

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

Lastly, I would like to express my appreciation for the cooperation 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

C.C. Permanent Secretary,
Prime Minister's Office,
Regional Administration and Local Government,
P.O. Box 1923,
Dodoma.

“ Permanent Secretary and Paymaster General,
Ministry of Finance,
P.O. Box 9191,
Dar es Salaam.

5.0 ANNEXURES

- Financial Statements and notes the financial statements -Annexure I
- Organization structure of Iramba District Council - Annexure II

Annexure I

Financial Statements and notes to the financial Statements

Annexure II

ORGANIZATION STRUCTURE OF IRAMBA DISTRICT COUNCIL

