

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE
FINANCIAL STATEMENTS OF THE KARAGWE DISTRICT COUNCIL**

FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2005

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February 2006

AR/LG101/2006

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	Intergrated Financial Management System
IG	Investment Grant
ISA	International Standard on Auditing
LAAM	Local Authority Accounting Manual
LAFM	Local Government Financial Memorandum
LGA	Local Government Reform Programme
MoF	Ministry of Finance
M&e	Monitoring and Evaluation
NGO	Non-governmental Organization
OCAG	Office of the Controller and Auditor General
PER	Public Expenditure Review
PMO-RALG	Prime Minister's Office-Regional Administration and Local Government
PSRP	Poverty Reduction Strategy Paper
PS	Permanent Secretary
PSRP	Public Service Reform Programme
RAS	Regional Administration Secretary
RS	Regional Secretariat

Act Means Local Government Finance Act No.9 of1982

Financial Statements means:-

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

Council means- Karagwe District Council, both as Councilors as well as an operating entity.

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

We have completed the audit of Karagwe 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

Karagwe District Council was established in terms of the provisions of section 8 and 9 of the Local Government (District Authorities) Act 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 the Local Government (District Authorities) Act the District Council of Karagwe 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, 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.6,819,795,995 made up of Shs.663,035,857 from own sources and Shs.6,819,795,995 from government grants and donors funds.

1.5 Management

The Karagwe 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 District Council is the District Executive Director 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, Planning & Environment, Agriculture, Livestock and Co-operatives as well as Social Welfare and Community Development.

The pictorial management structure of the Karagwe District Council is shown as annexure II to this report.

1.6 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 Karagwe District Council complies with the statutory requirements. Nevertheless weakness arises from review of internal control system are included under part 3 of this report.

1.7 Financial Performance Issues

Revenue

The Karagwe District Council collected an amount of Shs.663,035,857 from own sources against the internal revenue budget of Shs.465,569,936 reflecting over collection of Shs.197,465,921 or 42%. 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.6,819,795,995 making total revenue of Shs.7,482,831,852 during the year.

Expenditure

The Council spent Shs.6,824,929,749 during the year against total income of Shs.7,482,831,852 or 91% of total revenue, resulting into a surplus of Shs.657,902,103. 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.663,035,857 against expenditure of Shs.6,808,554,004 (net of depreciation) is only 10% 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 Public Finance Act No.9 of 1982, (revised,2000); the Controller and Auditor General is the statutory auditor of all government revenues and expenditures, including the Local Authorities.

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 Karagwe 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 Karagwe 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 Council's 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 shortfall 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

The Regional Commissioner,
Kagera Region.

District Executive Director,
Karagwe District Council

**Re: Independent audit report on the financial statements
of Karagwe 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 Karagwe District Council shown as annexure I of this report for the financial year ended on 30th June 2005.

Responsibility of the Council Management on the financial statements
These financial statements are the responsibility of the management of Karagwe District Council.

Order Nos.9 through 16 of the LAFM requires the Council Management to establish and support a sound system of Internal Control within the Council. Order No.53 places responsibility on the Council to prepare and present 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 Internal Standards on Auditing and included such other audit procedures I considered necessary in the circumstances. These standards required 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 Karagwe District Council, consistently applied and adequately disclosed, evaluating the overall financial statements presentation, and assessing the extent of compliance with the statutory requirements. I believe the audit provides a reasonable basis for my opinion.

The financial statements have been prepared and presented based on the accrual principle of accounting pursuant to order Nos.56 through 58 of the LAFM. Under the accrual basis, all revenues and all the related costs are matched with the period in which they were earned and incurred.

Opinion

In my opinion, the financial statements fairly reflect, in all material respects, the financial position of Karagwe District Council as at 30th June 2005 and the results of its operations and Cash flows for the year then ended, in accordance with Part IV of the Local Government Finances Act No.9 of 1982.

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

- (a) The Council management issued cheques to suppliers of goods and services to accounts with no funds contrary to paragraph 183 of Local Authority Financial Memorandum.
- (b) The Council did not collect an amount of Shs.3,796,000 from revenue collecting Agents.
- (c) The audit test check of expenditure revealed that improperly vouched expenditure amounted to Shs.16,096,992
- (d) Unclaimed salaries totalling to Shs.10,878,000 were not remitted to Treasury.

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

Dr. Frank Mosses Hiza Mhilu
Ag: Controller and Auditor General

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

February 2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow up of previous year audit findings

2004 Accounts

Para 4.1 Outstanding Revenue collection from Council's agents Shs. 1,168,600

Amount of Shs.465,000 have been recovered from Agents leaving outstanding balance of Shs.703,600

3.2 Current year audit findings

3.2.1 Outstanding revenue from council agents Shs.3,796,000

Audit test of revenue revealed that amount of Shs.3,796,000 due from council agents was remained un collected as at the time of audit inspection as follows:-

<u>No.</u>	<u>Name of Agents</u>	<u>Market</u>	<u>Amount Due</u>
1.	Koku Thadeo	Rwabwere	223,000
2.	Francis Ngaiza	Kajwe/Kajero	610,000
3.	Johnston Clemence	Nkenda	635,000
4.	Joynes Sadick	Omukiyonza	452,000
5.	Julius Kishenyi	Muakaiga	290,000
6.	Medara protace	Kikikuru	60,000
7.	John Katabaro	Omukiyonza	202,000
8.	Bahati Ignatio	Kakiro/Chanika	150,000
9.	Novath Bakuza	Isingiro	450,000
10.	Robert M. Mwita	Mnada-Nyaishozi	1,526,000
		Total	<u>4,598,000</u>

Implication

Delay in collection of revenue might lead to losses due to un collectability.

Recommendation

The outstanding amount should be collected within the period which agreed between the council and agents.

3.2.2 Missing revenue earning receipt book

It was noted that receipt book with serial numbers HW5 127051-127100 issued to MS. Mpanzile on 20/4/2005 for revenue collection was not produced when called for audit verification.

Implication

Revenue collected by using this book cannot verified.

Recommendation

Management should trace the missing book and confirm the availability of the same for audit verification.

3.2.3 Improperly vouched expenditure 16,096,992

A test check of payment vouchers disclosed that the payment totaling Shs.16,096,992 were not supported with relevant supporting documents.

Implication

It is difficult to confirm whether the payment was made to bonafide payee.

Recommendation

Management should confirm that the missed acknowledgment receipts are traced and produced for audit verification.

3.2.4 Un refunded Advance Shs.6,700,000

Audit examination of payment vouchers revealed that Shs.6,700,000 was transferred from one account to another account but no any recoveries was made to relevant account.

<u>PV. No.</u>	<u>Amount</u>	<u>Cheque No.</u>	<u>From A/C</u>	<u>To A/C</u>
1/5/05	700,000	035799	Health	Primary Health Care
30/3/05	<u>6,000,000</u>	040916	Deposit	General Fund
Total	<u>6,700,000</u>			

Implication

Some activities might delay because of non availability of funds.

Recommendation

Management should confirm whether the funds have been refunded by quoting the relevant acknowledgement receipts for audit verification.

3.2.5 Unclaimed salaries not paid back to the Treasury Shs.10,878,000

A scrutiny of the salary records disclosed that unclaimed salaries amounting to Shs.10,878,000 paid to deceased, retired and terminated employees were not paid back to Treasury as at the time of audit.

Implication

Non remittance of unpaid salaries might lead to misappropriation.

Recommendation

Management should pay back the amount of unclaimed salaries. In addition all names of deceased, retired and terminated employees should be remove from payroll.

3.2.6 Contract Agreements not completed Shs.15,314,549

The Council entered in contract with two contractors as follows:-

- (i) Contract No. KGR/HWK/T.3 for periodic maintenance of Kigarama Businde road at an agreed contract sum of Shs.24,730,841. The agreed contract period was 2 months from 03.06.2005 to 12.08.2005. However, the site visit conducted on 2nd July,2005 observed a position of 5.4km have not completed.
- (ii) Contract No.KGR/HWK/T.12/Vol.XVI/119 for execution of spot Improvement at Omugakorongo - Kigarama Road at an agreed contract price of Shs.31,257,492. The agreed contract period was 4 months from 12th February 2005 to 13th May 2005. However, the site visit conducted observed that the works have not executed according to Bills of quantity item No. 4 which instruct to maintain 31 existing culverts.

Implication

The expected benefits to the community from the projects cannot be obtained.

Recommendation

The management should make close follow up to ensure that the projects are completed.

3.2.7 Outstanding balances

Examination of consolidated balance sheet as at 30th June 2005 indicates the following outstanding items.

<u>Category</u>	<u>Amount (Shs)</u>
Imprests	18,949,610
Short term loans	112,873,924
Salary advance	5,484,973
Other advances	61,746,869
Sundry Creditors	133,867,160

Implication

Non collection of advances in time reduce Council ability to pay for other services while delay in settlement of debt might attract interest and penalties

Recommendation

Clearance of outstanding items is called for

3.2.8 Cash book overdrawn Shs.248,038,679

Examination of cash book account for the year ended 30th June 2005 indicated that an amount of Shs.248,038,679 paid to various suppliers result into overdrawn of cash book balance as shown below:

<u>Account Name</u>	<u>Amount overdrawn</u> <u>Shs</u>
General Fund	72,196,807
Development	1,685,844
Deposit	58,548,197
Special Ujenzi	664,789
Special Elimu	103,998,974
Kayanga Guest	435,923
NAEP II	1,112,617
Uchaguzi	9,395,525
Total	<u>248,038,676</u>

Implication

The Council issue cheques to supplies of goods and services without considering the available bank balances.

Recommendation

The management should seek retrospective approved from the appropriate authority to clear the overdrawn amount as per paragraph 183 of the Local Authority financial Memorandum of 1997 and section 12 of the Local Authority Act No.9 of 1982.

3.2.9 Uncleared Items

An audit review of bank reconciliation statements as at 30th June 2005 disclosed the following outstanding items

Outstanding Cheques	Shs. 450,231,685
Deposit in transit	Shs. 297,009,495

The value of outstanding cheque and Deposit in transit include outstanding items of the year 2004.

Implication

The long outstanding items might not recovered

Recommendation

The management should reverse the long outstanding items to remain with the correct outstanding items.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Karagwe District Council during our exit meeting. The Management 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

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5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

ORGANIZATION STRUCTURE OF KARAGWE DISTRICT COUNCIL

