

**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL  
ON THE FINANCIAL STATEMENTS OF IGUNGA DISTRICT COUNCIL  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2005**

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AR/LG/105/2005

## 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
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
PO-RALG	President's 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

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

Council means - Igunga 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 Igunga District Council for the year ended 30<sup>th</sup> 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 Igunga 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 Igunga 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.6,719,675,992.10 made up of Shs.86,345,712 from own sources and Shs.6,633,330,290.70 from government grants.

## **1.5 Management structure**

The Igunga 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 Igunga 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 Financial Performance Issues**

### **Revenue**

The District Council collected an amount of Shs.86,345,701.40 from own sources against the internal revenue budget of Shs.191,134,750 reflecting a collection shortfall of Shs.104,789,048.6 or 55 %. 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.6,633,330,290.70 making total revenue of Shs.6,719,673,992.10 during the year.

### **Expenditure**

The Council spent Shs.5,361,640,224.82 during the year against total income of Shs.6,719,675,992.10 or 80 % of total revenue, leaving unspent amount of Shs.1,358,035,767.28. 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.86,345,701.40 against expenditure of Shs.5,361,640,224.82 (net of depreciation) is only 1.61 %, 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 30<sup>th</sup> June, 2005 and in particular:-

- To determine whether transactions were executed in accordance with the financial regulations, and recorded properly in the books of 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.

District Executive Director and Accounting Officer,  
Igunga District Council.

**Re: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF  
IGUNGA DISTRICT COUNCIL FOR THE YEAR ENDED ON 30<sup>TH</sup> 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 Igunga District Council shown as annexure I to 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 Igunga 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 Igunga 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 Igunga District Council as at 30<sup>th</sup> 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 require rectification.**

- (a) Total of 27 receipt books comprising HW5 receipt books not produced for audit.
- (b) Missing payment vouchers totalling Shs.208,925,740
- (c) Payments made without acknowledgement receipts totalling Shs.28,246,611.
- (d) Stores not accounted for Shs.6,875,800
- (e) Missing payrolls and list of payments totalling Shs.251,087,030.
- (f) Payments made without supporting document totaling Shs.16,474,042.
- (g) Creditor totalling Shs.86,140,444 not verified.

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

Further, without prejudice on the above stated opinion, the procurement of road and office construction, teachers, housed construction, water pipes, school desks, and office equipments was generally done in accordance with the Public Procurement Act No.21 of 2004.

Dr. Frank Mosses Hiza Mhilu

**Ag. CONTROLLER AND AUDITOR GENERAL**

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Office of the Controller and Auditor General  
The National Audit Office  
**DAR ES SALAAM.**

31 March 2006

### 3.0 AUDIT FINDINGS AND RECOMMENDATIONS

#### 3.1 Follow up of previous year's audit findings

##### 2002 Accounts

#### 3.1.1 Outstanding debtors Shs.4,2054,655

An amount of Shs.1,648,807 in respect of debtors is still outstanding

##### Implication

Failure to collect due debts affects liquidity position of the council.

##### Recommendation

Management should make effort to collect the outstanding debts.

#### 3.2 Current year's findings

#### 3.2.1 Missing revenue receipts books

A total of 27 receipts books comprising HW 5 receipts books were not produced for audit when called for.

##### Implication

The audit could not ascertain the revenues collected by missing receipt books.

##### Recommendation

Management should trace and produce the books for audit verification.

#### 3.2.2 Revenue not accounted for Shs.251,370

A sum of Shs.251,370 as narrated below were collected from various sources without being deposited in the Bank account as listed below:

Types of receipt and serial No.	Amount	Revenue collectors name
HW5 231201-231214	70,690	B.M. Lucas (Veo Bukoko)
HW5 227001-227012	27,500	HJ. Baitwe
HW5 231351-231357	75,520	G. Ngude
HW5 231363	56,680	G. Mgude
HW5 232364	20,980	
<b>Total</b>	<b>251,370</b>	

##### Implication

Revenue collected not banked could lead to misappropriation of the money involved.

##### Recommendation

Management should ensure that all revenue collected from various sources are banked.

**3.2.3 Missing payment vouchers Shs.208,925,740**

A test check of payment vouchers revealed that, payments totalling a sum of Shs.208,925,740 were missing when called for audit.

**Implication**

There is a possibility of misappropriation of the Councils money

**Recommendation**

Management should ensure that there is a proper internal control system, and the missing payment vouchers should be produced for audit verification.

**3.2.4 Payments without being acknowledged receipt Shs.28,246,611**

Payments amounting to Shs.28,246,611 made to various payees were observed to have not been acknowledged receipt by the bonafide payees.

**Implication**

Payments can be made to wrong payees.

**Recommendation**

Management should make sure that all acknowledgement receipts are traced and produced for audit verification.

**3.2.5 Stores not taken on ledger charge Shs.6,875,800**

An examination of stores records revealed that, goods worth Shs.6,875,800 ordered and paid for during the year were not taken on ledger charge.

**Implication**

There is possibility that money had been spent for goods and services not supplied.

**Recommendation**

The Council management should stream line store management and controls to avoid possible losses.

**3.2.6 Missing payrolls/paid lists Shs.251,087,030**

A sum of Shs.251,087,030 as salaries for various months were not supported by paid lists and payrolls.

**Implication**

There are possibilities that payments might have been made to non employees.

**Recommendation**

Management should ensure that salaries are paid in accordance with payrolls and the missing payrolls and paid lists found and produced for audit verification.

**3.2.7 Divergence of fund Shs.1,120,000**

A total sum of Shs.1,120,000 as shown below was incurred to meet various expenses for District Administrative Secretary office which is not under council's authority.

Pv.	C/N	Amount	
81/6/2005	027124	330,000	G/Fund
84/6/2005	023565	240,000	G/Fund
74/6/2006	023565	550,000	Afya
<b>Total</b>		<b>1,120,000</b>	

**Implication**

The possibilities of misuse of the Council's revenue cannot be ruled out.

**Recommendation**

Management should recover the same amount of from DAS Office.

**3.2.9 Missing supporting documents Shs.16,474,042**

Payments amounting to Shs.16,474,042 have not been supported by the relevant documents.

**Implication**

The authenticity of expenditure could not be established.

**Recommendation**

Management should ensure that the system of documentation is effective and the missing documents produced for audit verification.

**3.2.10 Creditors Shs.99,065,195**

The Consolidated Balance Sheet reflected Creditors amounting to Shs.99,065,195 out of which Shs.86,140,444 could not be verified.

**Implication**

There are possibilities of payment to non existing creditors also a large amount of creditors may reduce the credibility of the Council.

**Recommendation**

Management should ensure proper documentation of creditors and produce the schedule of creditors for audit verification.

### 3.2.11 Debtors balance Shs.94,082,662

The Consolidated Balance Sheet reflected Debtors amounting Shs.94,082,662 comprising of imprests, salary advances, sundry debtors and advances. The accounts did not include details of individual debtors with age analysis.

#### Implication

Lack of age analysis limits assessment of recoverability of debts and also large amount of debtors reduce liquidity position of the Council.

#### Recommendation

The management is advised to come up with debts collection policies as well as to ensure outstanding amounts are cleared.

### 3.2.12 Uncleared items in Bank Reconciliation Statements

The Bank reconciliation statements for the year ended 30<sup>th</sup> June, 2005 submitted along with the final accounts disclosed uncleared items as detailed below: -

Account	Receipt in cash book not in Bank statement	Payment ins Bank statement not in cash book	Unrepresented cheque
G/fund	3,026,859	-	5,194,347
Revenue	10,284,398	914,127	19,426,185
Education	129,800	-	-
Maji	1,000,001	328,600	-
WDF	-	918,000	-
Land survey	185,500	-	-

#### Implication

Uncleared items in the Bank Reconciliation Statement may conceal frauds.

#### Recommendation

Management is advised to clear all outstanding items in the Bank Reconciliation Statement.

#### 4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Igunga District Council during exit meeting. Management of the Igunga 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**

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## 5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF IGUNGA DISTRICT COUNCIL

