

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF KIGOMA 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 Kigoma District Council for the year ended 30th June, 2005.

Council means - Kigoma 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 Kigoma 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 Kigoma 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 Kigoma 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 and grant/loans from donor community. From these sources, total Income during the year was Shs.6,732,299,116 made up of Shs.293,501,239 from own sources, Shs.6,438,797,877 from government grants and donors community.

1.5 Management structure

The Kigoma 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, Town 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 II to this report.

1.6 Brief description of internal control system

A system of internal control that should be adopted by councils is given under order No.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 Kigoma 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.293,501,239 from own sources against the internal revenue budget of Shs.370,915,516 reflecting a collection shortfall of Shs.77,414,277 or 20%. 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.6,909,979,505 making total revenue of Shs.7,203,480,744 during the year.

Expenditure

The Council spent Shs.6,974,223,209 during the year against total income of Shs.7,203,480,744 or 97 % of total revenue, leaving unspent amount of Shs.229,257,535. 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.293,501,239. against expenditure of Shs.6,833,367,470 (net of depreciation) is only 4% 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 District 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 Authority's documents as was deemed necessary under the circumstances.
- Examination of receipts and payments to confirm compliance with existing legislation, financial regulations and other instructions or directives.
- A review of the internal control structure by assessing significant policies and procedures and establish its adequacy.

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

1.12 Presentation of audit findings

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

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

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

2.0 AUDIT REPORT ON THE FINANCIAL STATEMENTS

To: The Regional Commissioner,
Kigoma Region.

District Executive Director and Accounting Officer,
Kigoma District Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
KIGOMA DISTRICT COUNCIL FOR THE YEAR ENDED ON 30TH JUNE 2005**

I have audited the Consolidated Balance Sheet, Consolidated Statement of Income and Expenditure, Consolidated Cashflow Statement and the related notes and schedules of the Kigoma District Council shown on annexure I of this report for the financial year ended on 30 June 2005.

Responsibility of Council Management on the financial statements

These financial statements are the responsibility of the management of Kigoma 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 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 Kigoma 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 matters specified below, the financial statements fairly reflect, in all material respects, the financial position of Kigoma District Council as at 30th June 2005 and the results of the operations and Cashflows for the year then ended, in accordance with part IV of the Local Government Finances Act No.9 of 1982.

Further to my opinion

Except for the payments made in respect of maintenance of motor vehicles, the procedures followed for the procurement of office furniture's, stationery and office equipments were generally done in accordance with the Public Procurement Act No.21 of 2004 and the related registration.

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

1. The Council received Shs.4,945,000 from UNICEF Dar es Salaam vide receipt No. 00293733 of 01/11/2004, the amount was not recorded in the cash book.
2. The audit examination of expenditure revealed that improperly vouched expenditure amounted to Shs.3,850,200
3. Project funds amounting to Shs.10,000,000 donated by DANIDA for water supply and sanitation projects was used for construction of schools without prior approval from appropriate authority.
4. The Council had purchased equipment of Shs.41,593,000 for construction of water scheme at Kazuramimba but no progress report was produced to substantiate implementation of the project.
5. The Council has not yet acted on audit queries issued in previous audit reports.
6. There are outstanding amounts in the bank reconciliation statements not yet cleared.

The detail 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.
31 March 2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow up of previous year's audit findings

3.1.1 Para 2.3 Revenue not remitted by the collecting agents Shs.28,630,475

The amount due of Shs.28,630,475 has not yet been collected from the agents.

Implication

Failure to collect debts reduces the council's ability to pay for services and other development projects.

Recommendation

The Council should make more effort to collect the debts.

Management Response

The case in respect of these debts is still in the court.

Audit comment

The Management should make follow-up of the case in the court of law.

3.1.2 Balance of Debtors and creditors

The following balances had not yet been cleared.

	Shs.
• Debtors: Imprest	829,100
• Creditors: TALGWU	7,768,027
Accrued salaries	94,630,226

Implication

Failure to collect and pay for liabilities reduces councils ability to pay for other development projects, and other recurrent expenses.

Recommendation

Management should make efforts to collect and pay for debts outstanding.

Management response

Payments of creditors (accrued salaries) were made by using 40% of income from its own sources.

Audit Comments

The management should ensure that all claims are paid including statutory deductions.

3.2. Current audit findings

3.2.1 Apparent loss of Shs.4,945,000

A sum of Shs.4,945,000 was received vide receipt No. 02293733 of 1/11/2004 from UNICEF Dar es Salaam for CSPD project but as at the time of writing this report in February, 2006 the amount of Shs.4,945,000 was neither recorded in cash book nor credited in bank account No.5161200038.

Implication

The amount of Shs.4,945,000 might have been misappropriated.

Recommendation

The management should investigate and take appropriate action.

Management Response

The amount of money in question was not received from UNICEF DSM for support of CSPD activities, although receipted in council's book. Rectification is in progress with UNICEF DSM to return a receipt for cancellation.

Audit Comments

The cancelled receipt should be submitted for audit verification.

3.2.2 Unvouched and Improperly vouched expenditure Shs.3,850,200

A test check of payments vouchers for the year ended 30th June 2005 disclosed improperly vouched expenditure amounting to Shs.3,850,200 as shown below.

	Shs.
• Missing documents	406,000
• Payments based on profoma invoices	3,444,200
Total	3,850,200

Implication

Propriety of the expenditure made could not be ascertained.

Recommendation

The expenditure should be regularized by producing the missing documents. In addition, the management is required to strengthen the internal control system on documentation.

3.2.3 Fuel not accounted for Shs.2,744,000

A total of 2800 Liters of diesel worth Shs.2,744,000 were purchased out of an imprest of Shs.7,014,000 issued to DED Kigoma as per tax invoice No. 02055 at 21st September 2004. It was explained that the fuel was issued to motor vehicles from Ngara, Kibondo and Kasulu District Councils but respective issue vouchers and log books of the motor vehicles involved were not made available for audit verification.

Implication

Proper use of the fuel purchased could not be ascertained.

Recommendation

Produce utilization account of the 2800 litres of diesel for verification.

Management Response

The vehicles supplied with fuel have now been disclosed. These were outside vehicles from Ngara, Kibondo and Kasulu.

Audit Comments

The motor vehicles involved have not been mentioned to enable verification of the consumption of fuel.

3.2.4 Project funds used in another project

A sum of shs.10,000,000 being funds for water supply and sanitation projects financed by DANIDA was used for the purchase of 800 bags of cement used for construction of secondary schools in seven villages apparently without prior approval from proper authority. The amount of Shs.10,000,000 was not yet returned as at the time of writing this report in February 2006.

Implication

Diversion of funds to another project causes delay or non implementation of the project for which the funds were planned.

Recommendation

The amount of Shs.10,000,000 should be refunded to the respective account.

Management Response

The cement which was issued to the school projects have now been refunded to the water supply and sanitation project.

Audit comment

Neither the amount of Shs.10,000,000 nor the 800 bags of cement have been returned to water supply and sanitation project.

3.2.5 District project development grants Shs.41,593,000

Amount of Shs.41,593,00 was paid in May 2005 for purchase of equipment intended for use in construction of water scheme at Kazuramimba during the year 2004/2005. The equipments purchased were received and recorded in the stores ledger, but since the purchases were made in the last quarter of the year, it was unlikely that the project would be completed as planned. In addition, the implementation report was not made available to audit, therefore, we could not ascertain the status of the implementation of the project as at the time of audit.

Implication

It seems that the project was not implemented and completed in accordance with the plan.

Recommendation

The management should produce to audit the implementation report showing the status of the project.

Management response

All equipments paid for have been received, including 680 p c s of pvc pipes 90 mm, which were issued to Kazuramimba project on 9/6/05. Others are still in the store.

Audit comment

The project appears to have not been completed as planned due to lack of implementation reports.

3.2.6 Unclaimed salaries Shs.975,000.

Unclaimed salaries amounting to Shs.975,000 for the month of July and August 2004 were not yet paid over to the Treasury as at the time of writing this report. In addition, receipts issued by the Council in acknowledgement for the unpaid salaries were not made available to audit for verification. Furthermore, the unpaid salaries were not recorded in the register of unclaimed salaries.

Recommendation

The amount in question should be paid to the Treasury and acknowledgement receipts made available for audit verification.

Management response

The register for unclaimed salaries has been prepared as advised and recorded all the claimants of salaries with the amount due respectively.

Audit Comments

The unclaimed salaries have not yet been paid over to the Treasury.

3.2.7 Questionable expenditure on motor vehicles Shs.38,870,200**(a) Motor Vehicle SM 3587 Shs.9,708,480**

A total amount of Shs.9,708,480 was paid during the month of April 2005 in respect of the maintenance of motor vehicle No.SM 3587. The amount of Shs.9,708,480 was paid as follows:-

PV No.	Cheque No.	LPO No. and date	Invoice No.	Amount Shs.
64 of 4/05	042290	059538 of 25/4/05	1211 of 25/04/05	379,680
		059541 of 25/04/05	1212 of 25/04/05	2,484,000
			1214 of 25/04/05	846,000
			1215 of 25/04/05	1,224,000
			1207 of 25/04/05	310,320
			1208 of 25/04/05	1,410,000
		Sub Total		6,654,000
65 of 4/05	042290	059539 of 25/4/05	1203 of 25/04/05	447,600
		059540 of 25/4/05	1204 of 25/04/05	1,116,000
		059542 of 25/4/05	1209 of 25/04/05	878,880
			1210 of 25/04/05	612,000
		Sub Total		3,054,480
		Grand Total		9,708,480

The circumstances which led to 5 LPOs and 10 invoices all to be issued on the same day (25/04/2005) were not explained during the audit.

(b) Motor Vehicle SM 2271 Shs.8,465,280.

Payments totalling Shs.8,465,280 made in respect of maintenance to motor vehicle No. SM 2771 included Shs.2,766,000 which was paid in respect of an invoice No. 600 of 18/11/2002 which was more than two years old while the LPO was issued on 11/2/2005. Also the remaining amount of Shs.5,699,280 was paid vide payment vouchers Nos. 46 and 47 of 2/2005 supported by Invoices 1118 A and 1118 B of 11/2/2005 apparently for maintenance cost during the month of February 2005. The reasons as to why the amount of Shs.2,766,000 was paid after a period of more than two years, as well as the reasons for sending the vehicle twice for maintenance during the same month of February 2005 were not given.

(c) Invoices issued before LPO's Shs.20,696,440

It was noted that invoices supporting total payment of Shs.20,696,440 to various garage owners, were issued before orders were made i.e the LPOs were issued at later dates than the dates of the invoices contrary to the procurement procedures. In addition, a record of the replaced parts was not kept.

Implication

The payments would appear to be doubtful as the exact dates on which the maintenance/repairs to the motor vehicles were carried out could not be ascertained.

Recommendation

The management should follow the laws, regulations and rules in the procurement of goods and services.

Management response

The register to support scrappers that were removed after repairs to motor vehicles have been prepared and all scrapers recorded therein. In addition all the scrappers were returned into council store.

Audit comments

Neither the register, nor scrappers were shown to audit. The register for replaced used parts and physical presence of the parts were not made available for audit.

3.2.8 Consolidated Balance Sheet as at 30th June 2005

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

Debtors Shs.75,487,878

category	Amount outstanding Shs.
Advances	66,214,977.21
Imprests	9,272,900.00
Total	75,487,877.21

3.2.9 Creditors. Shs.141,276,245

The outstanding amount of creditors of Shs.141,276,245 is made up by the following:

category	Amount outstanding Shs.
LAPF	22,865,477.00
TALGWU	9,416,638.65
NIC	1,049,314.45
Unclaimed salaries	22,029,778.65
Others	34,774,938.75
Stale cheque	51,140,097.00
Total	<u>141,276,244.5</u>

Recommendation

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

3.2.10 Bank reconciliation statements

Bank reconciliation statements prepared as at 30th June 2005 reflected the following outstanding matters which need to be cleared:

account	Receipt in C/books not in Bank	Unpresented cheques	Payments in Bank not in cash book
G/ fund	170,247.50	50,000	-
Development	1,000,000.00	18,184,600	-
Deposit	552,458.80	159,245,400	-
Works	154,274.00	-	-
Education	-	14,456,300,000	-
Health	188,000	2,045,216.80	-
Road Toll	-	29,653,513.00	-
PEDP	45,141	-	-
Women	-	4,800,000.00	-
Kilimo/Mifugo	-	241,028.00	-
Community	140,000	-	-

Recommendation

Clearance of the outstanding items should be made. In addition the management is required to make relevant adjustments for cheques which remain uncleared after six months from the dates they were issued.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Kigoma District Council during exit meeting. The Management of Kigoma 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,
Prime Minister's Office,
Regional Administration and Local Government,
Box 1923,
DODOMA.

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 Kigoma District Council - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF KIGOMA DISTRICT COUNCIL

