

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF KASULU DISTRICT COUNCIL
FOR THE YEAR ENDED 30TH 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
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 Kasulu District Council for the year ended 30th June, 2005.

Council means - Kasulu 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 Kasulu District Council 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 Kasulu 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 Kasulu 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.9,939,779,088 made up of Shs.80,253,301 from own sources, Shs.9,840,072,210 from government grants and donors funds.

1.5 Management

The Kasulu 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 Kasulu 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.80,253,301 from own sources against the internal revenue budget of Shs.88,429,450 reflecting a collection shortfall of Shs.8,176,149 or 9%. 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.9,859,516,787. making total revenue of Shs.9,939,770,088 during the year.

Expenditure

The Council spent Shs.10,317,071,031 during the year against total income of Shs.9,939,770,088. or 104% of total revenue, resulting into overspent of Shs.377,300,943. 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.80,253,301 against expenditure of Shs.9,766,073,943 (net of depreciation) is only 0% 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,
Kigoma Region.

Council Director and Accounting Officer,
Kasulu District Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
KASULU 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 Kasulu 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 Kasulu 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 Kasulu 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.

Adverse opinion

Reasons for the adverse opinion

The financial statements of Kasulu District do not reflect fairly the financial position of the Council as at 30th June 2005 and the results of its operations and cash flows for the year then ended.

1. The cash and Bank Balance shown in the Consolidated balance sheet was understated by Shs.287,226,113.35.
2. The Council did not disclose an amount of Shs.258,103,310 from central Government as compensation for abolished taxes.
3. An amount of Shs.1,265,683,814 was spent in the development projects but was not disclosed in the cash flow statement.
4. The bank reconciliation statement reflected uncleared items amounting to Shs.26,352,406

Dr. Frank Mosses Hiza Mhilu
Ag. CONTROLLER AND AUDITOR GENERAL

Office of the Controller and Auditor General
The National Audit Office
Dar es Salaam.

31 March 2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow up of previous year's audit findings

2002 Accounts

3.1.1 Para 4.2.2 outstanding debtors- Shs.52,762,340

The finalization report on debts written off by the Finance, Planning and Administration Committee of Shs.5,590,510 out of the outstanding amount of Shs.13,212,036 was not received for confirmation.

In addition, a schedule showing individual balances outstanding amounting to Shs.7,621,526, and their age, has not been prepared and submitted for audit verification.

2003 Accounts

3.1.2 Para 4.1.2 outstanding creditors- Shs.63,071,650

An amount of Shs.28,067,970 is still outstanding.

3.2 Current Audit findings

3.2.1 Revenue from own sources Shs.80,253,300

A total amount of Shs.80,253,300 was collected against revenue estimates of Shs.88,429,450 the year 2004/05, under general fund account, registering a deficit of Shs.8,176,150 or 9% of the estimates. However, both the estimated amount and the actual collections excluded grants amounting to Shs.258,103,310 from the Government for taxes compensation.

Implication

Excluding from the accounts the amount of Shs.258,103,310 received from the Government for compensation of abolished taxes had the effect of increasing deficit amount of Shs.377,300,942 reflected in the statement of income and expenditure.

Recommendation

It is recommended to the management to expand tax base in order to reduce dependence on grants. In addition the accounts should be adjusted to include the amount of Shs.258,103,310 received from the Government.

3.2.2 Consolidated balance sheet as at 30th June 2005

Examination of the balance sheet as at 30th June 2005 disclosed the following outstanding balance.

Debtors	Amount
House rent	4,986,000
Advances	6,699,480
Imprest	44,316,286
Total	<u>62,001,766</u>

Creditors	Amount
Sundry creditors	52,712,001.80
Accrued payment	17,780,000.00
Unclaimed salaries	6,055,097.20
Total	<u>76,547,099.00</u>

Implication

Non collection of debts in time might lead to some of them to be irrecoverable due to passage of time and be written off as bad debts. In addition, funds are tied up and could not be used to implement some of the budgeted activities.

Recommendation

The outstanding balance should be cleared at the earliest. In addition, the balance of debtors should be analysed in accordance with age.

3.2.3 Deposit account overdrawn Shs. 16,551,551,566

The following deposit items were overdrawn to the extent of Shs. 16,16,551,566

Item	Amount Shs.
693-01	11,769,450
693-12	866,606.85
693-16	750,000
693-25	1,971,734
693-39	219,975
693-65	772,400
693-50	201,400
Total	16,551,566

Implication

The overdrawn items of deposit suggests that money was spent in excess of the amounts deposited.

Recommendation

Proper recording and maintenance of accounting records should be enhanced. The Council management should ensure that the overdrawn funds are refunded and that payments from the deposit account are limited to the amount of money deposited.

3.2.4 Bank reconciliation statements

The Bank reconciliation statements as at 30th June 2005 reflected uncleared items as follows

Item	Amount
Unpresented cheques	344,322,908.22
Payments in bank not in cashbook	10,187,894.00
Cash in transit	6,927,340.88
Receipts in bank not in cashbook	303,659.00
Deposit in cashbook not in Bank	26,352,406.65

Recommendation

The management of the Council should clear these outstanding items and submit to audit for verification.

3.2.5 Capital expenditure and its financing

The capital expenditure and its financing statement as at 30th June 2005 reflected that a total amount of Shs.1,265,683,814 was spent in respect of various development projects against total receipts for capital expenditure of Shs.1,619,195,819 leaving unspent balance of Shs.353,512,004. However, the consolidated cash flow statement for the period under review reflected zero expenditure.

Recommendation

The management should adjust the accounts and the statements accordingly.

3.2.6 Cash and Bank Balances (bank control) Shs.565,054,479.00

The amount of cash and bank balances (cash control) of Shs.565,054,479 shown in the consolidated balance sheet has not been supported by analysed statement showing balances of individual bank accounts. It has however, been noted that the amount of cash and bank balances outstanding as at 30th June 2005 was Shs.852,280,592.37 as shown at annexure 1 resulting in a variance of shs.287,226,113.35.

Implication

The financial position of the Council is not correctly shown in the balance sheet.

Recommendation

The difference of shs.287,226,113.35 should be reconciled and the financial statements adjusted.

4.0 CONCLUSION

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

Lastly, I would like to express my appreciation for the 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

CC: Permanent Secretary,
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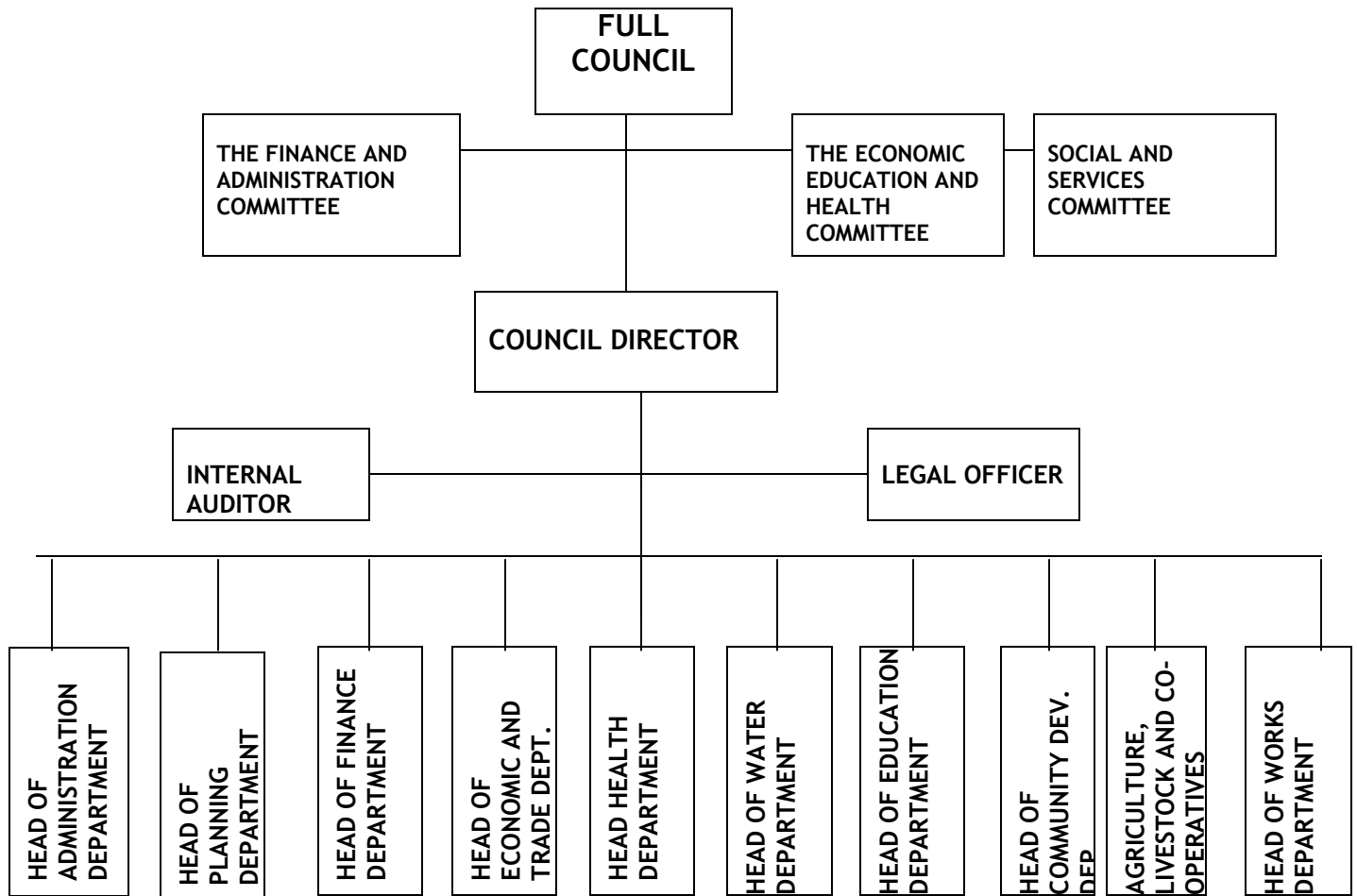
Permanent Secretary and Paymaster General,
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DAR ES SALAAM.

5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF KASULU DISTRICT COUNCIL



Annexure III

A/C Number	A/C Name	Development	Recurrent	Total
6502000002	development	125,127,764.85	-	125,127,764.85
6502000005	Education	-	301,738,578.45	301,738,578.45
6502000001	General fund	-	38,346,618.60	38,346,618.60
6502000003	Deposit	-	3,939,648.89	3,939,648.89
6502000004	Works	-	6,164,461.08	6,164,461.08
6502000006	Health	-	44,170,942.18	44,170,942.18
6502000007	Water	-	19,252,584.35	19,252,584.35
6502000009	Road Fund	32,351,938.37	-	32,351,938.37
65020000010	Vehicle pool	-	412,665.75	412,665.75
65020000013	Revenue	-	1,633,913.67	1,633,913.67
65020000014	Garage	-	68,569.00	68,569.00
65020000017	Irrigation scheme	626.30	626.30	626.30
65020000019	Women development	-	2,332,554.15	2,332,554.15
65020000020	Youth and Loan Revolv.	-	1,220,443.20	1,220,443.20
65020000025	Block grant	9,394,705.20	9,394,705.20	9,394,705.20
65020000026	TASAF	1,115,268.80	-	1,115,268.80
65020000027	Live stock development	-	7,434,000.00	7,434,000.00
65020000029	PADEP in	115,147,944.71	115,147,944.71	115,147,944.71
65020000031	African Youth Alliance	6,456,630.00	-	6,456,630.00
65020000032	Royal Danish	108,812,033.32	-	108,812,033.32
65020000033	Agriculture development	19,605,302.00	-	19,605,302.00
65020000037	Agriculture input	7,553,400.00	-	7,553,400.00
	Total	442,556,5613.55	426,714,979.32	852,280,592.57