

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF UKEREWE DISTRICT COUNCIL
FOR THE 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
LAAM	Local Authority Accounting Manual
GDP	Gross Domestic Product
LAFM	Local Authority Financial Memorandum
GOT	Government of Tanzania
GAAS	Generally Accepted accounting Standards
IFMS	Integrated Financial Management System
IG	Investment Grant
LGA	Local Government Authorities
LGRP	Local Government Reform Programme
M&E	Monitoring and Evaluation
NGO	Non-governmental Organisation
MoF	Ministry of Finance
OCAG	Office of the Controller and Auditor General
PER	Public Expenditure Review
ISA	International Standards on Auditing
PMO-RALG	Prime Minister's Office - Regional Administration and Local Government
PRSP	Poverty Reduction Strategy Paper
PS	Permanent Secretary
PSRP	Public Service Reform Programme
RAS	Regional Administrative Secretary
RS	Regional Secretariat

Financial Statements means:

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

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

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

I have completed the audit of Ukerewe District Council for the year ended 30th June 2005. Audit findings arising from examination of accounting appraisal of activities, and evaluation of the internal control system which require Management attention and action are set out under part three of this report.

1.2 Brief history of client establishment

The Ukerewe District Council was established in 1984 in accordance with the provisions of section 8 and 9 of the Local Government Act (District Authorities) 1982. Besides the Act, the council operates within the framework of the following instruments.

- Local Authority Financial Memorandum 1997.
- Public Procurement Act No.21 of 2004.
- Local Government Finances Act No 9 of 1982.

1.3 Operational objectives

According to section III (1) of the Local Government (District Authorities) Act and the Local Authority financial Memorandum, the District Council of Ukerewe 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.4527,876665 made up of Shs300,778,329 from own sources, Shs4,227,098,336.04 from government grants and donors.

1.5 Management structure

The Ukerewe 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 (DED) 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 and Environment and Agriculture, Livestock and Co-operatives as well as Social Welfare and Community Development.

The pictorial management structure of the District Council is shown as appendix 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 Ukerewe District Council complies with this order and Procurement Act, but is lacking an internal auditor and Legal officer. Weaknesses arising from review of internal control system are included under part 3 of this report.

1.7 Financial Performance Issues

Revenue

The District Council collected an amount of Shs.300,778,329 from own sources against the internal revenue budget of Shs.292,971,800 reflecting a collection surplus of Shs.7,806,529 or 3%. 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.4,227,098,336 making total revenue of Shs.4,527,876,669 during the year.

Expenditure

The Council spent Shs.5,454,732,606 during the year against total income of Shs.4,527,876,665 or 120% of total revenue, leaving shortage amount of Shs.926,855,941. 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.300,778,329 against expenditure of Shs.4,647,171,508 (net of depreciation) is only 6.5% 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 provisions of Article 143 of the Constitution of the United Republic of Tanzania, and Section 45 of the Local Government Finances Act No.9 of 1982, (revised, 2000); the Controller and Auditor General is the auditor of all government revenues and expenditures, including the revenues and expenditures of this District Council.

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 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 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 an auditor I am 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 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 shortfalls 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

To: The Regional Commissioner,
Mwanza Region

District Executive Director and Accounting Officer
Ukerewe District Council,

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
UKEREWE 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 Ukerewe District Council shown on annexure 2 of this report for the financial year ended on 30th June 2005.

Responsibility of Council Management on the financial statements

These financial statements are the responsibility of the management of Ukerewe District Council.

Order Nos. 9 through 16 of the LAFM requires the Council to establish and support a sound system of Internal Control within the Council. Order No. 53 places responsibility on the Council Management to prepare the financial statements based on Generally Accepted Accounting Standards. Further, section 40 of the Act requires the Accounting Officer to keep and maintain accounts and prepare financial statements in respect of the Council operations in a manner that promotes transparency, accountability and comparability.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion based on the audit. I am also required to satisfy myself whether the funds contributed to the Council were used exclusively and judiciously to meet eligible expenditures with due 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 International Standards on Auditing and included such other audit procedures I considered necessary in the circumstances. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the significant estimates and judgments made in the preparation of the financial statements, assessing whether the internal control system and the accounting policies are appropriate to the circumstances of the Ukerewe District Council, consistently applied and adequately disclosed, evaluating the overall financial statement presentation, and assessing the extent of compliance with the statutory requirements. I believe the audit provides a reasonable basis for my opinion.

Opinion

In my opinion, Except for material matters pointed below, the financial statements fairly reflect, in all material respects, the financial position of Ukerewe District Council as at 30th June 2005 and the results of its operations and cash flows for the year then ended, in accordance with the International Financial Reporting Standards.

Matters requiring rectification:

1. During the audit, items for 2002 and 2003 totalling Shs.33,898,540 and 808,399,688 respectively were still outstanding and 65 revenue receipt books were not yet available.
2. An amount of Shs.12,442,500 collected by the agents were not remitted to the Council and four general revenue receipt books were not produced for audit.
3. Payments amounting to Shs.164,176,421 were made without supporting documents and payment vouchers worth Shs.107,623,015 were missing.
4. The Consolidated Balance Sheet reflected debtors amounting to Shs.60,414,853 without age analysis and policy on debtors was not disclosed.
5. Bank reconciliation statements indicates uncleared items worth Shs.452,221,216.

Details of these matters are found 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.

31 March 2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow up of previous year's audit findings.

3.1.1 2002 Accounts

- (i) **Un produced receipt books**
Development Levy 2001 (penalty) 1 book Shs.450,000 is still missing.
- (ii) **Revenue collections not remitted to the main cashier Shs.402,400**
Revenue collection of Shs.402,400 has not yet been recovered
- (iii) **Missing acknowledgement receipt Shs.423,400**
An amount of Shs.413,400 is still not yet acknowledged.
- (iv) **Outstanding revenue from Council revenue agent.**
The balance of Shs.1,157,000 is still outstanding to date.

Recommendation

Management should make follow up of the amount and ensure it is cleared.

- (v) **Outstanding house rent Shs.780,200**
Outstanding House rent amounting to Shs.780,200 is yet to be dealt with.

Recommendation

Management should ensure that the amount is cleared immediately.

- (vii) **Missing payment vouchers Shs.6,158,854**
Payment vouchers amounting to Shs.6,158,854 are still missing to date.

Implication

Management has laxity in implementation of auditor's recommendation.

Recommendation

Management should ensure all payment vouchers are traced and produced to audit for verification.

- (viii) **Stores purchased but not supplied Shs.3,695,500**
Stores worth Shs.3,695,500 are still not taken on ledger charge.

Implication

Management has laxity in implementation of auditor's recommendation.

- (ix) **Outstanding payment Shs.12,831,186**
Payments of recurrent nature met from deposit account Shs.12,831,186 is still outstanding.
- (x) **Overdrawn salaries Shs.8,000,000**
Overdrawn salaries Shs.8,000,000 is still outstanding.
- (xi) **Transfer funds from one account to another without proper authority**
An amount of Shs.15,571,834 has not been refunded to the relevant account.

Implication

Management has laxity in implementation of auditor’s recommendation.

Recommendation

Management should ensure that the fund has been refunded to the relevant account.

3.1.2 2003 Accounts

- (i) **Unpaid revenue from Council agents Shs.56,873,436**
The balance of Shs.56,843,436 is still outstanding.

Recommendation

Management should ensure that the amount is recovered from the agent.

- (ii) **Sundry debtors Shs.98,675,753**
Sundry debtors amounting to Shs.98,675,753 were still outstanding as follows:

Category	Amount
Salary advances	2,146,842
Imprests	66,149,985
Debtors	9,567,936
Women revolving fund	123,904,756
Young revolving fund	8,420,534
Total	98,675,753

Recommendation

Management should prepare the age analysis of debtors and long outstanding should be written off as bad debts.

- (iii) **Unproduced receipt books**
A total of 65 general revenue receipt books (open) were still missing.

- (iv) **School Equipment purchased not identified Shs.11,265,000**
School Equipment worth Shs.11,265,000 purchased were not identified during the audit.
- (v) **Acknowledgement Expenditure details Shs.10,000,000 not submitted to audit**
Acknowledgement receipt and expenditure details have not yet submitted for audit verification.
- (vi) **Payments to various Teachers Shs.14,538,420**
The nature of payment could not be identified in audit.
- (vii) **Fixed Assets Shs.2,112,447,503**
Fixed assets worth Shs.2,112,447,503 were not recorded in the fixed asset register.
- (viii) **Debtors Shs.60,644,859**
No action has been taken to clear the outstanding debtors listed below:

Category	Amount (Shs)
Advances	2,979,938
Imprests	29,201,895
Sundry debtors	9,567,936
Women Revolving fund	10,474,556
Youth Revolving fund	8,420,534
Total	60,644,859

Implication

Management has laxity in implementation of auditor's recommendation.

- (ix) **Sundry creditors Shs.556,432,220**
No efforts have been made to clear outstanding creditors amounting to Shs.556,432,220,00 listed below:

Category	Amount (Shs)
Advances(balance)	16,162,252
Statutory Deductions	292,322,928
Sundry creditors	198,390,060
Miscellaneous deposits	49,556,980
Total	556,432,220

Implication

Presence of long outstanding creditors is a sign of laxity in Council management on implementing auditor's recommendation.

3.2 Current year's findings

3.2.1 Unproduced receipt books

A total of 4 general revenue receipt books (open) were not made available for audit examination.

Implication

Revenue collected on them could not therefore be confirmed to have been correctly received and brought to account.

Recommendation

The management of the Council should trace the missing receipt books and produce them for audit scrutiny.

3.2.2 Outstanding revenue from council agents' Shs.12,442,500.00

Revenue collection from various collecting agents amounting to Shs.12,442,500.00 were still outstanding.

Implication

The Council lost revenue collected by the agent.

Recommendation

Management should ensure that all revenue collected by the agents is submitted to the Council and banked immediately.

3.2.3 Missing supporting documents Shs.164,176,421

Payments amounting to Shs.164,176,421 were observed to have been made without supporting documents.

Implication

In the absence of supporting documents the expenditure incurred could not be ascertained.

Recommendation

The Council management should ensure that records keeping is improved and produce the missing documents for audit verification.

3.2.4 Imprests not retired Shs.2,500,000

Payments amounting to Shs.2,500,000 were made to meet various activities, However, no retirement observed to have been made.

Implication

Non retirement of the imprests issued may indicate imprests have not been used for the intended purposes.

Recommendation

The management should ensure that the imprests are refined as stipulated in the financial regulation.

3.2.5 Missing payment vouchers Shs.107,623,015

Payment vouchers amounting Shs.107,623,015.36 were observed to be missing when called for audit.

Implication

Authenticity of the amount involved can not be established.

Recommendation

Management should trace and produce the missing vouchers for audit.

3.2.6 Debtors Shs.60,414,853

Debtors reflected in the balance sheet included the following items which were left outstanding and no action was taken for their clearance.

Category	Amount(Shs)
Salary advances	2,254,920
Imprests	32,890,808
Sundry debtors	9,567,937
Women/Youth revolving fund	15,701,188
Total	60,414,853

Implication

Non settlement of the debtors may lead the Council fail to meet its financial obligations.

Recommendation

The management should come up with debts collection policy and ensure that outstanding amounts are cleared.

3.2.7 Creditors Shs.929,981,310

The balance sheet disclosed Shs.929,981,310 creditors as shown below

Category	Amount(shs)
Other advances	86,780,233
Statutory deductions	367,015,896
Sundry creditors	428,261,601
Miscellaneous deposit	47,923,580
Total	929,981,310

Implication

Council's credit worthness may be impaired.

Recommendation

Proper clearance action should be taken to pay the creditors.

3.2.8 BANK RECONCILIATION STATEMENTS

Bank reconciliation statements submitted along with financial statements showed the following uncleared items:

Items	Value (Shs)
Unpresented Cheques	365,159,918
Receipt in C/book not in B/Statement	879,934
Receipt in B/Statement not in C/Book	84,935,543
Payment in B/statement not in C/Book	1,245,821

Implication

The unleared items may conceal frauds if not cleared

Recommendation

The Council's management should take action to clear the outstanding items

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Ukerewe District Council during exit meeting. The Management of Ukerewe District Council has promised to take appropriate action with a view to rectify the situation. I 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 Ukerewe District Council - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF UKEREWE DISTRICT COUNCIL

