

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF NKASI DISTRICT COUNCIL
FOR THE YEAR ENDED 30TH JUNE, 2005

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March, 2006

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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 |
| GAAS | Generally Accepted Accounting Standards |
| GDP | Gross Domestic Product |
| GOT | Government of Tanzania |
| IFMS | Integrated Financial Management System |
| IG | Investment Grant |
| ISA | International Standard on Auditing |
| LAAM | Local Authority Accounting Manual |
| LAFM | Local Authority Financial Memorandum |
| LGA | Local Government Authorities |
| LGRP | Local Government Reform Programme |
| MoF | Ministry of Finance |
| M&E | Monitoring and Evaluation |
| NGO | Non-governmental Organisation |
| OCAG | Office of the Controller and Auditor General |
| PER | Public Expenditure Review |
| 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 |
| Council means: | Nkasi District Council, both as Councilors as well as an operating entity. |
| Financial Statements means: | The Consolidated Balance Sheet, Consolidated Income and expenditure Statement, Consolidated Cash-flow Statement, Notes and related schedules of Nkasi District Council for the year ended 30 th June 2005. |

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

We have completed the audit of Nkasi District Council accounts for the year ended 30th June 2005. Audit findings arising from examination of accounting records, appraisal of activities 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 Nkasi District 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 Procurement Act No.21 of 2004.
- Local Government Finances Act No 9 of 1982.

1.3 Operational objectives

According to section III (1) of the Local Government (District Authorities) Act, and the Local Authority financial Memorandum, the Nkasi District Council has the following operational 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 Council 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.3,393,384,426 made up of Shs.399,920,014 from own sources and Shs.2,993,414,412 from government grants and donors funds.

1.5 Management

The Nkasi 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 on matters falling under their jurisdiction.

In addition the structure provides for functional departments namely: Administration, Finance and Trade, Health, Education, Works, District Planning and Environment and 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 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 Nkasi District 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 Financial Performance Issues

Revenue

The District Council collected an amount of Shs.399,920,014 from own sources however, the budget figures were not disclosed in the financial statements. In addition the Council received grants amounting to Shs.2,993,464,412 making total revenue of Shs.3,393,384,426 during the year.

Expenditure

The Council spent Shs.3,142,879,511 during the year against total income of Shs.3,393,384,426 or 92.6% of total revenue, resulting in unspent amount of Shs.250,504,915. 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.399,920,014 against expenditure of Shs.3,142,879,511 (net of depreciation) is only 12.7% 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 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 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 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 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 District 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 Council's documents as was deemed necessary under the circumstances.
- Examination of receipts and payments to confirm compliance with existing legislation, financial regulations and other instructions or directives.
- A review of the internal control structure by assessing significant policies and procedures and establish its adequacy.
- Review of financial statements, progress reports, various implementation reports and other associated information.

- Conduct compliance tests on the system of awarding contracts and their execution.
- Interview and discussion with some of the staff and other key stakeholders in the implementation of various activities.
- Conduct local inspection to verify physical implementation of planned activities as well as assessing the progress made.
- Hold entrance and exit meetings with the auditee to discuss the audit objectives and results of the audit, respectively.

1.12 Presentation of audit findings

The audit was carried out according to the mandate stated above, applying professional standards and audit procedures that were considered appropriate in each situation. The audit findings are divided into two parts.

The first part comprises the opinion on the critical examination of the financial statements submitted for audit and the circumstances surrounding their preparation and presentation.

The second part comprises the detailed findings on the gaps and shortfalls in the internal control system and compliance, which if rectified on time, will greatly improve the effectiveness of the internal control system applied.

2.0 AUDIT REPORT ON THE FINANCIAL STATEMENTS

To: The Regional Commissioner,
Rukwa Region.

District Executive Director and Accounting Officer,
Nkasi District Council.

Re: Independent Audit Report on the Financial Statements of Nkasi 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 Nkasi District Council shown on annexure II of this report for the financial year ended on 30th June 2005.

Responsibility of Council Management on the financial statements

These financial statements are the responsibility of the management of Nkasi 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 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 misstatement.

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 Nkasi District 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 Nkasi 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.

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

- (1) Revenue collections totalling Shs.18,792,695 not confirmed to have been brought to account.
- (2) Procurement of goods and services by using special imprests Shs.5,692,050
- (3) Outstanding Debtors Shs.78,224,652
- (4) Work in Progress not analysed Shs.81,236,796
- (5) Sundry Creditors not cleared Shs.13,710,609

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.

February 2006.

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow up of previous year's audit findings

3.2 Current year's audit findings

3.2.1 Revenue collections not confirmed to have been brought to account Shs.18,792,699.74

A sum totalling Shs.18,792,695 in respect of revenue collections has not been confirmed to have been remitted to the Council Head Office since the relevant acknowledgement receipts were not produced for audit verification.

Implication

Possible misappropriation of the revenue collections cannot be ruled out if the amount involved is not brought to account.

Recommendation

The Council management should introduce a system whereby all revenue collecting agents are bonded by guarantors so that in case they default to remit revenue collections made by them their bonds replace revenue not so remitted.

3.2.2 Procurement of goods and services by using special imprests Shs.5,692,050

It was observed during the year under review that the Council issued special imprests totalling Shs.5,692,050 to its staff for procurement of goods and services contrary to procurement regulations.

Implication

Violation of procurement procedures and regulations which if not controlled may lead to possible misappropriation of the Council's funds.

Recommendation

The Council management should ensure adherence of procurement procedures and regulations in order to safeguard Council's funds.

3.2.3 Training costs for overlapping periods Shs.1,550,000

During the year under review, the Council incurred an amount of Shs.1,550,000 to meet training costs for CPA review course to an official of the Council who was already pursuing a one year postgraduate programme which was fully sponsored by Treasury, hence, there was no need for the officer to pursue another course before completing the course which he was pursuing.

Implication

Fraudulent claim involved.

Recommendation

The Council management should ensure that the amount involved is recovered from the officer and also training programmes should be well coordinated and controlled to avoid such controversies.

3.2.4 Motor vehicle paid for but not delivered Shs.50,000,000

In June, 2005 the Council paid an amount of Shs.50,000,000 to M/s Toyota Tanzania Ltd for the purchase of an ambulance motor vehicle. However, the motor vehicle had not been delivered to the Council as at the date of audit inspection in November, 2005.

Implication

Delay in rendering the expected services from the ambulance.

Recommendation

The Council management should ensure that the ambulance is delivered.

3.2.5 Unutilized Government Grants Shs.146,071,100

The Consolidated Balance Sheet as at 30th June 2005 disclosed government grants totalling Shs.146,071,100 to have not been utilized.

Implication

Non implementation of the expected programmes

Recommendation

The Council management should ensure that all funds issued to the Council are utilized according to programmes in the budget.

3.2.6 Outstanding Debtors Shs.78,224,652

The Balance Sheet as at 30th June 2005 disclosed outstanding Debtors totalling Shs.78,224,652.

Implication

Non clearance of the debtors may force the Council not to meet its financial obligations.

Recommendation

The Council management should ensure it establishes proper mechanism of collecting its debts.

3.2.7 Work in Progress Shs.81,236,796

The Balance Sheet as at 30th June 2005 reflected work in Progress totalling Shs.81,236,796. However, no reports for the work in progress were availed to audit to indicate the projects and their implementation status.

Implication

Denying stakeholders to ascertain correctness of the projects status.

Recommendation

The Council management should ensure that all information appearing in the accounts are supported with evidence.

3.2.8 Creditors Shs.13,710,609

The Balance Sheet as at 30th June 2005 reflected outstanding creditors totalling Shs.13,710,609 committed during the financial year.

Implication

Affects ensuing year's budget if the creditors are going to be paid during the year

Recommendation

The Council management should ensure that it makes commitments which are within its budget in order to avoid credits.

3.2.9 Uncleared items in the Bank Reconciliation Statements

The Bank Reconciliation Statements as at 30th June 2005 disclosed the following uncleared items in the Bank Reconciliation Statements.

| Item | No. of Accounts | Amount (Shs.) |
|--------------------|----------------------------|--------------------------|
| Unpresented cheque | 13 | 26,276,221 |
| Cash in transit | 8 | 3,483,467 |

Implication

Non clearance of the items may conceal frauds

Recommendation

The Council Management should ensure that all uncleared items in the Bank Reconciliation Statements are cleared.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Nkasi District 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

Copy to: The Permanent Secretary,
Prime Minister's Office,
Regional Administration and Local Government,
P.O. Box 1923,
Dodoma

The 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 NKASI DISTRICT COUNCIL

