

**THE UNITED REPUBLIC OF TANZANIA**  
**NATIONAL AUDIT OFFICE (NAO)**



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

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AR/LG/089/2005

**Office of the Controller and Auditor General**  
The National Audit Office,  
United Republic of Tanzania

*(Established under Article 143 of the Constitution of the URT).*

The statutory duties and responsibilities of the Controller and Auditor General are given in the Public Finance Act No. 6 of 2001.

**Our Vision**

We aspire to be an organization that fosters a culture of financial discipline, transparency and accountability within the Government of Tanzania.

**Our Mission**

We are the Supreme Audit Institution in Tanzania, which strives to provide timely and high quality audit services to all our clients in order to enhance public sector financial performance by educating key stakeholders on the effective management of public finances; providing value added services and functioning independently and impartially in auditing and reporting on public accounts.

**Therefore, our Core Values are .....**

- ✓ We strive to achieve and maintain objectivity in providing impartial audit services so as to promote our independence
- ✓ We pursue excellence in the provision of our audit services
- ✓ We exercise professional integrity by demonstrating high ethical standards
- ✓ We focus on people and have great respect to our stakeholders
- ✓ We encourage and promote innovation amongst our members of staff; and
- ✓ We ensure best resource utilization at national as well as individual public entity level.

***We do this by.....***

- Contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- Helping to improve the quality of public services by supporting innovation on the use of public resources;
- Providing technical advice to our clients on operational gaps in their operating systems;
- Systematically involve our clients in the audit process and audit cycles; and
- Providing audit staff with adequate working tools and facilities that promote independence.

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**Definition of terms and Abbreviations**

Financial statements means the following statements, notes and supporting schedules of the Sumbawanga Municipal Council for the year ended 30<sup>th</sup> June 2005.

- Notes to the Financial Statements
- Consolidated Balance Sheet
- Statement of Income and Expenditure
- Consolidated Cash Flow Statement
- Consolidated Income and Expenditure
- Summary Statement of Losses

These Statements and notes form part of this report.

Act means the Public Finance Act No. 6 of 2001 as amended in 2004.

Regulations means the Regulations of the Public Finance Act issued under G.N. Number 259 of 2003.

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

### **1.1 Introduction:**

We have completed the audit of Sumbawanga Municipal Council for the period 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 Sumbawanga Municipal Council was established in 1984 in terms of the provision 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 Finance Procurement Act no 21 of 2004.
- Local Government Finances Act no 9 of 1982.

Basing on the objectives of the Sumbawanga Municipal Council, the strategies were formulated which will enhance Municipal Council in better service provision.

### **1.3. Operational Objectives**

According to the Local Government (Urban Authorities) Act the Sumbawanga Municipal 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 own source includes 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.5,399,220,065 made up of Shs.125,230,694 from own sources and Shs.5,273,989,371 from government grants.

### **1.5. Management**

The Sumbawanga 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 Municipal Council is the Municipal Director who is responsible for the day - to - day activities. Under the Municipal Director, there are ten heads of departments who are sub-accounting officers and one legal Officer.

### **1.6. 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 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 Sumbawanga Municipal Council abide by this order and Procurement Act which is part of transparency and good governance, Nevertheless weaknesses arising from review of internal control system are included under part 3 of this report.

### **1.7 Financial Performance Issues**

#### **Revenue**

The Council collected an amount of Shs.125,230,694 from own sources however, estimates figures were not disclosed in the financial statements. In addition the Council received grants amounting to Shs.5,273,989,371 making total revenue of Shs.5,399,220,065 during the year.

#### **Expenditure**

The Council spent Shs.4,973,148,279 during the year against total income of Shs.5,399,220,065 or 92% of total revenue, resulting in an unspent amount of Shs.426,071,786. 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.125,230,694 against expenditure of Shs.4,973,148,279 (net of depreciation) is only 2.5% implying that the 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 in 2000, the controller and auditor General is the statutory auditor of all government offices including Local Authorities.

### **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 District council for the year ended 30<sup>th</sup> June 2005 and in particular:-

- To determine whether transactions were executed in accordance with the financial regulations, and recorded properly in the books of accounts for easy preparation of the financial statements.
- To determine whether the revenues due have been collected and used to meet expenses as per approved budget and governing regulations.
- To ascertain whether all supporting documents, records and accounts have been 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 and INTOSAI audit procedures. 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 discuss 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:** Hon. Mizengo Pinda (MP)  
Minister, PMO-RALG

The Regional Commissioner,  
Rukwa Region.

Municipal Director and Accounting Officer,  
Sumbawanga Municipal Council.

**Re: Independent Audit Report on the Financial Statements of  
Sumbawanga Municipal Council for the year ended on 30<sup>th</sup> June  
2005**

I have audited the Consolidated Balance Sheet, Consolidated Statement of Income and Expenditure, Consolidated Cash-flow Statement and the related notes and schedules of the Sumbawanga Municipal Council shown on annexure I of this report for the financial year ended on 30<sup>th</sup> June 2005.

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

These financial statements are the responsibility of the management of Sumbawanga 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 Sumbawanga 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.

**Qualification**

In my opinion, except for the matters detailed below, the financial statements of Sumbawanga Municipal Council fairly reflect, in all material respects, the financial position as at 30<sup>th</sup> June 2005 and the results of its operations and cash flows for the year then ended on that date.

- (1) Long outstanding previous years audit findings not resolved
- (2) Questionable accountability of unspent balance of an imprest of Shs.5,409,440
- (3) Improperly disbursements of Local Government Support Programme Funds Shs.60,129,175
- (4) Various irregularities reflected in the Balance Sheet as at 30<sup>th</sup> June 2005
- (5) Missing explanatory notes to the capital expenditure and its financing involving Shs.937,204,812 and Shs.1,026,305,207 respectively

- (6) Work in progress totalling Shs.310,101,004 as reflected I the Balance Sheet as at 30<sup>th</sup> June, 2005 not supported by individual projects analysis and not certified by the Municipal Engineer.
- (7) Various uncleared items in the Bank Reconciliation Statements as at 30<sup>th</sup> June 2005

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.

March 2006.

### 3.0 AUDIT FINDINGS AND RECOMMENDATIONS

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

##### 3.1.1 Short delivery of school materials Shs.12,562,200

Materials worth Shs.4,681,304 relating to 1998 accounts have not been delivered to date.

##### 3.1.2 Purchase of stores not accounted for Shs.22,931,778

Stores purchased during the financial year 1998 have not been accounted for to date.

##### 3.1.3 Unclaimed salaries paid from Deposit Account to meet other charges Shs.4,831,300

Unclaimed salaries relating to the financial year 2003 totalling Shs.4,831,300 would appear to have to date not been surrendered to Treasury.

##### 3.1.4 The following balances totalling Shs.85,860,638 reflected in the Balance Sheet as at 31<sup>st</sup> December, 2003 would still appear to have not been cleared.

• Debtors	Shs.55,526,475
• Creditors	Shs.16,708,408
• Deposits	<u>Shs.13,625,755</u>
<b>Total</b>	<b><u>Shs.85,860,638</u></b>

#### 3.2 Current year's findings

##### 3.2.1 Unvouched and Improperly Vouched Expenditure Shs.5,463,980

Examination of payment vouchers for the year under review disclosed unvouched and Improperly Vouched Expenditure of Shs.5,916,550 as shown below:

Category	Amount (Shs.)
Missing payment vouchers	1,170,980
Payments not supported by documents	<u>4,293,000</u>
<b>Total</b>	<b><u>5,463,980</u></b>

#### Implication

Authenticity of the payments could not be established

#### Recommendation

The Council management should trace and produce the documents in question for audit verification

**3.2.2 Payments made on the strength of proforma invoices Shs.2,770,000**

The Council effected payments to a supplier of solar accessories amounting to Shs.2,770,000 on the strength of proforma invoices.

**Implication**

Goods and services paid for might not be delivered subsequently causing loss to the public.

**Recommendation**

The Council management should ensure that goods and services paid for have been delivered.

**3.2.3 Questionable accountability of unspent balance of an imprest amounting to Shs.5,409,440**

The Council issued a special imprest of Shs.16,042,240 to the Council cashier to enable a facilitator from “TAMISEMI” to meet training costs. However, Audit scrutiny disclosed that only shs.10,633,800 was properly spent, leaving an amount of Shs.5,409,440 without sufficient explanations.

**Implication**

Misappropriation of the amount involved

**Recommendation**

The Council management should recover the amount involved from the Cashier.

**3.2.4 Transfer of funds not confirmed to have been refunded to giving accounts Shs.6,300,000**

Audit review on payment vouchers disclosed transfers of funds from various accounts totalling Shs.6,300,000.

**Implication**

Violation of financial regulations

**Recommendation**

The Council management is urged to adhere to financial regulations.

**3.2.5 Improperly disbursements of Local Government support programme funds Shs.60,129,275**

The Council disbursed a sum of Shs.60,129,275 to individuals for implementing projects under Local Government Support Programme, without involving the Councils Tender Board contrary to Section 30 (1),

(2), (3) and (4) of the Public Procurement Act 2004. Standards and qualities of projects were not certified by the Town Engineer.

**Implication**

Violation of procurement procedures and regulations

**Recommendation**

The Council management is required to adhere to procurement procedures and Regulations.

**3.2.6 The Balance Sheet as at 30<sup>th</sup> June 2005 disclosed the following anomalies:-**

- Roads and bridges not cross referenced to assets register Shs.930,840,834
- Roads and drainage systems not analysed Shs.634,880,534
- Various variances between the Balance Sheet and their supporting schedules/notes without explanations as shown below:

Item	Balance sheet figures (Shs.)	Schedules/ Notes (Shs.)	Variances (Shs.)
Land and buildings	207,601,344	201,208,553	6,392,791
Motor vehicles	210,476,490	113,229,876	97,246,614
Furniture and fittings	42,110,505	28,302,118	13,808,386
Roads and bridges	1,170,026,711	930,840,834	236,185,877

**Implication**

Authenticity of the assets could not be established.

**Recommendation**

The Council management should produce relevant supporting documents to support existence of the assets.

**3.2.7 Missing notes to the statement of capital expenditure and its financing**

The statement of capital expenditure and its financing for the financial year ended 30<sup>th</sup> June 2005 submitted for audit examination did not provide explanatory notes to support the statement and its financing items reflected in the statement and hence violation of the Local Authority Financial Memorandum.

**Implication**

The authenticity of the capital expenditure amount of Shs.937,204,812 and its financing amount of Shs.1,026,305,207 could not be established.

### Recommendation

The management is urged to adhere to Local Authority Financial Memorandum relating to Capital expenditure and its financing procedures.

### 3.2.8 Work in progress Shs.310,101,004

The Balance Sheet as at 30<sup>th</sup> June 2005 reflected work in progress figure of Shs.310,101,004. However, the figure was not supported by individual analysis of projects progress duly certified

### Implication

Authenticity of the amount of Shs.310,101,000 in respect of the work in progress could not be established

### Recommendation

The management is urged to adhere to financial regulations.

### 3.2.9 The Balance Sheet as at 30<sup>th</sup> June 2005 reflected outstanding debtors amounting to Shs.30,400,791 as detailed below:-

Category	Amount (Shs.)
Salary advances	5,024,354
Staff imprests	<u>11,597,354</u>
<b>Total</b>	<b><u>16,621,708</u></b>

### Implication

Non recovery of debts impairs Council's liquidity

### Recommendation

The Council management should establish a system whereby all Council's debtors are collected within specified time frame.

### 3.2.10 The following items in the Bank Reconciliation statements as at 30<sup>th</sup> June 2005 were observed to be outstanding:-

Account	Unpresented cheques (Shs.)	Cash on transit (Shs.)	Stale cheques (Shs.)
Agriculture	121,000	2,000,000	-
G. Fund	27,727,216	3,625,646	-
Development	2,799,150	6,420,000	715,500
Deposit	-	1,726,407	-
Special	-	4,502,417	5,650,218
Works	2,611,534	365,185	584,083
WDF	-	4,928,725	-
Property Tax	2,625,195	418,812	-

Angaza (VCT)	14,216,754	-	65,723
Health	72,082,088	-	75,000
Education	-	-	-
LGSP	9,305,160	-	-
<b>Total</b>	<b>131,488,097</b>	<b>24,086,192</b>	<b>7,090,524</b>

### **Implication**

Uncleared items may conceal frauds

### **Recommendation**

The Council management is required to institute a mechanism whereby all financial transactions are reconciled as required by financial regulations.

## **4.0 CONCLUSION**

The detailed audit findings presented above have been communicated to management of the Sumbawanga Municipal Council during exit meeting. The Management has promised to take appropriate action with a view to rectify the situation. I 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**

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Ministry of Finance,  
Box 9111,  
Dar es Salaam.

## 5.0 ANNEXURES

Financial Statements and notes to the financial statements - annexure I

ORGANIZATION STRUCTURE OF SUMBAWANGA MUNICIPAL COUNCIL

