

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



REPORT OF THE CONTROLLER AND AUDITOR GENERAL  
ON THE FINANCIAL STATEMENTS OF TABORA MUNICIPAL COUNCIL  
FOR THE YEAR ENDED 30<sup>TH</sup> 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
GAAS	Generally Accepted accounting Standards
IFMS	Integrated Financial Management System
IG	Investment Grant
LGA	Local Government Authorities
LGRP	Local Government Reform Programme
M&E	Monitoring and Evaluation
NGO	Non-governmental Organisation
MoF	Ministry of Finance
OCAG	Office of the Controller and Auditor General
PER	Public Expenditure Review
ISA	International Standard on 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
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 Municipal Council for the year ended 30<sup>th</sup> June, 2005.

Council means - Tabora Municipal Council, both as Councilors as well as an operating entity.

## **1.0 BACKGROUND INFORMATION TO THE AUDIT**

### **1.1 Introduction**

I have completed the audit of Tabora Municipal 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 Tabora Municipal Council was established in 1988 in terms of the provision of Section 5 of the Local Government Act No.8 (Urban Authority Areas, Establishment and Variation of Areas of Urban Authorities) of 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 (Urban Authorities) Act, the Municipality 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.

In addition to these objectives, the Municipality has short-term objectives geared towards alleviation of severe malnutrition, food security and poverty alleviation. Other short-term objectives include; improvement of health facilities, clean water supply, improving road sector and reduction of HIV/AIDS prevalence.

#### **1.4 Financing**

The Council has two sources of funds which are own source and external source. The internal source includes collection of Public funds through taxes, fees, licenses and charges. On the other hand, external source includes subsidies from central government as well as grants and loans from donor community. From these sources, total Income during the year was Shs.4,295,964,781.59 made up of Shs.223,958,512 from own sources, and Shs.4,072,006,269.65 from government grants.

#### **1.5 Management structure**

The Tabora Municipal 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 on matters falling under their jurisdiction.

In addition the structure provides for functional departments namely: Administration, Finance and Trade, Health, Education, Works, Town Planning and Environment and Agriculture, Livestock and Co-operatives as well as Social Welfare and Community Development.

The pictorial management structure of the Municipal Council is shown as annexure II 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 Director and the Treasurer 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 also mandatory. The Council is further 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 Municipal Council complies with this order and Procurement Act, but is lacking an internal auditor and Legal officer. Weaknesses arising 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.223,958,511.94 from own sources against the internal revenue budget of Shs.263,330,000 reflecting a collection shortfall of Shs.39,371,488.06 or 15%. 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.4,072,006,269.65 making total revenue of Shs.4,295,964,781.59 during the year.

### Expenditure

The Council spent Shs.3,739,788,496.49 during the year against a total income of Shs.4,295,964,781.59 or 87% of total revenue, leaving unspent amount of Shs.556,176,285.10 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.223,958,511.94 against expenditure of Shs.3,739,788,496.49 (net of depreciation) is only 6% 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 provisions 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 auditor of all government revenues and expenditures, including the revenues and expenditures of this Municipal 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 account 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 and governing regulations.
- To ascertain whether all supporting documents, records and accounts have been properly kept in respect of all Municipal 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 Town 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 examining the financial statements together with the underlying records the following 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:** Hon. Mizengo Pinda (MP)  
Minister, PMO-RALG

Municipal Director and Accounting Officer,  
Tabora Municipal Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF  
TABORA MUNICIPAL 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 Municipal Council attached as annexure I of this report for the financial year ended on 30 June 2005.

### **Responsibility of Council Management on the financial statements**

These financial statements are the responsibility of the management of Tabora Municipal 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 regard 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 judgments 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 Municipal Council, consistently applied and adequately disclosed, evaluating the overall financial statement 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 Tabora Municipal Council as at 30<sup>th</sup> June, 2005 and the results of its operations and cash flows for the year then ended in accordance with part IV of the Local Government Finance Act No.9 of 1982.

Further to my opinion, the procurement of 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) Seven HW5 receipt books were found missing during the audit.
- (b) Revenue collection totaling shs.4,362,345 were not accounted for.
- (c) Payments totaling shs.159,491,064 are missing supporting documents.
- (d) Missing payment vouchers shs.21,188,404.
- (e) Debtors totaling shs.7,174,950 being staff debtors were not incorporated in the financial statements.
- (f) There is a long outstanding item in the bank reconciliation of shs.164,405,123

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

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 on previous year's audit findings**

##### **3.1.1 Market stall fees for the year 2000 not collected Shs.447,278**

An amount of shs.447,278 was observed to have not been collected as at the date of audit.

##### **Implication**

Non-accountability of the market stall fees.

##### **Recommendation**

Management of the Municipality should ensure accountability of the amount involved.

##### **3.1.2 Missing revenue receipt books for the year 2002**

Two open receipts books found to be missing have not yet been produced.

##### **Implication**

Audit could not ascertain revenues collected by the receipt books.

##### **Recommendation**

The missing books should be traced and produced for audit.

##### **3.1.3 Missing revenue receipt books for the year 2003**

Two receipts books missing have not yet been produced.

##### **Implication**

Audit could not ascertain revenues collected by using the receipt books.

##### **Recommendation**

The management of the Municipality should trace and submit the missing books for audit verification.

##### **3.1.4 Revenue not remitted sh.664,200 for the year 2003**

Revenue totalling Sh.633,100 was still uncollected at the time of the audit.

##### **Implication**

Non-accountability of the Municipality revenue could lead to misappropriation of or mis use of the amount involved.

##### **Recommendation**

The management of the Municipality should ensure collection of the amount.

### 3.1.5 Missing payment vouchers Shs.1,763,940

Payment vouchers amounting to sh.1,763,940 are still missing.

#### Implication

Failure to produce the missing payment vouchers worth sh.1,763,940 may lead to misappropriation of the amount.

#### Recommendation

The management of the Municipality should ensure that, the payment vouchers are produced for audit verification.

## 3.2 Current year's audit findings

### 3.2.1 Unproduced receipt books

A total of seven revenue earning receipt books being HW5 (General receipt) were not produced to audit when called for.

Date of Issue	Serial Number	To whom issued
7.4.2004	363901 - 050(1)	L. Bundala
7.9.2004	84751 - 900 (1)	A. Mtetu
7.9.2004	80401- 550(1)	M. Kapaliswa
24.1.2005	370501 - 650(1)	A.Chande
10.2.2005	376801 - 950	K. Ally
10.2.2005	376951 - 100(1)	C. Bunduki

#### Implication

Audit could not ascertain revenue collected by using the receipt books.

#### Recommendation

The management should confirm the availability of books for audit verification.

### 3.2.2 Revenue not accounted for sh.4,362,345

Revenue collection amounting to Sh.4,362,345 could not be confirmed to have been accounted for.

R/Book Ser. No.	Amount Collected	R/Book Issued to
69617 - 750	435,400.00	B. Shabani
303764 - 900	130,000.00	S. Shabani
84122	89,495.00	M. Kapaliswa
84136	136,000.00	M. Kapaliswa
84810	1,240,977.10	A. Mtetu
84916 - 924	472,300.00	A. Mtetu
86401 - 412	362,879.95	A. Mtetu
866418 - 429	297,750.00	A. Mtetu
85434 -	5,000.00	A. Mtetu
85437	265,000.00	A. Mtetu

85442	260,000.00	A. Mtetu
85443	180,000.00	A. Mtetu
79097	277,542.60	M. Kapaliswa
79108	50,000.00	M. Kapaliswa
79109	160,000.00	M. Kapaliswa
<b>Total</b>	<b>4,362,345.00</b>	

#### **Implication**

Non-accountability of the Council's revenue could lead to misappropriation or misuse of the amount involved.

#### **Recommendation**

The management should ensure that the accountability of revenue amounting to Shs.4,362,345 is made.

#### **3.2.3 Payments not acknowledged by payees Shs.24,980,315**

Payments amounting to shs.24,980,315 made to various payees were not acknowledged by the bonafide payees.

#### **Implication**

The sum involved could not be established to have been received by the bonafide payees.

#### **Recommendation**

Management of the Municipality should make sure that all acknowledgement receipts are received and produced for audit verification.

#### **3.2.4 Missing supporting documents Shs.159,491,064**

Payments amounting to Shs.159,491,064 were observed to have not been supported by the relevant supporting documents.

#### **Implication**

In the absence of the supporting documents the expenditure incurred could not be ascertained.

#### **Recommendation**

It is recommended that record keeping should be improved and at the same time produces the missing supporting documents for audit verification.

#### **3.2.5 Missing payment vouchers Shs.21,188,404**

Payment vouchers totaling Shs.21,188,404 were observed to be missing when called for audit.

**Implication**

The authenticity of the amount could not be established.

**Recommendation**

Management should produce the missing payment vouchers for audit.

**3.2.6 Stores not taken on ledger charge Shs.5,480,000**

Stores worth Shs.5,480,000 appeared not to have been taken on ledger charge, hence audit could not confirm the delivery of the items.

**Implication**

This implies that the amount involved could have been spent for goods or services not received.

**Recommendation**

The management of the Municipal is required to confirm receipt, accountability and final utilization of stores paid for.

**3.2.7 Staff debtors not included in the financial statements Shs.7,174,950**

Staff debtors amounting to Shs.7,174,950 were not incorporated to the financial statements as was observed in the staff debtors register.

**Implication**

Omission of the debtors from Balance Sheet amounts to misstatement of the financial affairs of the Council.

**Recommendation**

The management should ensure that the omitted staff debtors figure in the financial statements is accordingly reflected in the balance sheet.

**3.2.8 Unclaimed salaries Shs.14,766,095**

Unclaimed salaries amounting to Shs.14,766,095 were not supported by analysis schedule.

**Implication**

Failure to identify correct claimaints, may lead to effecting payments to wrong payees.

**Recommendation**

The management of the Council should ensure that correct records in respect of unclaimed salaries are maintained to facilitate identification of unclaimed amounts.

**3.2.9 Bank reconciliation statements for the period ended 30<sup>th</sup> June 2005**

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

Account	Unpresented cheques	Payments in bank statements not in C/Book	Cash in transit	Receipt in bank not In C/book
G/Fund	28,600,445	-	1,055,875	-
Development	4,515,000	12,500,000	1,000,000	11,000
Deposit	359,292	5,909,599	2,333,732	-
Reveling fund	-	-	1,684,789	-
Works	2,056,745	-	1,621,855	-
Education	44,912,098	5,573,004	137,047	-
Health	25,997,831	14,281,425	1,916,000	-
Women dev.	150,000	-	-	-
Transport pool	-	-	2,004,542	-
NAEP	3,559,000	-	-	-
Heath reform	-	-	1,599,460	-
Uchangiaji gharama Uwanja	923,600	-	-1,702,784	-
<b>Total</b>	<b>111,074,011</b>	<b>38,264,028</b>	<b>15,056,084</b>	<b>11,000</b>

### Implication

Failure to reconcile the accounts may lead to misappropriation of Council's funds.

### Recommendation

Management should ensure that cash book records are reconciled with Bank records in order to avoid misappropriation of Council's funds.

#### 4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Tabora Municipal Council during exit meeting. The Management of Tabora Municipal 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 co-operation given to the audit team. It is my hope that such good working relationship 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 Tabora Municipal Council - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

ORGANIZATION STRUCTURE OF TABORA MUNICIPAL COUNCIL

