

**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL  
ON THE FINANCIAL STATEMENTS OF MAGU DISTRICT COUNCIL  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2005**

The Controller and Auditor General  
National Audit Office  
Samora Avenue / Ohio Street  
P.O. Box 9080  
Tel: 255 (022) 2115157/8  
Fax: 255 (022) 2117527/2255333  
E-mail [ocag@nao.or.tz](mailto:ocag@nao.or.tz)  
Dar es Salaam, Tanzania.

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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	Integrated Financial Management System
IG	Investment Grant
ISA	International Standard on Auditing
LAAM	Local Authority Accounting Manual
LAFM	Local Authority Financial Memorandum
LGA	Local Government Authorities
LGRP	Local Government Reform Programme
MoF	Ministry of Finance
M&E	Monitoring and Evaluation
MSD	Medical Store Department
NGO	Non-governmental Organisation
OCAG	Office of the Controller and Auditor General
PER	Public Expenditure Review
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

Act means Local Government Finance Act No. 9 of 1982

Financial Statements means:

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

Council means - Magu 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 Magu District 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**

The Magu District Council was established in 1984 in terms of the provision 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 Magu District Council has the following operational 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 grant/loans from donor community. From these sources, total Income during the year was Shs.3,758,994,743 made up of Shs.455,651,212 from own sources, Shs.3,303,343,531 from government grants and donors community.

#### **1.5 Management structure**

The Magu 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 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 Magu 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.455,651,212 from own sources against the internal revenue budget of Shs.495,000,000 reflecting a collection shortfall of Shs.39,348,788 or 92%. 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.3,303,343,531 making total revenue of Shs.3,758,994,743 during the year.

### **Expenditure**

The Council spent Shs.3,522,863,762 during the year against total income of Shs.3,758,994,743 or 93.7% of total revenue, leaving unspent amount of Shs.236,130,981. 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.455,651,212 against expenditure of Shs.3,522,863,762 (net of depreciation) is only 12.9% 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 Public Finance 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 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 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 District 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,  
Magu District Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF  
MAGU DISTRICT COUNCIL FOR THE YEAR ENDED ON 30TH JUNE 2005**

I have audited the Consolidated Balance Sheet, Consolidated Statement of Income and Expenditure, Consolidated Cashflow Statement and the related notes and schedules of the Magu District Council shown on annexure I of this report for the financial year ended on 30 June 2005.

### **Responsibility of Council Management on the financial statements**

These financial statements are the responsibility of the management of Magu 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 Magu 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 the financial statements fairly reflect, in all material respects, the financial position of Magu District Council as at 30<sup>th</sup> June 2005 and the results of the operations and Cashflows for the year then ended, in accordance with part IV of the Local Government Finances Act No.9 of 1982.

Without qualifying my opinion, I wish to point out the following matters for the attention of the Council management:

1. Long outstanding items of previous years audit findings not resolved.
2. Missing revenue earning receipt books.
3. suspected misappropriation of revenue collections Shs.4,373,850.
4. Under banking of revenue collections Shs.1,829,700.
5. Unpaid revenue collections by Council agents.
6. Missing payment vouchers worth Shs.40,645,686.
7. Improperly vouched expenditure totalling Shs.55,906,160.
8. Imprests omitted from imprests register Shs.16,268,600.
9. Outstanding imprests and advances Shs.61,742,771.
10. Outstanding debtors Shs.55,481,625 and creditors Shs.68,500,116.

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

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.

31 March 2006

### **3.0 AUDIT FINDINGS AND RECOMMENATIONS**

#### **3.1 Follow up of previous year's audit finding**

##### **3.1.1 Para 3.4 Advances granted to Women and Youths Development groups during the year 2000 not recovered Shs.1,687,000**

There is still an outstanding balance of Shs.1,687,000

##### **3.1.2 Para 2.2 Interest not collected from revenue collecting Agents for the year 2001(Wakala) Shs.1,290,000**

An outstanding amount of Shs.1,290,000 is yet to be collected.

##### **3.1.3 Para 2.1.2 Monthly revenue collection from Council**

An amount of Shs.13,541,800 is still outstanding in respect of the monthly revenue collection for the year 2002.

##### **3.1.4 Para 2.3 Missing Revenue Books**

Five development levy books worth Shs.3,000,000 for the year 2002 are still outstanding.

##### **3.1.5 Para 3.1 Missing payments-education account Shs.334,002,000**

Payrolls, totalling Shs.334,000,000 are still outstanding in respect of missing payment vouchers for the year 2002

##### **3.1.6 Para 2.3 Missing revenue receipt books**

Out of the 27 books reported to have been missing during the year 2003, 21 books have been produced and verified and disclosed a sum of Shs.435,000 collected therein not to have been brought to account

##### **3.1.7 Para 2.3 Revenue not accounted for shs.6,186,264**

A sum of Shs.1,797,000 in respect of revenue collections from various collectors has not yet been accounted for and an unremitted revenue totalling Shs.4,389,264 due from revenue collecting agents since 2003 has not yet been remitted despite of the length of time that has elapsed from the date the revenue collections were made.

##### **3.1.8 Para 3.1 Missing payment vouchers Shs.12,157,196.20** Payment vouchers totalling Shs.12,157,196.20 are still missing.

##### **3.1.8 Para 3.2 Unsupported payments Shs.47,133,279** Payment vouchers for Shs.12,157,196.20 are still outstanding.

**3.1.9 Para 3.2 Unsupported payments Shs.47,133,279**

An amount of Shs.12,542,683.20 is still outstanding.

**3.1.10 Para 3.4 Stores not accounted for Shs.47,133,279**

Stores worth Shs.4,179,100 purchased from MSD have not been accounted for in the Council stores ledgers.

**3.1.11 Para 3.5 Stores paid for but not supplied Shs.4,959,820**

Items of stores worth Shs.935,850 have not yet been supplied by MSD.

**3.1.12 The Consolidated Balance Sheet still reflects the following outstanding balances totalling Shs.78,531,246**

Category	Outstanding balance Shs.
Advances	2,401,980.00
Imprest	16,374,567.20
Sundry creditors	6,449,721.40
Unclaimed salaries	37,820,953.00
Deposit seminars	5,968,724.00
<b>Total</b>	<b>78,531,245.60</b>

**3.1.13 Para 2.1 Unproduced revenue earning receipt books**

Twenty three HW5 receipt books have not yet been produced for audit verification.

**3.1.14 Para 3.1 Unvouched and Improperly Vouched Expenditure Shs.18,460,889**

Payment vouchers amounting to Shs.18,460,889 have not yet been produced for audit verification.

**3.1.15 Para 3.4 Payments of recurrent nature made from Deposit Account Shs.11,363,800**

No action would appear to have been taken to regularise the transactions contrary to financial regulations.

**3.1.16 Para 3.5 Stores not taken on ledger charge Shs.7,746,500**

Stores worth Shs.7,746,500 ordered and paid for would appear to have not been taken on ledger charge.

**3.1.17 Para Unauthorised payments from Women Development fund Shs.7,000,000**

No action would appear to have been taken by the Council management to regularize the transactions inspite of the length of time that has elapsed from the date they took place.

## **3.2 Current year's findings**

### **3.2.1 Missing revenue earning receipt books**

Two open revenue earning receipt books were observed to have not been produced at the time of audit.

#### **Implication**

Possible loss of Public funds collected through the receipts in case they are not produced.

#### **Recommendation**

The Council management should trace the missing books and produce them to audit for verification.

### **3.2.2 Suspected misappropriation of revenue collections Shs.4,373,850**

Revenue collections amounting to Shs.4,373,850 was observed to have not been brought to account nor physically produced for audit verification.

#### **Implication**

Possible misappropriation of the revenue collections if not promptly brought to account.

#### **Recommendation**

The Council management is urged to investigate the matter and take appropriate action to address the situation.

### **3.2.3 Under banking of revenue collections Shs. 1,829,700**

Revenue collections totalling Shs.1,829,700 were observed to have been short accounted for in Council's books of accounts during the audit exercise carried out in the office.

#### **Implication**

Possible misappropriation of the amount involved.

#### **Recommendation**

The Council management should ensure that the amount under banking is banked.

### **3.2.4 Unpaid revenue collections by Council agents Shs.1,335,000**

Revenue collections amounting to Shs.1,335,000 due from Council's collecting agents has not been remitted to the Council as required by financial regulations.

#### **Implication**

Possible misappropriation of the amount if no action is taken to retrieve the same from the collecting agents.

#### **Recommendation**

The Council management should institute control measures which will guarantee/ protect the Council from unfaithful agents.

**3.2.5 Examination of the payment vouchers and related records for the financial year 2004/05 revealed the following:**

category	Amount Shs.
3.1 Missing payment vouchers	40,645,685.50
3.2 Improperly vouched expenditure	55,906,160
3.3 Unreceipted advances	1,050,00
3.4 Items not taken on ledger charge	5,316,200

**Implication**

Authenticity of the transactions involved could not be established

**Recommendation**

The Council management should produce the missing documents and confirm accountability of the items of stores.

**3.2.6 Imprests omitted Shs.16,268,600**

Audit examination of payment vouchers and imprests register revealed that imprests totalling to Shs.16,268,600 were observed to have been omitted from the outstanding imprests schedules.

**Implication**

Understatement of the imprests data and possibility of the imprests not to be accounted for in case the omission is not detected.

**Recommendation**

The Council management should ensure that no imprest is issued before it is recorded in the imprests register.

**3.2.7 Outstanding imprests and advances Shs.61,742,771**

The position of outstanding imprests and advances as at 30<sup>th</sup> June 2005 was as follows:

Category	Amount Shs.
Imprests	48,235,247.20
Advances	13,507,524
<b>Total</b>	<b>61,742,771.20</b>

**Implication**

Non accountability of the activities they were issued for. Also tying up of remaining funds which otherwise would have been used in other activities if they were accounted for before the end of the financial year.

**Recommendation**

The management should ensure that all imprests are accounted for within the financial year.

**3.2.8 Cash on hand Shs.3,065,200**

The Balance Sheet as at 30<sup>th</sup> June 2005 reflected a balance of cash on hand Shs.3,065,200 which was not supported by cash count certificate and no banking particulars for cash were produced to audit.

**Implication**

Possible misappropriation of the amount involved

**Recommendation**

The Council management should ensure that cash in the hands of cashiers are promptly banked possibly daily where there are banking facilities.

**3.2.9 Outstanding debtors and creditors Shs.123,981,741.09**

The Balance Sheet as at 30<sup>th</sup> June 2005 disclosed outstanding balances of debtors and Creditors as shown below: -

Category	Amount Shs.
Sundry Debtors	55,481,625.20
Sundry Creditors/unclaimed salaries	68,500,115.89

**Implication**

- Causing inability to the Council to meet its financial obligations
- Council's credit worthness may tightly be questionable for its failure to settle its creditors in time.

**Recommendation**

The Council should ensure that it established a suitable system of collecting its debts and at the same time arrange a system whereby it settles its creditors within specified time.

**3.2.10 Items not cleared in the Bank Reconciliation statement as at 30<sup>th</sup> June 2005**

The following items in the Bank Reconciliation statement were observed to have not been cleared as at the date of audit contrary to financial regulations.

Category	Amount
Unpresented cheques	250,301,245
Receipt in cash book not in Bank statement	569,060
Payments Bank statement not Cash book	11,935,638

**Implication**

The outstanding transactions may cause frauds if not cleared within the required time.

**Recommendation**

The Council is urged to reconcile its transactions in time in order to avoid concealing frauds which may be caused by non reconciliation of the uncleared items.

**4.0****CONCLUSION**

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

CC: Permanent Secretary,  
Prime Minister's Office,  
Regional Administration and Local Government,  
Box 1923,  
**DODOMA.**

Permanent Secretary and Paymaster General,  
Ministry of Finance,  
Box 9111,  
**DAR ES SALAAM.**

## 5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF MAGU DISTRICT COUNCIL

