

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



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

- 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 Minister'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
HW5	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 Tabora District Council for the year ended 30th June, 2005.

Council means - Tabora 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 Tabora 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 Tabora 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 Tabora 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.4,465,627,805 made up of Shs.191,662,667 from own sources and Shs.4,273,965,137 from government grants.

1.5 Management structure

The Tabora 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 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 Tabora 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.191,662,667 from own sources against the internal revenue budget of Shs.160,850,000 reflecting a collection surplus of Shs.30,812,667 or 19 %. 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.4,273,965,138 making total revenue of Shs.4,465,627,805.87 during the year.

Expenditure

The Council spent Shs.4,366,029,855.17 during the year against total income of Shs.4,465,627,805 or 98% of total revenue, leaving unspent amount of Shs.99,597,949.83. 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.191,662,667 against expenditure of Shs.4,366,029,855.17 (net of depreciation) is only 4.39%, 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.

District executive Director and Accounting Officer,
Tabora District Council.

**Re: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
TABORA 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 Tabora District Council attached as annexure 1 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 Tabora 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 Tabora 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.

Opinion

In my opinion the financial statements fairly reflect, in all material respects, the financial position of Tabora 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.

Further to my opinion, the procurement of construction of classrooms, shallow and deep wells, road works, health centre houses, stationery and consultancy services was generally done in accordance with the Public Procurement Act. No.21 of 2004.

Matters of emphasis

Without qualifying my opinion, I wish to point out the following matters for the attention of the full Council:

- (a) Debtors totalling Shs.201,790,961 being unretired imprests, salary advances, miscellaneous deposits and uncleared transfers.
- (b) Payment totalling Shs.18,367,125 made without acknowledgment receipts.
- (c) HW5 receipts books were found missing
- (d) Creditors worth Shs.18,271,836 in respect of unclaimed salaries/wages, over retirement of imprests and stale cheques.

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

- Revenue receipt books in respect of 2003 accounts not produced.
Two HW5 receipt books were observed to be missing.

Implication

Non production of the receipt books may lead to concealment of frauds.

3.2 Current year's audit findings

3.2.1 Unproduced revenue receipt books

The following three HW5 receipt books were not produced during the audit.

Receipt book	To whom issued
190151-190200	F. Nyankinda
190751-190800	Mussa Nsalakali
107205-107250	Linso M. Linso

Implication

The amounts collected by using the books could not be ascertained during the audit and possibility of misappropriation of the proceeds realized therefrom cannot be ruled out.

Recommendation

Management should trace the books and produce them for audit verification.

3.2.2 Payments without being acknowledged receipts Shs.18,367,125

The following payments amounting to Shs.18,367,125 made to various payees were observed to have not been acknowledged receipt by bonafide payees.

Pv	Cheque	Amount	Payee	Account
10/6	043448	2,500,000	Migungumalo saccos	DADPs
9/6	043447	2,500,000	Mlezi saccos	DADPs
8/6	043446	5,000,000	Sokichawakazi Group	DADPs
7/6	043445	5,000,000	Shitage Group	DADPs
3/5	056211	1,500,000	Works committee	Development
97/6	055129	500,000	Kamati ya sherehe (m)	G/Fund
70/6	043449	717,125	Kikundi cha watungaji	DADPs
70/6	058499	650,000	Butamanya construction Ltd	Education
	Total	18,367,125		

Implication

Failure to obtain acknowledgment receipts could result in payments to wrong persons.

Recommendation

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

3.2.3 Debtors and Creditors

The financial statements submitted shows the outstanding Debtors of Shs.210,790,961 comprising special imprests, salary advances, miscellaneous deposits and uncleared transfers. In addition, they were not prepared according to age analysis.

Implication

Failure to collect debtors may reduce the liquidity of the Council to execute its objectives.

Recommendation

Age analysis on debtors should be worked out and proper measures taken in collecting the debtors.

3.2.4 Creditors Shs.18,271,836

Creditors for the year ended 30th June 2005 Shs.18,271,836 being internal creditors comprising unclaimed salaries/wages, bicycle advances and deposits, over retirement of imprests and stale cheques.

Implication

Council's credit worthness may be impaired.

Recommendation

Proper clearance action should be followed to pay the creditors.

3.2.5 Bank reconciliation statements

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

account	Cash in transit	Payment in Bank statement not in Cash Book
General fund	19,014,290	683,310
Deposit	6,258,600	-
Total	25,272,890	683,310

Implication

The uncleared items may conceal fraud if not cleared.

Recommendation

The Council management should take action to clear the outstanding items.

4.0 CONCLUSION

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

The Regional Commissioner,
Tabora Region,
Box 25,
TABORA.

5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF TABORA DISTRICT COUNCIL

