

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF NZEGA DISTRICT COUNCIL
FOR THE 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, Tanzania

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Office of the Controller and Auditor General

The National Audit Office,
United Republic of Tanzania

(Established under Article 143 of the Constitution of the URT).

The statutory duties and responsibilities of the Controller and Auditor General are given in the Public Finance Act No. 6 of 2001.

Our Vision

We aspire to be an organization that fosters a culture of financial discipline, transparency and accountability within the Government of Tanzania.

Our Mission

We are the Supreme Audit Institution in Tanzania, which strives to provide timely and high quality audit services to all our clients in order to enhance public sector financial performance by educating key stakeholders on the effective management of public finances; providing value added services and functioning independently and impartially in auditing and reporting on public accounts.

Therefore, our Core Values are:

- ✓ We strive to achieve and maintain objectivity in providing impartial audit services so as to promote our independence
- ✓ We pursue excellence in the provision of our audit services
- ✓ We exercise professional integrity by demonstrating high ethical standards
- ✓ We focus on people and have great respect to our stakeholders
- ✓ We encourage and promote innovation amongst our members of staff; and
- ✓ We ensure best resource utilization at national as well as individual public entity level.

We do this by:

- contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- helping to improve the quality of public services by supporting innovation on the use of public resources;
- providing technical advice to our clients on operational gaps in their operating systems;
- systematically involve our clients in the audit process and audit cycles; and
- providing audit staff with adequate working tools and facilities that promote independence.

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ABBREVIATIONS AND DEFINITION OF TERMS

CAG	Controller and Auditor General
CD	Council Director
DED	District Executive Director
DPs	Development Partners
LAAM	Local Authority Accounting Manual
GDP	Gross Domestic Product
LAFM	Local Authority Financial Memorandum
GOT	Government of Tanzania
HIPC	Highly Indebted Poor Countries
IFMS	Integrated Financial Management System
IG	Investment Grant
LGA	Local Government Authorities
LGRP	Local Government Reform Programme
NGO	Non-governmental Organisation
MOF	Ministry of Finance
OCAG	Office of the Controller and Auditor General
PER	Public Expenditure Review
ISA	International Standard of auditing
PMO-RALG	Prime Ministers Office - Regional Administration and Local Government
PRSP	Poverty Reduction Strategy Paper
PS	Permanent Secretary
PSRP	Public Service Reform Programme
RAS	Regional Administrative Secretary
RS	Regional Secretariat
HW 5	Halmashauri ya Wilaya No. 5 (Open General Receipt)
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 Nzega District Council for the year ended 30th June, 2005.

Council means - Nzega District Council, both as Councillors as well as an operating entity.

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

I have completed the audit of Nzega District Council for the year ended 30th June 2005. Audit findings arising from examination of accounting records, 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 Nzega District Council was established in 1984 in terms of the provisions of section 8 and 9 of the Local Government Act (District Authorities) 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 Nzega 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 included collection of Public funds through, taxes, fees, License and charges. On the other hand external source include subsidies from central government, grant and loans donor community. Total Income during the year was Shs.3,956,696,055 made up of Shs.446,769,824 from own sources and Shs.3,509,926,231 from government grants.

1.5 Management structure

The Nzega 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. In addition, the structure provides for functional departments namely: Administration, Finance and Trade, Health Education, Works, Town 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 I to this report.

1.6 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 Municipal Director and the Treasure 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 Municipal Director or his designated representative to check effectiveness of the control system is mandatory. The Council is also 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 Sect.34 (1) provides for establishment of Procurement Management Unit.

The Internal Control set up of Nzega District Council complies with the statutory requirements, but is lacking an effective Audit Committee which is part of transparency and good governance, Nevertheless weakness arises from review of internal control system are included under part 3 of this report.

1.7 Out turn

Revenue

The District Council collected an amount of Shs.446,769,824 from own sources against the internal revenue budget of Shs.790,303,996, reflecting a collection shortfall of Shs.343,534,172 or 43 %. 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.3,500,609,802 making total revenue of Shs.3,947,379,626.87 during the year.

Expenditure

The Council spent Shs.3,665,395,056.58 during the year against total income of Shs.3,947,379,626.87 or 93% of total revenue, leaving unspent amount of Shs281,984,570.29. 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.446,769,824 against expenditure of Shs.3,665,395,056.58 (net of depreciation) is only 12%, 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 appointed auditor of all government revenues and expenditure, including the revenues and expenditures of this District 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 Municipal 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 accounts 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 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 Municipal 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 auditing the financial statements together with their underlying records, the following principal 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,
Tabora Region.

Council Director and Accounting Officer,
Nzega District Council.

RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF NZEGA 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 Nzega District Council shown as 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 Nzega 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 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 judgements 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 Nzega 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 LAMF. Under the accrual basis, all revenues and all the related costs are matched with the period in which they were earned and incurred.

Qualification

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

Limitation of scope of audit and disagreement in records keeping:

- (a) Fourty three (43) revenue earning receipt books (HWS) were not produced for audit
- (b) Revenue amounting to Shs.5,476,760 were not accounted for.
- (c) Missing payment vouchers Shs.403,659,951 during the audit.
- (d) Stores not taken on the ledger charge Shs.23,424,209.
- (e) Missing payment Sheets Shs.27,438,000.
- (f) Development Projects not supported by contract document Shs.225,318,884.
- (g) Unclaimed salaries Shs.30,804,237 ranging from financial year 2002, 2003 and 2004.
- (h) Capital expenditure amounting to Shs.766,916,184 not supported by the payments analysis.
- (i) Long outstanding items in the Bank reconciliation statements Shs.75,652,184.

The details of these matters are given in 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

31 March 2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow up of previous year's audit findings

3.1.1 Revenue receipt books for 2003 accounts not produced

A sum totalling Shs.1,118,000 in respect of two unproduced fixed fee revenue earning receipt books are yet to be produced.

Implication

Audit was unable to verify authenticity of the amount stated.

Recommendation

The Council management should trace the missing revenue earning receipt books and produce them for audit verification.

3.1.2 Unvouched and improperly vouched expenditure Shs.127,127,622 for 2000 accounts

Payment vouchers amounting to Shs.121,527,433 are still missing.

Implication

The authenticity of the payment made could not be established.

Recommendation

The missing payment vouchers should be traced and produced for audit verification.

3.1.3 Transfer of fund Shs.12,593,080

An amount of Shs.12,593,080 in respect of inter account transfer is still outstanding.

Implication

The trend may lead to the accounts whose funds were transferred not to meet their financial obligations due to lack of funds.

3.2 Current year's findings

3.2.1 Unproduced receipt books

Total of 43 revenue earning receipt books being HW5 (General Revenue Receipt) were not produced to audit.

Implication

Possibility of misappropriation of funds collected therein cannot be ruled out.

Recommendation

The management should trace the books and produce for audit verification.

- 3.2.2 Revenue not accounted for Shs.5,476,760**
Revenue collections amounting to Shs.5,476,760 could not be confirmed to have been accounted for.

Implication

Non accountability of the Council's revenue could lead to misappropriation of the funds.

Recommendation

The Council's management should ensure accountability of revenue collected.

- 3.2.3 Missing payment vouchers Shs.403,659,951**
Payment vouchers totalling Shs.403,659,951 were missing during the audit.

Implication

Authenticity of the payment vouchers could not be established.

Recommendation

Management should produce the missing payment vouchers for audit verification.

- 3.2.4 Stores not taken on ledger charge Shs.23,424,209**
A test check of payments made to various suppliers revealed that stores worth Shs.23,424,209 were paid for. However references to stores ledger folios for confirmation of supply and receipt of stores were not given to confirm that the goods paid for were actually delivered.

- 3.2.5 Payments totalling Shs.400,615,726 made to various payees were not acknowledged by the bonafide payees.**

Implication

Authenticity of the payments could not be established.

Recommendation

Management should ensure all acknowledgement receipts are obtained and produced for audit verification.

- 3.2.6 Missing Payrolls/masterrolls/paylist sheets.**
Payrolls/masterrolls/paylist Sheets amounting to Shs.27,438,000 were not produced for audit.

Implication

In the absence of documents in question authenticity of the payments could not be established.

Recommendation

The management of the Council should ensure that the missing documents are produced for audit verification.

3.2.7 Payments of development projects not supported by contract documents

A sum of Shs.225,318,884 paid to various payees in were observed to be in respect of development projects. However, the following documents were missing from accounts batches.

- (i) Contract agreement documents.
- (ii) Acknowledgment receipts from payees.
- (iii) Handing over and final certificate in respect of completion of the projects.

Implication

Work executed and cost thereof could not be authenticated.

Recommendation

The management of the Council should produce the supporting/missing documents for audit verification.

3.2.8 Inter account transfers not reimbursed Shs.87,341,161

The Council transferred a total amount of Shs.87,341,161 from various accounts to the General Fund Accounts and Miscellaneous Deposit Accounts. Reimbursement to the giving accounts has not been done for a longer period.

Implication

Due to non reimbursement of the funds the Council can fail to meet its financial obligations.

Recommendation

The Council management should ensure reimbursement of the sum in question.

3.2.9 Unclaimed salaries Shs.30,804,237

Unclaimed salaries register disclosed unclaimed salaries totalling Shs.30,804,237 ranging from the financial years 2002, 2003 and 2004.

Implication

Existence of long unclaimed salaries, ranging from financial years, 2002, 2003 and 2004 and non surrendering of the same to Treasury indicates failure to comply with financial regulations.

Recommendations

The management of the Council should ensure compliance of financial regulations by following accounting procedures.

3.2.10 Statement of capital expenditure Shs.766,916,184

Payments totalling Shs.766,916,184 shown in the statement of capital expenditure as amount spent for the year have not been supported by the payments analysis.

Implication

Authenticity of the payments could not be established.

Recommendation

Management should prepare and produce analysis of the capital expenditure for audit scrutiny.

3.2.11 Debtors Shs.15,092,978

No concrete action appears to have been taken to clear the outstanding imprests, salary advances and other loans totalling Shs.15,092,978 as reflected in the Balance Sheet.

Implication

Non clearance of the debtors ties up funds which could have been used in other development activities.

Recommendation

Management should take measures to clear the debts.

3.2.12 Trade creditors Shs.21,125,700

The Council Trade Creditors as at 30th June 2005 stood as Shs.21,125,700.

Implication

Uncleared creditors affect the credit worthiness of the Council.

Recommendation

Management should ensure that the long outstanding trade creditors are cleared.

3.2.13 Bank reconciliation statements

The Bank reconciliation statements submitted with the final accounts disclosed uncleared items as follows:

Account	Cash in transit	Payments in Balance statement not in cashbook
G/Fund	1,053,450	1,506,250
Maji	739,755	847,100
Elimu	2,691,894	2,078,985
Ruzuku	-	3,695,326
Capital Development Grants	-	67,524,523
Extension	1,000,000	-
Total	5,485,099	75,652,184

Implication

Long outstanding items in the Bank Reconciliation Statements may conceal frauds.

Recommendation

The management is insisted to reconcile the uncleared items in the Bank reconciliation.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Nzega District Council during exit meeting. Management of the Nzega 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 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: Permanent Secretary,
President's Office,
Regional Administration and Local Government,
P.O. Box 1923,
DODOMA

Permanent Secretary and Paymaster General,
Ministry of Finance,
Box 9111,
DAR ES SALAAM.

5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF NZEGA DISTRICT COUNCIL

