

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



REPORT OF THE CONTROLLER AND AUDITOR GENERAL

**ON THE FINANCIAL STATEMENTS OF MEATU DISTRICT COUNCIL
FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2005**

The Controller and Auditor General
National Audit Office
Samora Avenue / Ohio Street
P.O. Box 9080,
Tel: 255 (022) 2115157/8
Fax: 255 (022) 2117527/2255333
E-mail ocag@nao.or.tz
Dar es Salaam, Tanzania

March, 2006

AR/LG/098/2005

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.

- © This audit report is intended for use by government authorities. However, upon receipt of the General Report of the CAG by the Speaker, this report is a matter of Public record and its distribution may not be limited.

Table of Contents

	Page
1.0 Background information to the audit	5
1.1 Introduction	5
1.2 Brief history of the client establishment	5
1.3 Operational objectives	5
1.4 Financing	5-6
1.5 Management structure	6
1.6 Brief description of internal control system	6
1.7 Financial Performance	7
1.8 Audit Mandate	7
1.9 Audit objectives	7-8
1.10 Audit scope	8-9
1.11 Audit methodology	9
1.12 Presentation of audit findings	9
2.0 Audit report on the financial statements	10-12
3.0 Audit findings and recommendations	13
3.1 Current year's findings	13-19
4.0 Conclusion	19
Annexures	

Terms and Abbreviations

DED	District Executive Director
GF	General Fund
INTOSAI	International Organization of Supreme Auditing Institutions
ISA	International Standards on Auditing
LAFM	Local Authority Accounting Manual
LPO	Local Purchasing Order
PEDP	Primary Education Development Project
PMO-RALG	Prime Minister's Office -Regional Administration and Local Government
URT	United Republic of Tanzania
WEO	Ward Executive Officer

Financial Statements mean:

The Consolidated Balance Sheet, Consolidated Income and expenditure Statement, Consolidated Cash-flow Statement, Notes and related schedules of Meatu District Council for the period ended 30th June, 2005.

Council means: Meatu District Council, both as Councillors as well an operating entity.

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

I have completed the audit of Meatu 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 Meatu District Council was established in 1984 in accordance with the provisions 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 Meatu has the following operational objectives.

- (a) To maintain and facilitate the 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.

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, licenses and charges. On the other hand external source include subsidies from central government, grants and other funds from the Donor community.

During the year 2004/2005 the council received a total income of Shs. 4,828,611,167.69 from the following sources;

	Shs.
Own Sources	471,231,152
Grants (Government and Donors)	4,357,380,015
Total	4,828,611,167.69

1.5 Management

Meatu District Council operates under directives of the Full Council and the day to day activities are administered by the District Executive Director who is the Accounting Officer of the council. The Council is organized into different departments supervised by heads of department who reports to the District Executive Director. The detailed organization chart is given in Annex II.

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 through the issue of a detailed job description for each post in the Finance Department, production of an organization chart for the Finance Department showing lines of reporting and supervision, Division of responsibilities for related operations between several officers and periodic rotation of duties.

Accountability of all areas of operations by the Director or his designated representative to check effectiveness of the control system is mandatory. The Council is also required to employ its own Internal Auditor who report directly to the director. Similarly, the Public Procurement Act No. 21 of 2004 section 28 (I) requires the Council to establish a tender Board and Sect.34 (I) provides for establishment of Procurement Management Unit.

1.7 Financial performance Issues

Revenue

The District Council collected an amount of Shs.471,231,152.43 from own sources. However, actual collection against budget could not be assessed since budget figures were not disclosed in the schedules. In addition the Council received grants amounting to Shs.4,357,380,015.26 making total revenue of Shs. 4,828,611,167.69 during the year.

Expenditure

The Council spent Shs. 4,823,491,573 during the year against total income of Shs. 4,828,611,167.46 or 99.9% of total revenue, leaving unspent amount of Shs. 5,119,594. 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.471,231,152.43 against expenditure of Shs.4,823,491,573.46 is only 9.8%, 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 of the local government of Finance Act No. 9 of 1982, (revised 2000) the Controller and Auditor General is the statutory auditor of all government revenue and expenditure, including this District Council.

1.9 Audit Objectives

The main objective of conducting the audit is to enable me to express an independent opinion on the statements of the Meatu District Council for the period ended 30th June 2005 and in particular:-

- To determine whether transactions were executed in accordance with management authorization and recorded properly in the books of account to permit the preparation of the financial statements in accordance with the International Accounting Principles and requirements of the Local Government Finance Act No.9 of 1982 and Local Authority Financial Memorandum 1997.
- To determine whether funds have been collected properly and used exclusively to meet eligible expenses as per approved budget and regulations governing government expenditure.
- To ascertain whether all relevant supporting documents records and accounts have been kept in respect of all Meatu District Council activities.
- To verify whether goods and services bought were acquired through laid down procurement procedures and the Public procurement Act No. 3 of 2001 have been complied.
- To perform compliance tests to determine whether the management complied in all material respects with the Public procurement Act No 3 of 2001
- 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 Meatu District Council are adequately safeguarded

against losses from unauthorized use or disposition.

- To determine whether the management of the Meatu District Council has taken adequate corrective action on the previous years audit recommendations.

1.10 Audit Scope

The audit of Meatu District Council for the period ended 30th June 2005 was carried out in accordance with International Standards on Auditing (ISA). The audit covered the evaluation of the effectiveness of the financial accounting system and internal control over the activities of the Council, Examination and verification of the accompanying financial statements, the performance report and other auditing procedures as was considered necessary under the circumstances for the purpose of forming an opinion on the financial statements. The audit was carried out on a test check basis, therefore the audit findings are confined to the extent that records, documents and information requested for the purpose of audit were made available to me.

As an auditor I am not required to search specifically for fraud; therefore my audit cannot be relied upon to disclose all such matters. However, my audit was planned as that I would have reasonable expectation of detecting material misstatements in the financial statements, including those resulting from fraud or irregularities. The responsibility for detection and prevention of fraud and irregularities rests with the Meatu District Council management who are responsible for setting up and maintaining an adequate system of internal control.

1.11 Audit Methodology

In auditing the financial statement together with the related records and schedules, the following 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.
- 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 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,
Shinyanga Region

District Executive Director and Accounting Officer
Meatu District Council

RE: Independent audit report on the Financial Statements of Meatu 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 Meatu District Council shown on the annexure I 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 Meatu District Council.

Order Nos. 9 through 16 of the LAFM requires the Council to establish and support a solid 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 attention 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 Meatu 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 the financial statements fairly reflect, in all material respects, the financial position of Meatu 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.

Further to my opinion, the Procurement of two (2) Motor vehicles during the year was generally done in accordance with Public Procurement Act No. 21 of 2004.

Matters of emphasis:

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

1. Shs.7,800,323 were payments made without relevant supporting documents, in absence of these documents, correctness of expenditure could not be confirmed.
2. Shs. 3,187,000 were purchases made without competitive quotations. In absence of these quotations, justification for reasonableness of Price paid could not be established.

3. Stores worth Shs.7,079,946 ordered and paid for were not confirmed to have been taken on ledger charge and its accountability could not be verified.
4. Books worth Shs.6,438,400 paid for in June 2005 were not delivered to the council as at the time of audit, October 2005.

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

Dr. Frank Mosses Hiza Mhilu

Ag. CONTROLLER AND AUDITOR GENERAL

The National Audit Office
Dar es Salaam

31st March, 2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Current Audit Findings

3.1.1 Revenue not paid to Council Treasury by collecting Agents Shs.417,000

Revenue collections amounting to Shs.417,000 due to the Council were observed to have not been remitted by the collecting Agents as detailed here under. No action appears to have been taken to recover the amount.

Collection Centre	Amount due	Amount paid	Amount outstanding
• Imalanseko	1,162,500	975,000	187,500
• Mwabuzo	935,000	725,500	209,500
• Mwamanongu	170,000	150,000	20,000
Total Shs.	2,267,500	1,850,500	417,000

Implication

Non remittance of revenue collected implies inadequate internal control over revenue collection.

Recommendation

I recommend that the outstanding balance quoted above be collected by the Council. I further recommend that contracts between the Council and Collecting Agents should include "penalizing" clause in the form of percentages of unremitted collections to be paid to the Council after due dates.

3.1.2 Improperly vouched expenditure Shs.7,800,323

Expenditure amounting to Shs.7,800,323 were incurred without having relevant supporting documents.

Implication

In the absence of related supporting documents validity of the payment could not be established by the audit.

Recommendation

I recommend that relevant supporting documents be traced and submitted to audit for verification.

3.1.3 Purchases made without quotations Shs.3,187,000

Purchases amounting to Shs.3,187,000 were made without competitive quotations contrary to procurement regulations. The items involved are quoted hereunder:

General Fund:

PV. NO.	CHEQUE NO.	Item supplied	Amount Shs.
1/7/2004	018405	Various stationeries	1,772,000
41/9/2004	014233	1 pc Fridge bosch 1 pc Electric cooker	1,415,000
Totals Shs.			3,187,000

Implication

In absence of competitive quotations justification for reasonableness of prices paid could not be established.

Recommendation

I recommend that management should make sure that for all purchases made where quotations are applicable, at least three quotations should be obtained in compliance with procurement regulations.

3.1.4 Advance not recovered Shs.6,600,000

A test check on payment vouchers (Education & Ujenzi Account) disclosed that amounts totaling Shs.6,600,000 paid out as advances to Headmaster Kimali Secondary School and Mr. Joel Maduhu remained outstanding up to the time of audit inspection i.e. October, 2005. PV.No. 2/1 Cheque No. 016926 Education and PV No. 1/ 6 Cheque No.012862 Ujenzi account refers.

Implication

Activities on which this funds were budgeted for may not be accomplished on schedule time, due to shortage of funds.

Recommendation

I recommend that, management should ensure that these advances have been settled and settlement particulars are communicated to audit for verification.

3.1.5 Double payment of night out allowances Shs.372,000

It was noted at the time of audit inspection that payments amounting to Shs.372,000 were made to two council officials as night out allowance and fuel costs. The official were invited to attend a five days orientation on preparation of strategic plans in Mwanza from 14th - 18th February 2005. The invitation letter stated that all costs including fare and per diem will be borne by the program. Thus the officials were not entitled to the payment of Shs.372,000.

Implication

This implies there is inadequate internal control over payments of allowances.

Recommendation

I recommend that recovery of Shs.372,000 should be made and recovery particulars be communicated to audit for verification. In the future management should strengthen control on allowances payments

3.1.6 Stores not taken on ledger charge Shs.7,079,946

Stores worth Shs.7,079,946 ordered and paid for could not be confirmed to have been received and properly utilized as they were not brought to account in the stores ledger as detailed hereunder.

Name of account	PV. No.	Cheque No.	Amount Shs.	Details
General fund	29/7	009549	4,909,946	Paid to Kidanha of Meatu being costs of supplying. <ul style="list-style-type: none">• 565 Rm soft wood 2 x 3" @ 1,250• 336 Rm soft wood 1 x 8" @ 2,046• 474 Rm soft wood 2 x 6" @ 2,200
Education	40/6	017070	630,000	Purchases various stationeries from TZM Meatu.
Education	46/6	017076	1,540,000	Purchases of various stationeries.
Total			7,079,946	

Implication

The actual delivery of stores won't be verified due to lack of goods received note and utilization records of the same.

Recommendation

I recommend that immediately after the goods have been received and examined, the Storekeeper should record them in the relevant ledgers.

3.1.7 Short supply of MEMKWA books worth Shs.6,438,400

During the month of June 2005 the council paid Shs.14,840,900 vide PV. No. 13/6 Cheque No. 017042 of 3/6/2005 for the purchases of MEMKWA books from m/s Medard General Supply of Mwanza. MEMKWA books worth Shs.8,402,500 were supplied. Books valued Shs.6,438,400 were not supplied as at the time of audit, October 2005.

Implication

This implies inadequate control over prepaid supplies which may lead to delay in implementing Planned activities, and non-supply may lead loss of council funds.

Recommendation

I recommend that a follow up to the supplier in order to ensure that goods are supplied and accounted for accordingly.

3.1.8 Construction of OPD Mwanhuzi District Hospital Shs.50,511,024.40

An amount of Shs.50,511,024.40 was observed to have been paid to m/s Shilinde Building Contractor of Meatu for construction of OPD Mwanhuzi District Hospital at a contract price of Shs.86,429,101.50 contract no. MDC/CODP/11/2004/01 signed on 12/11/2004.

According to the terms of the contract the construction work was to commence on 20/11/2004 and be completed by 20/3/2005.

However, at the time of the audit inspection (27/10/2005) the job had only been performed by 65% and the contractor had been paid for the job completed.

Audit inquiry as to why the job had not been completed by the due date revealed that the council failed to continue making the necessary payments to the contractor to enable him to complete the job on the due date.

Implication

Failure to complete the project on due dates may cause the council to pay more than what was budgeted because of Price fluctuations.

Recommendation

It is recommended that the council should take all necessary action to ensure that the Project is completed within reasonable time.

3.1.9 Delay in remitting unclaimed salaries to treasury Shs.6,033,058.11

It was observed that there was undue delay in remitting unclaimed salaries to Treasury. An amount totaling Shs.6,033,058.11 were surrendered to the Bank as unclaimed salaries between February 2005 and August 2005 but was not remitted to Treasury as at the time of the audit (October 2005).

Implication

Unapproved expenditure could be effected out of unclaimed salaries, which is contrary to Financial Regulations.

Recommendation

It is recommended that the council should remit unclaimed salaries to the Treasury and strengthen controls over salaries.

3.1.10 Internal Audit Report For Longalohiga Primary School

An audit inspection carried out at Longalohiga Primary Schools by internal Auditor of Meatu District Council covered the period of 1st January, 2003 to 6th October, 2005, issued an internal audit report with ref. No. HWM/SF/24/40 of 17/10/2005 questioning the following matters:-

- (i) Funds received from DED Meatu but not entered in the school books of Accounts Shs.2,109,213 (Para 4.1.1. of internal Auditor's report refers).
- (ii) Purchases made without using quotations Shs.1,875,300 (Para 4.2.2 of Internal Auditor's Report refers).
- (iii) Questionable and doubtful payments Shs.7,606,500 (Para 4.2.3 of Internal Auditor's Report refers).

These matters were still outstanding as at the time of audit, 26th October 2005.

Implication

This implies inadequate effort on the Council's management side to take corrective actions on areas pointed out by the Internal Auditor.

Recommendation

I recommend that management should give replies responses in connection with matters reported by the internal Auditor by complying with the requirement of the Local Authority Financial Memorandum 1997 Para 16.

3.1.11 Unclaimed salaries Shs.9,710,409

The trial balance reflected unclaimed salaries amounting to Shs.9,710,409 which was not supported by schedules and no reasons as to why such huge amount were not paid.

Implication

In absence of supporting schedules correctness of the figure for unclaimed salaries could not be ascertained.

Recommendation

Management should prepare the analysis of unclaimed salaries and make it available to audit for verification.

3.1.12 Balances not cleared in Bank Reconciliation Statements as at 30th June, 2005

The bank reconciliation statements furnished with the final accounts disclosed the following items which have not been cleared as at 30th June 2005.

Account No.	Unpresented Cheque	Receipt in cash book not in bank statement
230802	33,000.00	1,198,494.85
230803	910,000.00	2,800.00
230804	94,645,292.05	-
230806	232,500.00	-
230806	267,365.45	-
230806	3,867.20	-
230806	89,588.00	100,000.00
230814	265,125.00	-
230817	20,000.00	25,000.00
230819	6,096,000.00	-
230820	<u>50,000.00</u>	-
Total	<u>102,612,737.70</u>	<u>1,326,294.85</u>

Implication

Non clearance of these items in bank reconciliation statement may lead to loss of council's funds undetected.

Recommendation

Management should ensure early clearance of these outstanding items.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Meatu District Council during exit meeting. Management of the Meatu District Council has promised to take appropriate action with a view to rectify the situation. I shall appreciate to receive a formal action 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: The Permanent Secretary,
Prime Minister's Office,
Regional Administration and Local Government,
P.O. Box 1923,
DODOMA.

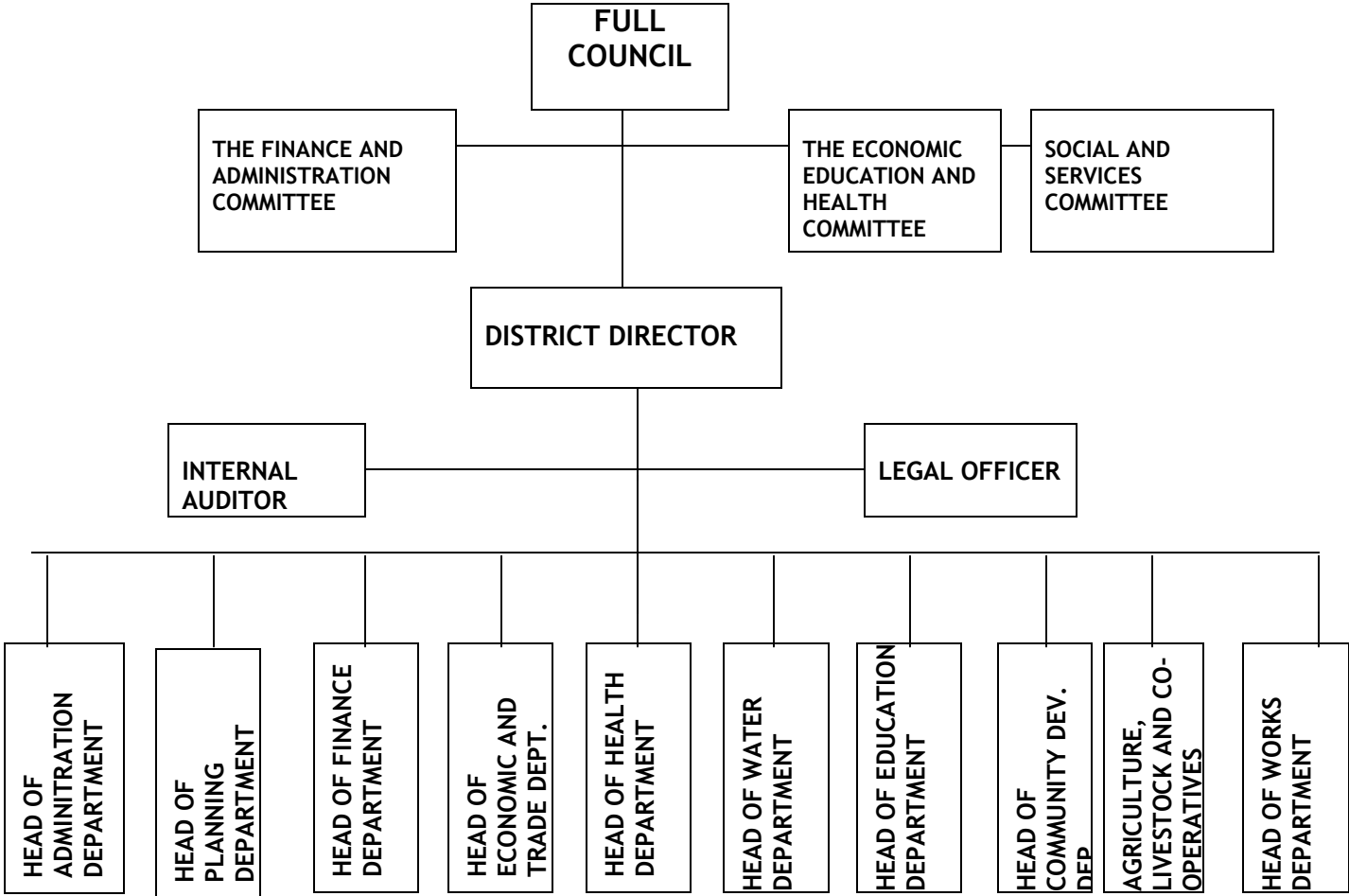
The Regional Administrative Secretary
P. O. Box 320
SHINYANGA

5.0 ANNEXURES

Financial statements and notes to the Financial Statements - Annexure I

Organization Structure of Meatu District Council Annexure II

ORGANIZATION STRUCTURE OF MEATU DISTRICT COUNCIL



APPENDIX 'A'

IMPROPERLY VOUCHERED EXPENDITURE TOTALLING SHS.7,800,323

Name of account	Cheque No.	Cheque No.	Amount	Details
General Fund	19/11	011650	1,891,123	Paid to John Mpamwa being salaries for three months. No pay lists attached.
Education Account	15/10	011611	4,127,200	Paid to RAS Shinyanga being std IV Examination contribution. No receipt from RAS Shinyanga attached.
General fund	76/2 - 83/2	015302/ 015310	990,000	Paid to various Headmasters being schools fees for students. No acknowledgement receipts from Headmasters.
General Fund	103/2	015330	792,000	Paid to Upendo Sanga being fare charges /s/allowances and fuel costs. No retirement particulars attached.
Total Shs			7,800,323	

DELAY IN REMITTING UNCLAIMED SALARIES TO TREASURY SHS.6,033,058.11

Date	HW No.	Month	Unclaimed salaries amount (Shs).
10.02.2005	101152	January, 2005	1,013,054.88
30.03.2005	101167	February, 2005	795,387.34
31.03.2005	101168	March, 2005	960,668.53
29.04.2005	101174	April, 2005	952,940.17
30.05.2005	102370	May, 2005	881,879.97
17.08.2005	103903	June, 2005	1,429,127.22
Total Shs.			6,033,058.11