

**THE UNITED REPUBLIC OF TANZANIA**  
**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE  
FINANCIAL STATEMENTS OF THE BUKOBA TOWN COUNCIL**

**FOR THE FINANCIAL YEAR ENDED 30<sup>TH</sup> JUNE, 2005**

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February 2006

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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	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 Bukoba District Council for the year ended 30<sup>th</sup> June 2005.

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

### **1.2 Brief history of client establishment**

Bukoba Town Council was established in terms of the provisions of section 5 and 6 of the Local Government (Urban 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 (Urban Authorities) Act the Town Council of Bukoba 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.2,217,834,282 made up of Shs.365,778,817 from own sources and Shs.1,852,055,465 from government grants and donors funds.

#### **1.5 Management**

The Bukoba Town 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 Town Council is the Town 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, Town Planning & Environment, Agriculture, Livestock and Co-operatives as well as Social Welfare and Community Development.

The pictorial management structure of the Bukoba Town 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 Bukoba Town 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 Bukoba Town Council collected an amount of Shs.365,778,817 from own sources against the internal revenue budget of Shs.496,021,978 reflecting a collection shortfall of Shs130,243,160 or 26%. The large difference between the actual revenue collected 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.1,852,055,465 making total revenue of Shs.2,217,834,282 during the year.

### **Expenditure**

The Council spent Shs.1,946,230,961 during the year against estimated expenditure of Shs.3,018,439,128 or 64% of the budget resulting into under expenditure of Shs.1,072,208,167.

A comparison of, the internal revenue of Shs.365,778,817 against expenditure of Shs.1,820,382,112 (net of depreciation) is only 20% implying that the Town 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 Bukoba Town Council for the year ended 30<sup>th</sup> June 2005 and in particular:-

- To determine whether transactions were executed in accordance with the financial regulations, and recorded properly in the books of 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 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 Bukoba Town 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.

Town Director,  
Bukoba Town Council

**Re: Independent audit report on the financial statements  
of Bukoba Town Council for the year ended on 30<sup>th</sup> June 2005**

I have audited the Consolidated Balance Sheet, Consolidated Statement of Income and Expenditure, Consolidated Cash-flow Statement and the related notes and schedules of the Bukoba Town Council shown as annexure I of this report for the financial year ended on 30<sup>th</sup> June 2005.

**Responsibility of the Council Management on the financial statements**  
These financial statements are the responsibility of the management of Bukoba Town 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 GAAS. 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 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 Bukoba Town 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.

### **Opinion**

In my opinion, the financial statements fairly reflect, in all material respects, the financial position of Bukoba Town Council as at 30<sup>th</sup> June 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) 15 General Revenue receipt books were not produced during the audit
- (b) The Council did not collect an amount of Shs.11,187,400 from revenue collecting agents
- (c) The audit test check of expenditure revealed that improperly vouched expenditure amounted to Shs.36,906,627
- (d) No contract was signed between the Council and contractor for installation of culverts at Kashai and Kagondo area.

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

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Office of the Controller and Auditor General  
The National Audit Office  
Dar es Salaam.  
**February 2006**

### **3.0 AUDIT FINDINGS AND RECOMMENDATIONS**

#### **3.1 Current year's Audit findings**

##### **3.1.1 Missing Revenue Receipt books**

A test audit of revenue revealed that the Council issued receipt books to various revenue collectors out of which 15 general revenue receipt books were not produced for audit inspection.

##### **Implication**

Revenue collected by using these books cannot be verified.

##### **Recommendation**

The Council management should ensure that all revenue generated from these revenue receipt books are accounted for and submitted for audit verification.

##### **3.1.2 Outstanding Revenue from collecting Agents Shs.11,187,400**

Revenue collections amounting to Shs.11,187,400 due from revenue collecting agents as at 30<sup>th</sup> June,2005 remained uncollected as at the time of audit.

##### **Implication**

Non collection of revenue might hinder implementation of other Council's activities.

##### **Recommendation**

The management should ensure that all council revenue are collected on time.

##### **3.1.3 Uncollected Revenue**

Audit examination revealed that no revenue was collected from property tax and Kaitaba stadium for the whole year. In addition no register was maintained in respect of big property tax payer.

##### **Implication**

Non collection of revenue reduce council capacity to pay for its recurrent and development expenditures.

##### **Recommendation**

The management should maintain a register for all council's sources of revenue and ensure that all revenue are collected.

- 3.1.4 Under Banking of Revenue Shs.476,519**  
An amount of Shs.683,404 was collected by the Council as property tax for the year ended 30<sup>th</sup> June 2005. However, only Shs.206,885 was banked resulted into underbanking of Shs.476,519.
- Implication**  
It seems that the outstanding amount was misappropriated.
- Recommendation**  
The management should ensure that all revenue collected are promptly banked. In addition all underbanked amount should be banked and deposit particulars submitted for audit verification.
- 3.1.5 Advance from one account to another not recovered Shs.2,259,000**  
It was noted that advance of Shs.2,259,000/- were made between council's accounts but no any refund was made to relevant account.
- Implication**  
Some activities might delay because of non availability of funds.
- Recommendation**  
The amount of advance should be refunded to the account to be used for budgeted activities.
- 3.1.6 Outstanding Imprests and Salary advances Shs.4,110,914**  
An audit verification revealed that an amount of Shs.2,746,600 and Shs.1,364,314 as imprests and salary advances respectively was not recovered from respective staff.
- Implication**  
The outstanding imprests of Shs.2,746,600 could not be ascertained whether have been charged to the actual expenditure code.
- Recommendation**  
The council's management should ensure that the outstanding amount are retired in time.
- 3.1.7 Improperly vouched expenditure Shs.36,906,627**  
Examination of payment vouchers revealed that an amount of Shs.36,906,672 was not supported by relevant supporting documents as detailed below:-

<u>Account Name</u>	<u>Amount (Shs)</u>	<u>Missing Documents</u>
Special Account	5,411,628	Airticket, invoices, Cash sales & Paylist
Miscellaneous Deposit	30,742,999	Paylist
Education	752,000	Paylist Receipt
<b>Total</b>	<b><u>36,906,627</u></b>	

#### **Implication**

The propriate of the expenditure could not verified.

#### **Recommendation**

The documents should be traced and submitted to audit for verification.

#### **3.1.8 Fuel not taken on ledger charge Shs.1,337,000**

A scrutiny of store records disclosed that fuel worth Shs.1,337,000 were ordered and paid for but were not taken on ledger charge.

#### **Implication**

We could not confirm whether the fuel purchase was used for official activities of the council and therefore losses due to misuse cannot be ruled out.

#### **Recommendation**

Management should investigate on the fuel purchased during the year and demonstrate whether there is no losses arising from fuel transactions.

#### **3.1.9 Imprest neither recorded nor retired Shs.708,000**

Audit verification of imprest revealed that imprests amounting to TShs.708,000 issue to various council's staff were neither recorded in imprest Register nor retired as at the time of audit

#### **Implication**

The amount of total expenditure has been overstated by the total amount of outstanding imprest of Shs.708,000.

#### **Recommendation**

The council management should ensure that the outstanding imprests are recorded in the register and retired.

#### **3.1.10 Unclaimed Salaries not remitted to treasury Shs.215,300**

A Scrutiny of the salary records, revealed that unclaimed salaries totaling Shs.215,300 pertaining to terminated and deceased employees were not remitted to Treasury.

**Implication**

Non remittance of unpaid salaries to Treasury might lead to misappropriation of Public Fund.

**Recommendation**

The management should ensure that unclaimed salaries are paid back to Treasury. In addition all names of terminated and deceased employees are removed from payroll.

**3.1.11 Irregular or Questionable payments Shs.4,210,000**

A total amount of Shs.4,210,000 was paid to M/S. Deka Enterprises for collection of waste charge material for disposal from Bukoba centre market to Kyakailabwa. However, audit scrutiny disclosed that no contract was entered between the council and supplier.

**Implication**

Without contract the council could not take legal action if the supplier failed to deliver the service.

**Recommendation**

The council management is advised to enter into contract with supplier. In addition the contract should be submitted to audit for verification.

**3.1.12 Periodic maintenance of Arusha Barongo, Fupi, Kawawa Lumumba and Uhuru Road Contract No.BTC/TRC/01/05**

The council entered into a contract No.BTC/TRC/01/05 for Periodic maintenance of Arusha, Barongo, Fupi, Kawawa Lumumba and Uhuru Roads at an agreed contract price of 64,789,950. The contract period was Sat from 21<sup>st</sup> January 2005 to 24<sup>th</sup> March 2005. However on 29/1/2005 the council signed a variation order which leading to change the contract sum from Shs.64,789,950 to Shs.68,256,798. The approval for variation from the relevant authority i.e. council Tender Board could not be produced for audit verification.

**Implication**

Apparently variation order might not be approved by relevant authority.

**Recommendation**

The management should regularize the anomalies noted.

### 3.1.13 Installation of culverts at Kashai and Kagondo Shs.6,927,500

The council entered into contract with M/S Lubirwe Investment Coy for installation of MB 4 ARMCO Pipe Culverts at Kashai and Kagondo Area in Bukoba Town. However, the following irregularities were noted.

- i) No contract agreement which have been signed between both parties.
- ii) Commencement and completion date of work could not be determined, hence audit scrutiny could not ascertain on whether the project was within time frame.
- iii) The site visit conducted on 20<sup>th</sup> June 2005 observed that the work on both sites are in progress.

#### Implication

No effective control in committing government fund, in addition value for money could not be determined.

#### Recommendation

The management should not entered in contract work without a signed contract, also the council should provide audit with the signed contract.

### 3.1.14 Outstanding Debtors and Creditors

Examination of balance sheet as at 30<sup>th</sup> June 2005 disclosed outstanding amount of debtors and creditors as shown below:-

(i) Outstanding Debtors:		
Sundry Debtors	Shs.	50,852,040
Salary Advances	Shs.	1,959,393
Safari Imprests	Shs.	<u>35,300,547</u>

(ii) Outstanding Creditors: Sundry Shs. 82,859,976

#### Implication

The outstanding creditors might result into fine and penalties if not settled on time, on other side the outstanding debtors might result into loss due to uncollectability.

#### Recommendation

The Management should strengthen the system of debts collection and pay matured obligations as they fall due.

### 3.1.15 Bank Reconciliation

Examination of the Bank Reconciliation statement as at 30<sup>th</sup> June 2005 disclosed the following outstanding items.

Receipt in cash book not in bank	Shs.	11,669,533
Receipt in Bank not in cash book	Shs.	1,800,166
Payment in Cash book not in Bank	Shs.	31,785,708
Payment in Bank not in Cash book	Shs.	405,600

#### Recommendation

The clearance of outstanding items is called for.

### 3.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Bukoba Town 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 actions taken in this respect.

Lastly, I would like to express my appreciation for the cooperation given to the audit team. It is my hope that such good working 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 Bukoba Town Council - annexure II

**Annexure I**

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

ORGANIZATION STRUCTURE OF BUKOBA TOWN COUNCIL

