

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



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

**FOR THE FINANCIAL YEAR ENDED 30<sup>TH</sup> 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 Ngara District Council for the year ended 30 <sup>th</sup> June 2005.
Council means-	Ngara 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 Ngara District Council for the year ended 30<sup>th</sup> June 2005. Audit findings arising from examination of accounting records, 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**

Ngara District Council was established in 1984 under 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 Ngara 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.

### **1.4 Financing**

The Council has two sources of funds; which are own source and external source. The Internal sources includes collection of Public funds through taxes, fees, licenses and charges. On the other hand, external sources include subsidies from central government as well as grants and loans from donor community. From these sources, total income during the year was Shs.4,999,682,445 made up of Shs.82,071,620 from own sources and Shs.4,917,610,825 from government grants and donors funds.

## **1.5 Management**

The Ngara District Council operates under the 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, Town Planning & Environment, Agriculture, Livestock and Co-operatives as well as Social Welfare and Community Development.

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

## **1.6 Brief description of Internal Control System**

A system of internal control that should be adopted by councils is given under order 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 Ngara District Council complies with the statutory requirements, (but is lacking an Audit Committee which is part of transparency and good governance), Nevertheless weakness arises from review of internal control system are included under part 3 of this report.

## **1.7 Financial Performance Issues**

### **Revenue**

The Ngara District Council collected an amount of Shs.82,071,620 from its own sources against the internal revenue budget of Shs.75,399,662 reflecting an over collection of Shs.6,671,958 or 108.85%. In addition the Council received grants amounting to Shs.4,917,610,824 making total revenue of Shs.4,999,682,445 during the year.

### **Expenditure**

The Council spent Shs.4,885,726,237 during the year against total income of Shs.4,999,682,445 or 97.7% of total revenue leaving unspent amount of Shs.113,956,208. However, performance against budget figures were not disclosed in the financial statements.

A comparison of the internal revenue of Shs.82,071,620 against expenditure of Shs.4,885,726,237 is only 1.7% 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 Ngara District 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 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 Ngara 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 specifically search 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 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,  
Ngara District Council

**Re: Independent Audit Report on the Financial Statements  
of Ngara District 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 Ngara District 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 Ngara 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 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 Ngara 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 Ngara District 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.

Further to my opinion, the procedures for obtaining contractors for the construction of NDRDP buildings, teachers (staff) houses, school buildings, purchase of motor vehicles, motor cycles, furniture and fittings, office equipment, stationery and other supplies were generally done in accordance with the Public Procurement Act No.21 of 2004 and the related regulations.

### **Matters of emphasis:**

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

1. A sum of Shs.6,135,613 was advanced to various departments, however, as at the reporting date, these funds have not been refunded back to the appropriate bank account.
2. Goods worth Shs.8,347,859 purchased from various sources were not recorded in the stores ledgers for accountability.
3. There was a delay in completion of contracted works costing Shs.3,460,600.
4. Several bank accounts were overdrawn to the tune of Shs.3,150,280 without prior consent of the relevant authorities.

5. Debtors amounting to Shs.57,976,079 were outstanding as at 30<sup>th</sup> June 2006. In addition we were not given an aged analysis of these debtors.
6. There were receipts in the Council cash book which were not credited to the bank statement amounting to Shs.8,069,124

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

Dr. Frank Mosses Hiza Mhilo  
**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 RECOMMENATION

#### 3.1 Follow up on previous years audit findings

I am please to note that all matters raised in my previous years audit reports have been given due concern and appropriately resolved.

#### 3.2 Current years findings

##### 3.2.1 Advance not paid back to Account Shs.5,060,613

A sum of Shs.5,060,613 was paid from Transport bank Account to meet clearance charges not related to the objectives of the account. A review of the pertaining records revealed that the expenditure was supposed to be charged to the Development Account.

##### **Implication**

Possible Misallocation of funds to meet ineligible expenses

##### **Recommendation**

The management should refund the total sum of Shs.5,060,613 to the Transport bank account and submit evidence to confirm the transfer of the money back to the appropriate bank account.

##### 3.2.2 Loans not refunded Shs.1,075,000

A sum of Shs.1,075,000 was advanced to two departments; Schools Inspector and DAS-Ngara on the condition that these funds would be refunded later. As at the date of writing this report (February 2006), these funds have not been repaid back as follows:

<u>Pv</u>	<u>Cheque</u>	<u>Amount</u>	<u>Payee</u>
31/8/2004	013069	100,000	School Inspector
9/8/2004	013048	300,000	School Inspector
45/6/2004	020318	<u>675,000</u>	DAS - Ngara
	<b>TOTAL</b>	<b><u>1,075,000</u></b>	

##### **Implication**

Funds may be used to meet expenses which do not relate to the objective for which these funds were allocated.

##### **Recommendation**

The management should ensure these funds are refunded back to the appropriate bank account.

### 3.2.3 Goods not recorded in stores ledgers Shs.8,347,859

Goods worth Shs.8,347,859 purchased from various sources were not recorded into the respective stores ledgers. The delivery of these items could not be established. The analysis per Department is as shown below:

<u>Department A/C</u>	<u>Amount</u>	<u>Details</u>
General Account	1,400,805	12ltrs diesel & Stationery
Education	2,377,650	1830 Ltrs diesel & 225 ltrs petrol
DADP	5 84,004	203 Ltrs diesel & Stationery
Transport	1,010,000	1000 Ltrs diesel
NAEP II	140,000	130 Ltrs diesel
Maji	1,602,000	6 set tyres
Capital Grant Development A/C	<u>1,232,000</u>	1120 Ltrs diesel
	<b><u>8,347,859</u></b>	

#### Implication

- Goods paid for might not be delivered.
- Possible misappropriation or misplacement of the items purchased

#### Recommendation

The management should confirm delivery and accountability of the purchased items.

### 3.2.4 Delay in completion of Contracted works

The District Council entered into contract No.NG/HW/C.7/A/156 with B.N works for the construction of Kaluwendo - Kigarama road with 6km long at an agreed contract price of Shs.22,191,600. The works was expected to be executed between 7<sup>th</sup> March 2005 and 15<sup>th</sup> May 2005. As at June 2005 works costing 3,460,600 had not been completed and no extension of the contract period has been provided.

#### Implication

The benefits expected from the project may be delayed leading to extra costs to the District council through price escalations.

#### Recommendation

The management should ensure the works are completed expeditiously to avoid extra and avoidable costs to the council. Also liquidated damages should be imposed to the contractor for period the works have been delayed.

### 3.2.5 Overdrawn bank account

Four accounts closed with a total overdraft of Shs.3,150,280 as a result of lack of control over payments contrary to paragraph 83 of the Local Authority Financial Memorandum of 1997.

**Implication**

Lack of control over expenditure which may result into penalties imposed by banks for the overdrawn amounts.

**Recommendation**

The management should explain on the non compliance to laws and regulations stipulated above.

**3.2.6 Outstanding Debtors**

The balance sheet as at 30<sup>th</sup> June 2005 disclosed the existence of debtors amounting to Shs.57,976,079 as follows:-

(i)	Privatized Markets	TShs. 6,656,490
(ii)	Staff Imprests	TShs.15,263,549
(iii)	Staff Loans and Advance Payments	TShs.36,056,040
	<b>Total</b>	<b><u>TShs.57,976,079</u></b>

In addition, no aged analysis of the debtors was submitted to indicate the period these debtors have remained uncollectible.

**Implication**

Long outstanding debtors may result into bad and doubtful.

**Recommendation**

The council management should make necessary efforts to ensure all the debtors settle their account to avoid holding idle money out of council business.

**3.2.7 Unpaid Creditors Shs.11,353,083**

As at 30<sup>th</sup> June,2005 the council had unpaid creditors amounting to Shs.11,353,083.

**Implication**

Extended payment period to creditors may call for interest for non payment, in addition, existing good relationship with suppliers may be damaged.

**Recommendation**

The management is advised to delay payments to suppliers only within a reasonable and allowable credit period to avoid unnecessary interest charges for non payment and tarnishing the council good image with suppliers.

### **3.2.8 Receipts in cash book not in bank Statements Shs.8,069,124**

A review of the bank reconciliation statements as at 30<sup>th</sup> June revealed that there were deposits in transit amounting to Shs.8,069,124 which have not been cleared.

#### **Implication**

Amounts collected may ultimately not be credited to the respective bank account.

#### **Recommendation**

The management should make follow up of the outstanding deposits in transits and ensure they are credited to the appropriate bank account.

## **4.0 CONCLUSION**

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

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

ORGANIZATION STRUCTURE OF NGARA DISTRICT COUNCIL



