

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF URAMBO 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
HW5	Halmashauri ya Wilaya No.5 (Open General Receipts)
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 Urambo District Council for the year ended 30th June, 2005.

Council means - Urambo 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 Urambo District Council for the period 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 paragraph three of this report.

1.2 Brief history of Client Establishment

The Urambo District Council was established in 1984 in terms of the provision 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 Operation Objectives

According to the Government (District Authorities) Act, Urambo District Council 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, licences, fees and charges.
- (e) To convince the public that the use of funds have achieved the maximum benefits through sound financial management.

1.4 Financing

The Council has two sources of funds, own sources and external source. The Internal source included collection of Public funds through, taxes, fees, Licence and charges. On the other hand external source include subsidies from central government, grant and loans from donor community. Total Income during the year was Shs.5,026,403,937 made up of Shs.820,711,267 from own sources and Shs.4,205,692,670 from government grants.

1.5 Management structure

The Urambo 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. Under the District Executive Director there are ten heads of department who are sub-accounting officers and one legal Officer.

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

1.6 Brief history of the 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 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 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 Urambo District Council complies with this order and Procurement Act but is lacking an 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 Sh.820,711,267 from own sources against the internal revenue budget of Sh.717,763,400 reflecting a collection surplus of Sh.102,942,867 or 14.3%. The 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 Sh.4,205,692,670 making total revenue of Sh.5,026,403,937 during the year.

Expenditure

The Council spent Sh.4,854,823,229 during the year against total income of Sh.5,026,403,937 or 96.6% of total revenue, leaving unspent amount of Sh.171,580,708. 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 Sh.820,711,267 against expenditure of Sh.4,854,823,229 (net of depreciation) is only 17% 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 expenditure 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 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 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 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, 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,
Urambo District Council.

RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF URAMBO 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 Urambo District shown on 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 Urambo 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 Urambo 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.

Opinion

In my opinion, the financial statements fairly reflect in all material respects, the financial position of Urambo District Council as at 30th June, 2005 and the results of its operations and cash flows for the year then ended, in accordance with the International Financial Reporting Standards.

Further to my opinion, the procurement of market rehabilitation, stationery, building materials, spare parts, water pipes, office equipment, works, goods and consultancy and non-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) There are four open receipt books and one development levy both not produced.
- (b) The management has not yet established an Audit Committee.
- (c) The Consolidated Balance Sheet reflected Debtors amounting to Shs.196,035,834 and creditors worth Shs.39,919,336 without age analysis and the policy on Debtors and Creditors was not disclosed.
- (d) Goods worth Shs.4,018,190 ordered and paid for during the year under review were not confirmed to have been delivered, recorded and used.

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.

3.1.2 Unproduced revenue receipt books 2002 accounts

Four open receipt books and one Development levy book for 2001 are still outstanding.

Implication

Accountability of proceeds from the receipts could not be authenticated.

Recommendation

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

3.1.3 Unproduced revenue receipt books for 2003 accounts

Ten market dues books worth Shs.200,000 and fourteen Open receipt books are still outstanding.

Implication

Failure to produce the receipt books may lead to non - accountability of revenue collected on them.

Recommendation

Management should trace and produce the missing books for Audit verification.

3.1.4 Unpaid salaries not submitted Shs.622,800

A sum of Shs.622,800 in respect of unpaid salaries was not accounted for by main cashier.

Implication

This implies that there is a delay in accounting and banking of unclaimed salaries.

Recommendation

The management of the Council should ensure that the sum involved is accounted for.

3.1.5 Missing payment vouchers Shs. 178,458,728

Payments totalling Sh.178,458,728 in respect of missing payment vouchers were still outstanding.

Implication

Authenticity of the payments could not be established.

Recommendation

Management should trace and produce the missing payment vouchers for audit verification.

3.2 Current year's findings**3.2.1 Unproduced revenue receipt books**

A total of thirty-one revenue receipt books (HW5) had not been produced for audit verification.

Implication

Failure to produce the books may result the amounts collected therein not to be established and incapacitate the Council in its development endeavour.

Recommendation

Management should trace the books and produce for audit verification.

3.2.2 Stores not accounted for Tshs.4,018,190

An examination of stores record revealed that goods worth shs.4,018,190 ordered and paid for during the year under review were not taken on the ledger charge. It was further noted that the Council had no utilization particulars to confirm actual delivery and disposal of the items.

Implication

There is a possibility of misuse or non-delivery of the goods paid for without management detection.

Recommendation

The Council Management should ensure items of stores in question have been accounted for.

3.2.3 Debtors and Creditors

Consolidated balance sheet reflected debtors amounting to Shs.196,035,834 comprising advances and imprests. On the other hand the statement reflected creditors worth Shs.39,919,336 comprising stale cheques. Nevertheless, accounts did not include details of own individual creditors and debtors with age analysis. Moreover, the Council did not state its policy on debtors and creditors.

Implication

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

Recommendation

The management is advised to come with debts collection policy as well as creditors policy and ensure outstanding amounts are cleared.

3.2.4 Outstanding items of bank reconciliation statement.

A review of bank reconciliation statement for the period ended 30th June 2005 discloses the following long outstanding items to have not been cleared.

Account	Cheque and Cash in Transit	Deduction In Bank Not In Cash Book	Unprinted Cheques	Direct Lodgments By Bank
G/Fund	146,067,981.30	-	156,693,248.48	-
Development	43,700,000.00	-	33,457,923.97	-
Deposit	3,226,029.70	-	137,232,001.88	1,358,776.40
Ujenzi	243,600.00	-	5,328,667.86	-
Elimu	-	-	245,499,289.54	940.62
Afya	-	-	145,877,291.40	-
Maji	800,000.00	-	19,426,875.28	-
Kilimo/Mifugo	-	-	80,000.00	-
Revenue	-	-	94,545,581.72	-
Vijana	16,050,000.00	-	1,600,000.00	-
Wanawake	16,000,000.00	-	1,250,000.00	-
Plet Dev.	-	-	20,000.00	-
Uchaguzi	-	225,000.00	574,800.00	-
Livestock Dev.	2,864,761.00	-	-	-
Uwindishaji	-	-	8,368,605.00	1,714,840
Mwenge	330,100.00	-	732,000.00	-
Retention schemes	-	65,000.00	-	-
DADPS	-	-	27,656,489.00	-
PADEP Capacity building	-	-	4,007,250.00	62,187,331.00
Child labour	-	-	3,081,600.00	-
LGSP	-	-	46,277,587.50	-
Total	229,282,472.00	290,000.00	931,709,211.61	65,261,888.02

Implication

Non-clearance of the uncleared items may conceal frauds.

Recommendation

Immediate follow up action is necessary to clear the outstanding items.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Urambo District Council during our exit meeting. The Management has promised to take appropriate action with a view to rectify the situation. We 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 relationships will be extended during future audits.

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

CC: Permanent Secretary,
Prime Minister's Office,
Regional Administration and Local Government,
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 Urambo District Council - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

ORGANIZATION STRUCTURE OF URAMBO DISTRICT COUNCIL

