

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



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

FOR THE FINANCIAL 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	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 Muleba District Council for the year ended 30th June 2005.

Council means- Muleba 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 Muleba 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

Muleba 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 section 111(1) of the Local Government (District Authorities) Act the District Council of Muleba 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.6,888,843,903 made up of Shs.651,130,367 from own sources and Shs.6,237,713,536 from government grants and donors funds.

1.5 Management

The Muleba 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 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 Muleba 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 Muleba District complies with this order and Procurement Act. Weaknesses arising from review of internal control system are included under part 3 of this report.

1.7 Financial Performance Issues

Revenue

The Muleba District Council collected an amount of Shs.651,130,367 from own sources against the internal revenue budget of Shs.675,063,479 reflecting a collection shortfall of Shs.23,933,112 or 3%. The 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.6,237,713,536 making total revenue of Shs.6,888,843,903 during the year.

Expenditure

The Council spent Shs.7,050,110,034 during the year against total income of Shs.6,888,843,903 or 102% of total revenue, resulting to over expenditure of Shs.161,266,131.

A comparison of, the internal revenue of Shs.651,130,367 against expenditure of Shs.7,050,110,034 (net of depreciation) is only 9.2% 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 Muleba 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 Muleba 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 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 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,
Muleba District Council

**Re: Independent Audit Report on the Financial Statements
of Muleba 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 Muleba 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 Muleba 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 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 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 Muleba 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 Muleba 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:

1. The Council paid Shs.18,757,934 to various Institutions but no acknowledgement receipts were received. In addition, an amount of Shs.20,600,000 was paid without approval and payroll.
2. The Audit test check of expenditure revealed that improperly vouched expenditure amounting to Shs.10,935,500.
3. The Council entered in contract No.ML/HW/RT/04/05/4 for construction of Bailey Bridge which was expected to commence on 28.12.2004 and completed on 15.06.2005, up to the time of audit 29.06.2005 the work had not yet been completed.

The details of these matters are given under 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 Current year Audit findings

3.1.1 Missing Receipt Books

A scrutiny of records revealed that 6 open revenue receipt books issued to Agents were not made available for Audit verification.

Implication

The revenue received by using these books cannot be verified.

Recommendation

Management should ensure that the missed books are traced and submitted to audit for verification.

3.1.2 Payments not acknowledged Shs.18,757,934

Payments totalling Shs.18,757,934 were paid to various Institutions by the Council but the payments were not acknowledgement by any recipient.

Implication

No evidence that payment were made to bonafide payee.

Recommendation

Management should ensure that any payments are acknowledged.

3.1.3 Stores not taken on ledger charge Shs.6,891,250

A scrutiny of stores records disclosed that stores worth Shs.6,891,253 purchased by Council but were not taken on ledger charge.

Implication

We could not confirm whether the stores purchased were used for official purposes.

Recommendation

Management should investigate on the stores purchased and demonstrate whether there is no losses.

3.1.4 Improperly Vouched Expenditure Shs.10,935,500

Examination of payment vouchers revealed that payment vouchers amounting to Shs.10,935,500 were not supported with relevant supporting documents as detailed below:-

<u>Account Name</u>	<u>Amount</u>	<u>Missed Documents</u>
Health	2,040,000	Paylist
Special works	375,000	Paylist
Special Water	1,032,500	Paylist
Education	2,170,000	Paylist
General Fund	5,318,000	Paylist
Total	<u>10,935,500</u>	

Implication

Beneficiaries of payments cannot identified.

Recommendation

Management should ensure that all supporting documents are attached before effecting payments. Supporting documents should be traced and submitted for audit verification.

3.1.5 Irregular/Questionable payments Shs.20,600,000

A total amount of Shs.20,600,000 were paid by the council to various beneficiaries as follows:-

- (i) An amount of Shs.6,000,000 was paid to the manager NMB Limited Muleba Branch, verification of supporting documents revealed that the purpose of transfer was not indicated also authority of transfer was not availed.
- (ii) An amount of Shs.14,600,000 was paid to DED Muleba in respect of honorarium for 182 facilitators of MEMKWA for the month of April and May,2005. Audit scrutiny revealed that no paylist of facilitators were attached and classes involved were not indicated.

Implication

Genuineness of the payments could not be verified.

Recommendation

The management should indicate the purpose of the transfer of funds and submit the authority for verification. In addition the name of facilitators and classes involved should be identified and submitted to audit for verification.

3.1.6 Contract not submitted

The Council entered into the contract with Build start Tanzania limited for collection of coffee cess During the year under review the Council paid Shs.7,500,000 as 15% Agency fees. No contract was made available when called for audit purpose.

Implication

Payments could be made without follow the clause of the contract.

Recommendation

Management should produce the contract to audit for verification.

3.1.7 Contract of roads not completed Shs.40,743,400

Examination of contract revealed the following irregularities:-

- (i) They council entered into contract No. ML/HW/RT/04/05/4 for construction of Barley Bridge along Kishara Road at an agreed contract price of Shs.530,927,400. The commencement date was 28th December,2004 and anticipated completion date was 15th June,2005. However, the site visit conducted on 29 June 2005 observed that the work was in the early stages though dead line was overdue by 14 days.
- (ii) The Council entered into contract with M/S. Kambiti Enterprises for execution of routine maintenance of kasheno-Ruhanga Road at an agreed contract price of Shs.9,816,000. The commencement date was 27/05/2005 and anticipated completion date was 17/7/2005. However, the site visit conducted on 29/06/2005 observed that the work have not yet started which is the delay of 34 days from the anticipated commencement date.

Implication

Non completion of contract on time might result into more costs due to variation of contract time.

Recommendation

The management should make thorough follow up to ensure projects are completed within the time.

3.1.8 Outstanding Debtors and Creditors

The examination of the Balance Sheet as at 30th June 2005 disclosed the following un-cleared balances.

Debtors	11,948,360
Advances	2,933,085
Sundry Creditors	55,631,716
Deposit	153,988,744
Other Creditors	76,992,024

Implication

As debtors remain outstanding for a long time might result into loss due to uncollectability and outstanding creditors might result into fine and penalties.

Recommendation

Management should seek immediate action towards clearance of the outstanding balances.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the District Council during 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 Muleba District Council - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

ORGANIZATION STRUCTURE OF MULEBA DISTRICT COUNCIL

