

**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE (NAO)**



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

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March, 2006

**AR/LG/036/2005**

## 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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## 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

Financial Statements means:

The Consolidated Balance Sheet, Consolidated Income and expenditure Statement, Consolidated Cash-flow Statement, Notes and related schedules of Kibondo District Council for the year ended 30<sup>th</sup> June, 2005.

Council means - Kibondo District 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 Kibondo District Council for the period ended 30<sup>th</sup> June 2005. Audit findings arising from examination of accounting records, appraisal of activities and evaluation of the internal control system which required Management attention and action, are set out under part three of this report.

### **1.2 Brief history of Client Establishment**

Kibondo District Council was established 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 District Council of Kibondo 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.

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, own sources and external sources. The Internal source included collection of Public funds through, taxes, fees, Licence and charges. On the other hand external source include subsidies from central government, grant and loans from donor community. Total Income during the year was Shs.6,414,575,889.51 made up of Shs.91,266,743.60 from own sources, Shs.6,323,309,145.91 from government grants and donor funds.

#### **1.5 Management structure**

Kibondo District Council operates under directives of the full Council which is a Supreme body for legislative responsibilities.

Under the Full Council there are three Committee which are directly answerable to it. The Chief Executive for the Council is the District Executive Director (DED) who is responsible for day-to-day activities. Under the DED there are eleven heads of departments, who are sub-accounting Officers and one legal adviser.

The management structure of the Municipal Council is shown as annexure II of 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 operation 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 report 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 Kibondo District Council abides by this Order and the Procurement Act, but is lacking an Audit Committee which is part of transparently and good governance. Nevertheless, weaknesses arising from appraisal of Internal Control System are included under part three of this report.

## **1.7 Financial Performance Issues**

### **Revenue**

The District Council collected an amount of Shs.91,266,744 from own sources against the internal revenue budget of Shs.140,226,190, reflecting a collection shortfall of Shs.48,959,446. or 35%. 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.6,323,309,146 making total revenue of Shs.6,414,575,890 during the year.

### **Expenditure**

The Council spent Shs.5,900,816,548 during the year against total income of Shs.6,414,575,890 or 92% of total revenue, leaving unspent amount of Shs.513,759,342. 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.91,266,744 against expenditure of Shs.5,558,407,231 (net of depreciation) is only 1% 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 (1) of the Local Government Finance Act No.9 of 1982 (Revised,2000) the Controller and Auditor General is the appointed auditor of all government revenues and expenditure, including the revenues and expenditure of this District Council.

## **1.9 Audit Objectives**

The main objective of carrying out the audit is to enable me to express an independent opinion on the financial statements of the 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 revenue 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 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.

### **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 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.
- 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.
- Conduct compliance tests on the system of awarding contracts and their execution.

#### **1.12 Presentation of audit findings**

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

The audit findings are divided into two parts. The first part comprises the opinion on the critical examination of the financial statements submitted for audit and the circumstances surrounding their preparation and presentation.

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

## **2.0 AUDIT REPORT ON THE FINANCIAL STATEMENTS**

**To:** The Regional Commissioner,  
Kigoma Region.

District Executive Director and Accounting Officer,  
Kibondo District Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF  
KIBONDO DISTRICT 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 Kibondo District Council shown on annexure II 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 Kibondo 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 Kibondo 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.

### **Qualification**

In my opinion except for the material matters pointed out below, the financial statements fairly reflect, in all material respects, the financial position of Kibondo District Council as at 30<sup>th</sup> 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.

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

1. There long outstanding audit queries (since 1998) yet to be resolved
2. Project implementation reports worth 13,055,000 were not made available to audit.
3. Bank reconciliation statement as at 30<sup>th</sup> June 2005 contains items not cleared amounting.

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 of Previous audit findings

F/ Year	Paragraph No.	Audit Observation	Amount Queries Shs.	Amount Outstanding Shs.	Remarks
1998	1.0	Statutory deduction not remitted	27,716,057	85,898,961	The outstanding amount include interest on unpaid amount
	2.0	Terminal benefits not recovered from Nkasi District	536,844	536,844	The amount is still outstanding
2003	4.4	Funds not transferred	53,370,920	18,365,817	The balance is unclaimed salaries not transferred to Treasury
	4.6	Outstanding Debtors	260,852,589	123,386,952	Not yet collected
	4.7	Outstanding Creditors	103,014,637	89,852,104	Still outstanding
	4.9	Overdrawn Accounts	19,624,620	19,624,620	Written authority is still awaited.

#### 3.2 Current audit findings

##### 3.2.1 Improperly vouched expenditure Shs.1,264,200

Examination of payment vouchers for the year 2004/05 disclosed improperly vouched expenditure amounting to Shs.1,264,200 as follows:-

Account	Category	Amount (Shs.)
Health	Missing supporting documents	311,200
General Fund	Missing supporting documents	953,000
	<b>Total</b>	<b>1,264,200</b>

##### Implication

Propriety of expenditure incurred could not be ascertained.

##### Recommendation

The missing supporting documents should be traced and submitted to regularize the expenditure.

##### Management Response

Appropriate supporting documents will be traced and attached to related payment vouchers.

### Audit Comment

Follow up will be made during the next audit.

#### 3.2.2 Missing Project Implementation Reports Shs. 13,055,000.00

A total amount of Shs.13,055,000 was paid by the Council for implementation of the following projects funded by Danish Fund and DADPS:

Project	Account. No.	Amount (Shs)
Rehabilitation of BUKIRO Dip for Tick Control	6813000634 NMB Kibondo	1,850,000.00
Tunza mifugo project	6813000626 NMB Kibondo	1,850,000.00
NYENDARA Irrigation scheme	-	9,355,000.00
	<b>TOTAL</b>	<b>13,055,000.00</b>

### Implication

Verification of expenditure incurred in implementation of the projects was not possible because statements of expenditure, valuation certificates and implementation reports were not available. It appears that there is no effective follow up on implementation of these projects.

### Recommendation

The management should ensure that utilization account and project implementation reports are produced for audit.

### Management Response

- Funds were released to project Bank accounts based on project Budgets, action plans and requests from respective projects. This is according to directives issued by the Ministry of Agriculture and Food Security.
- Project implementation reports will be available for audit verification.

### Audit Comments

Follow up on implementation of the projects should be enhanced and verification of the implementation reports will be done in the next audit.

### 3.2.3 Funds Transferred to Co-operative Societies not accounted for Shs.6,700,000.00

Cooperative Societies listed below could not account for a total amount of Shs.6,700,000 received from the District Council through DADPS Account.

Cooperative Society	Amount (Shs)
UWABUGWA - Chama cha wafugaji	1,850,000
TUNZA MIFUGO-Chama cha wafugaji	1,850,000
Umoja wa wafugaji Josho la ITABA	1,000,000
Umoja wa Wakulima Bonde la MUHWAZI	1,000,000
JUHUDI - Umoja wa wakulima vijana NYANGE	1,000,000
<b>TOTAL</b>	<b>6,700,000</b>

#### Implication

Failure to submit statements of expenditure and their respective payment vouchers and supporting documents might result in non-detection of funds used for un intended purposes. In addition, failure to submit statements of expenditure might indicate that the cooperative Societies do not have the required knowledge in funds management.

#### Recommendation

The Council is advised to educate the management of Cooperative Societies in funds management. The Council should also make frequent follow up in order to ensure that funds disbursed to the cooperative societies are used as intended.

#### Management Response

Transfer of fund to various cooperative societies was done based on constitutions, budgets, action plan and requests from respective cooperative societies. This is according to directive by the Ministry of Agriculture and foods security.

Project Implementation reports will be made available for audit verification.

#### Audit comment

Funds should only be issued to cooperatives with members who have been proved to be highly motivated and committed to ward their society.

### 3.2.4 Outstanding Debtors Shs.294,820,927

The consolidated Balance Sheet as at 30<sup>th</sup> June,2005 indicated uncollected debts of Shs.294,821,488 as follows:-

	Amount (Shs)
Salary Advance	1,772,376
Outstanding Imprests	195,955,397
Loans	49,783,458
Advances (Karadha)	2,709,574
Internal transfers	25,296,722
Sundry debtors	<u>19,303,400</u>
<b>Total</b>	<b><u>294,820,927</u></b>

#### Implication

Failure to collect debts on time has the effect on cash inflows which may affect councils operations as the funds are tied up. In addition, due to passage of time the debts might become irrecoverable and will be written off as bad debts.

#### Recommendation

More efforts should be made for timely recovery of debts.

#### Management Response

The management reminded all debtors to make recovery of their debts

#### Audit Comment

As most of the debts are owed by Council's staff the outstanding debts should be recovered from respective officer's salaries.

### 3.2.5 Deposits Shs.24,564,939

The total amount of deposits of Shs.24,564,939 reflected in the consolidated balance sheet, excludes balance amounting to Shs.7,125,320 remaining in the deposit register. The correct balance should be Shs.31,690,259, arrived as follows:-

	Shs.
Deposits	24,564,939
Advances	46,000
Cotton Development Fund	140,500
Ukarabati Ofisi ya DC	<u>6,938,820</u>
<b>Total</b>	<b><u>31,690,259</u></b>

#### Implication

Absence of individual accounts may lead to misallocation of funds to unintended uses.

**Recommendation**

The management should prepare a deposit account showing the actual amount remaining in the books for each item of deposit.

**Management Response**

Specific account on each deposit have been prepared.

**Audit comment**

The management should prepare both accounts and schedules reflecting the actual balance to each individual account.

**3.2.6 Bank reconciliation statements**

Bank reconciliation statements prepared as at 30<sup>th</sup> June,2005 reflected outstanding matters which need to be cleared viz:-

Account	Deposit in cash book not in bank	Unpresented cheques	Receipts in bank not in cash book	Payment in bank not in cash book
General Fund	8,652,827	8,731,683	-	-
Development Fund	1,544,000	-	-	-
Miscellaneous Deposit	-	129,993,729	3,450,317	14,604,018
Works	35,000	140,000	-	-
Education	-	2,028,328	-	-
Health	40,000	5,655,017	-	-
Kilimo/Mifugo	-	308,000	-	-
Road toll	-	8,927,958	-	-
AYA Fund	-	3,410,000	-	-
DADPS	-	3,600,000	-	-
<b>TOTAL</b>	<b>10,271,827</b>	<b>162,794,715</b>	<b>3,450,317</b>	<b>14,604,018</b>

**Recommendation**

The outstanding balances should be cleared.

**Management Response**

All items which were outstanding during June 2005 have been cleared during July 2005 and all documents are available to support the action taken.

**Audit Comment**

We call for post June Bank Reconciliation Statements for audit.

#### 4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Kibondo District Council during exit meeting. Management of the Kibondo District Council has promised to take appropriate action with a view to rectify the situation. We shall appreciate to receive formally the actions taken in this respect.

Lastly, I would like to express my appreciation for the cooperation given to the audit team. It is my hope that such good working relationships will be extended during future audits.

Dr. Frank Mosses Hiza Mhilu  
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## 5.0 ANNEXURES

- Financial Statements and notes to the financial statements - annexure I
- Organization structure of Kibondo District Council - annexure II

**FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.**

ORGANIZATION STRUCTURE OF KIBONDO DISTRICT COUNCIL

