

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF SENGEREMA DISTRICT COUNCIL
FOR THE YEAR ENDED 30TH 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
Dar es Salaam, Tanzania.

March, 2006

AR/LG/084/2005

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.

© This audit report is intended for use by government authorities. However, upon receipt of the General Report of the CAG by the Speaker, this report is a matter of Public record and its distribution may not be limited.

Table of Contents

	page
1.0 Background information to the audit	5
1.1 Introduction	5
1.2 Brief history of the client establishment	5
1.3 Operational objectives	5
1.4 Financing	6
1.5 Management structure	6
1.6 Brief description of internal control system	6
1.7 Financial Performance Issues	7
1.8 Audit mandate	7
1.9 Audit objectives	7
1.10 Audit scope	8
1.11 Audit Methodology	8
1.12 Presentation of audit findings	9
2.0 Audit report on the financial statements	10-11
3.0 Audit findings and recommendations	12
3.1 Current year's findings	12-14
4.0 Conclusion	15
5.0 Annexures	16

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 Sengerema District Council for the year ended 30th June, 2005.

Council means - Sengerema 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 Sengerema 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

The Sengerema 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 Sengerema 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.9,083,092,284. made up of Shs558,619,306 from own sources, Shs.8,524,472,978 from government grants and donors community.

1.5 Management structure

The Sengerema 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 Sengerema 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.558,619,306 from own sources and received grants amounting to Shs.8,524,472,978 making total revenue of Shs.9,083,092,284.

Expenditure

The Council spent Shs.9,399,449,559 during the year against total income of Shs.9,747,502,782 which includes an opening balance of Shs.664,410,499.

A comparison of the internal revenue of Shs.558,619,306 against expenditure of Shs.8,788,266,583 (net of depreciation) is only 6.4% 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 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 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,
Sengerema District Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
SENGEREMA 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 Sengerema 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 Sengerema 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 Sengerema 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 Sengerema District Council as at 30th 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.

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 RECOMMENATIONS

3.1 current year's findings

3.1.1 Missing revenue receipt books

Officers making outdoor collections shall return to their offices all receipt documents before the close of business so their receipts and collections can be lodged in safe custody. No officer shall keep such receipt documents on private premises. (PFR No.67 (2) None adherence to this regulation resulted in the loss of the following receipt books issued to revenue collectors:

Books Serial No.	Date issued	issued to
HW5 00018151 - 00018200	06/06/2003	Misanana HQ
00057251 - 00057300	04/05/2005	S. Piganio ATO
00065751 - 00065800	08/04/2005	Deus Makanji ATO

Implication

Revenue collected through the books has not been recorded in the books of account.

Recommendation

Management should trace them and confirm that the books have now been traced and ready for audit verification.

Underbanked revenue Shs.1,866,856

Examination of revenue receipts and collection particulars revealed that revenue collected amounted to Shs.1,866,856 was not brought to account as evidenced below: -

Book S/No.	Receipt Refers	A/C	Amount Collected	Amount Banked	B/P/Slip No.	Difference
00046651-700	00046651	G/F	800,000	200,000	1/2/2004	600,000
0005001-050	00050026-50	G/F	1,973,456	1,756,000	7/3/2005	217,456
00047201-250	00047201-209	G/F	1,049,400	NIL	NIL	1,049,400
						1,866,856

Implication

Short banking may imply theft and weakness in internal control.

Recommendation

Management should account for the shortage and ensure that there is an internal check on all transactions especially those related to cash.

3.2 Expenditure

3.2.1 Unvouched and improperly vouched expenditure Shs.28,300,427

Regulation 86 (I) of the PFR requires all accounting Officers to ensure that all disbursement of Public monies are properly vouched on the prescribed form of the payment and must contain full particulars of the services for which payments is made. Payments amounted to Shs.10,550,000 were not supported by payment vouchers during the year under review.

Implication

Implies inadequate financial controls in place.

Recommendation

Management should trace payment vouchers and produce them for audit verification or declare the same amount as Nugatory expenditure. In addition all the missing documents should be made available for audit scrutiny.

3.2.2 Stores not accounted for

Stores bought for Shs.10,590,227 for various services were not recorded in the stores ledger, as such, delivery and utilization of the stores have not been confirmed.

Implication

It implies that internal control system on procurement and stores needs review.

Recommendation

Management should confirm that items purchased had now been received and taken on ledger charge; by quoting the relevant ledger folios for audit verification.

3.2.3 Outstanding imprests Shs.6,025,873

The final accounts reflected a total amount of Shs.6,025,873 in respect of imprests outstanding as at 30th June 2005 contrary to Government financial Regulations on the requirement that all imprests should be retired within 14 days as soon as the necessity for them ceases to exist. PFR Regulation No. (I).

Implication

It may imply overstatement/ understatement of total expenditure reported.

Recommendation

Management should confirm that the imprests are recorded in the imprest register and retirement particulars are available for audit verification.

3.2.4 Doubtful salary payment Shs.62,955,200

PV. 2/2	-	Shs.44,480,700
PV.6/11	-	Shs.18,474,500

The Treasury issued directive that all Government employees operate a bank account through which their salaries will be paid. For those without such service, payment of salaries should be made temporary on payment vouchers. During January 2005 the District management paid salaries amounted to Shs.62,955,200 through two payment vouchers quoted above. List of the payees should have been attached to the respective payment vouchers for audit scrutiny. Such data could not be made available during audit.

Implication

Non availability of such data and transparency may imply “ghost” employees in the list.

Recommendation

Management should submit data relating to those payment and be more transparency in the whole exercise.

3.2.5 Accountable document not supplied Shs.320,000

It is the responsibility of the management to make available all documents related to revenue and expenditure during audit exercise. It was noted during audit test check that 200 revenue books (meant for Ushuru wa Masoko) containing receipts worth Shs.320,000 were missing in the records.

Also documents to support payments of Shs.2,200,000 analysed below were not submitted for examination.

- (i) **PV.104/6/05 Shs.200,000 D.601-250322 General Fund AC**
Paid to DAS Sengerema as advance to meet official activities.
- (ii) **PV.14/2/05 Shs.2,000,000 D.601-999994/General Fund A/C**
Paid as a loan from Miscellaneous Deposit A/C to General Fund A/C however, the same advance/loan could not be certified as having refunded to the respective account.

Implication

Either there is collusion or inadequate follow-ups.

Recommendation

Management should confirm the receipts of unsupplied books by furnishing supporting particulars for audit verification. In addition, management should confirm the refunds of Shs.2,200,000 from DAS Sengerema respectively from General Fund A/C to Miscellaneous Deposit a/C by furnishing the refunded particulars for audit verification.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Sengerema District Council during our exit meeting. The Management of Sengerema 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 Sengerema District Council - annexure II

Annexure I

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF Sengerema District Council

