

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF SIKONGE 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
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
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 Sikonge District Council for the year ended 30th June, 2005.

Council means - Sikonge 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 Sikonge 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 Sikonge 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 Sikonge 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 second 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.1, 500,334,828 made up of Shs.298, 536,302 from own sources and Shs.1, 201,298,626 from government grants.

1.5 Management structure

The Sikonge 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 Sikonge 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.298,536,302 from own sources against the internal revenue budget of Shs.266,465,694, reflecting a collection surplus of Shs.32,070,608 or 12 %. 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.1,201,298,626 making total revenue of Shs.1,500,334,828 during the year.

Expenditure

The Council spent Shs.1,467,197,730.73 during the year against total income of Shs.1,500,334,828.98% of total revenue, leaving unspent amount of Shs.33,137,097.27. 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.298,536,302 against expenditure of Shs.1,467,197,730.73 (net of depreciation) is only 20%, 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 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.

1.11 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.

1.12 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,
Sikonge District Council.

**Re: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
SIKONGE 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 Sikonge District Council shown as annexure 1 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 Sikonge 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 Sikonge 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.

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 Sikonge 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.

Disagreement in record keeping:

1. Missing payment vouchers Shs.131,359,660
2. Missing supporting documents Shs.22,872,206
3. Special imprests not retired Shs.32,155,741
4. Assets not recorded in the assets register Shs.6,776,000
5. The Consolidated Balance Sheet reflected debtors amounting to Shs.89,482,282 without analysis and the policy on debtors was not disclosed.
6. Goods worth Shs.5,432,200 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.

Further, without prejudice on the above stated opinion, the procurement of office equipments, fuel, motor vehicles and plants, civil minor works, and School books was generally done in accordance with the Public Procurement Act No. 21 of 2004.

Dr. Frank Mosses Hiza Mhilu

Ag. CONTROLLER AND AUDITOR GENERAL

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

31 March 2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow of previous year's audit findings

3.1.1 Revenue receipt books for 2003 accounts not produced

Three HW 5 receipt books were observed still to be missing at the time of audit.

Implication

Non production of the books may lead to misappropriation of funds collected therein.

Recommendation

Management should trace and produce the books for audit verification.

3.1.2 Revenue for 2004 Accounts not Banked Shs.3,630,111

An amount of Shs.559,611 in respect of revenue collected during the year 2004 was not accounted for in the bank account.

Implication

Non banking of the amount in question may lead to misappropriation.

Recommendation

The Council's management is urgently urged to bank the amount.

3.2 Current year's findings

3.2.1 Unproduced Revenue Receipt Books

The following receipt books were not made available to audit.

S/N	To whom issued
345001-550	J. Mpepo
37851-900	Hassan Athman

Implication

Non production of the books denies the Council an opportunity to establish how much has been collected using the receipt books and subsequent accountability thereof.

Recommendation

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

3.2.2 Missing payment vouchers Shs.131,359,660

Payment vouchers totaling Shs.131,359,660 were observed to be missing during the audit.

Implication

In the absence of the payment vouchers, authenticity of the payments could not be established.

Recommendation

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

3.2.3 Items purchased and paid for but not delivered Shs.5,432,200

A sum of Shs.5,432,200 was observed to have been made for purchases of various items, however, references to show receipt of the items of stores purchased and utilization thereof were not availed to audit.

Implication

The items of stores paid for might have not been received.

Recommendation

The Council's management should ensure that the items of stores paid for have been accounted for.

3.2.4 Special imprests not retired Shs.32,155,741

Payments amounting to Shs.32,155,741 were made as special imprests to meet various activities. However, no retirement particulars were cross-referenced to audit.

Implication

Non retirement of the imprests issued, suggests that, the imprests might have not been used for the intended purposes.

Recommendation

The Council management should ensure that the imprests are retired as stipulated in financial regulations.

3.2.5 Missing supporting documents Shs.22,872,206

Payments totalling Shs.22,872,206 were observed to have not been supported by relevant supporting documents such as claim forms and receipts etc.

Implication

In the absence of the supporting documents, authenticity of the payments could not be established.

Recommendation

Management should ensure improvement of record keeping in the Council and at the same time produce the missing documents.

- 3.2.6 Questionable maintenance of Motor Vehicle SM 3282 Shs.3,174,960**
A sum of Shs.3,174,960 was observed to have been made to two garage owners of Tabora and Dar es Salaam for repair works to motor vehicle SM 3282 during the year. However, audit casts doubts to the nature of repairs carried out to the motor vehicle due to the interval of the repairs made in Tabora and the one carried out in Dar es Salaam having a difference of one day (repairs made in Tabora were on 21/06/05 and Dar es Salaam on 22/06/05. Moreover, there is no material evidence to prove that the motor vehicle had been to Dar es Salaam and was sent to the garage, beside the delivery note supporting the transaction of payment made to the garage owner of Dar es Salaam.

Implication

The authenticity of the payment could not be established.

Recommendation

Management should investigate the matter and necessary action be taken.

- 3.2.7 Payments in Bank statement not in cash book Shs.5,686,741**
An amount of Shs.5,686,741 appeared in bank statement as payment but not in cash book.

Implication

Bank reconciliation statement will not agree with the cash book balance.

Recommendation

Management should reconcile the bank statement with cash book and the amount to be dealt with.

- 3.2.8 Receipts in cash book but not in bank statements**
Receipts amounting to Shs.1,281,347 appeared in cash book but not in bank statement.

Implication

Possibility of misappropriation of the amount involved cannot be ruled out.

Recommendation

Management should ensure that all receipts in cash book appear in the bank statement.

- 3.2.9 Assets not recorded in the assets register Shs.6,776,000**
Five computers, HP PX 6100 worth Shs.6,776,000 purchased during the financial year were observed to have not been included in the list of assets from Mitsumi made vide Payment voucher No. 22/5/2005 and C/N 014694.

Implication

Understatement of Council's assets in the Balance Sheet.

Recommendation

Management should ensure that all assets are recorded in the register.

3.2.10 Sundry debtors Shs.89,482,282

The sundry debtors reflected in the Balance Sheet included the following items which were left outstanding and no action was taken for their clearance.

Category	Amount
Debtors	51,752,852
Salary advances	15,687,876
Imprests	22,041,554
Total	89,482,282

Implication

Non settlement of the debtors may lead the Council to fail to meet its financial obligations.

Recommendation

The management is advised to come up with debts collection policy and ensure that outstanding amounts are cleared.

3.2.11 Sundry creditors Shs.8,541,937

The Balance Sheet disclosed Shs.8,541,937 as sundry creditors in respect of Mseta general supplier Shs.499,000 and LAPF Shs.7,015,937.66.

Implication

The Council does not remit its workers contributions which will attract penalty.

Recommendation

Management should ensure settlement of its liability

3.2.12 Development projects not included in capital expenditure

Shs.17,000,000.

A sum of Shs.17,000,000 was used for drilling two 70m deep water boreholes during the financial year 2004/2005 but was not included in the list of development projects.

Implication

Understatement of Council's assets.

Recommendation

Management should ensure that all development projects are listed in the assets register.

3.2.13 Outstanding items of Bank reconciliation statement

A review of Bank reconciliation statements for the period ended 30th June, 2005 disclosed the following long outstanding items which had not been cleared at the time of audit.

Account	Payment in Bank statement not in cash book	Receipt in cash book not in bank statement
Education	7,967,114	1,847,147
water	-	185,400
G/ Fund	-	667,667,429

Implication

Long outstanding uncleared items in bank reconciliation statement may indicate possibility of frauds.

Recommendation

Management should make immediate follow up to clear the outstanding items.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Sikonge District Council during exit meeting. Management of the Sikonge 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 Sikonge District Council - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF SIKONGE DISTRICT COUNCIL

