

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF GEITA DISTRICT COUNCIL
FOR THE YEAR ENDED 30TH JUNE 2005**

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March, 2006

AR/LG/079/2005

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.

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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 Follow up of previous year's Audit findings	12-16
4.0 Conclusion	16
5.0 Annexures	17

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
HW	Halmashauri ya Wilaya No.5 (Open General Receipts)
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
RMO	Regional Medical Officer
MoF	Ministry of Finance
M&E	Monitoring and Evaluation
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

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

Council means - Geita 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 Geita District Council for the year ended 30th June 2005. Audit findings arising from examination of accounting records appraisal of Council's 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 Geita 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 Geita 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 Shs11,580,846,395 made up of Shs662,964,812 from own sources, Shs.10,917,881,579 from government grants and donors community.

1.5 Management structure

The Geita 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, 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 Geita 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.662,964,816 from own sources against the internal revenue budget of Shs.726,616,807 reflecting a collection shortfall of Shs.63,651,991 or 8.7%. The difference between the actual revenue collection and estimates was not explained but would appear to be a result of unrealistic revenue budget. In addition the Council received grants amounting to Shs.10,917,881,579 making total revenue of Shs.11,580,846,395 during the year.

Expenditure

The Council spent Shs.11,057,063,984 during the year against total income of Shs.11,580,846,395 or 95.47% of total revenue, leaving unspent amount of Shs.523,782,411. 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.662,964,816 against expenditure of Shs.11,057,063,984 (net of depreciation) is only 6% 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 CAG 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 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,
Geita District Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
GEITA 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 Geita 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 Geita 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 Geita 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 Geita District Council as at 30th June 2005 and the results of the 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 procurement of office furniture's, stationeries and constructions of works was generally done in accordance with the Public Procurement Act. No.21 of 2004.

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 Follow up of previous year's audit finding

3.1.1 Missing revenue receipts books

Three revenue books were not produced for audit examination when called for as detailed below:

No. of receipt books

HW5 68751-68800
“ 66901-66950
“ 66101-66150

Implication

Revenue collected could not be ascertained.

Recommendation

Management have to take immediately measures to find out the missing revenue books and submit them for audit. The strong internal control over custody, issuance and control of revenue receipts books is needed with a view of salvage the Council's revenues from being lost.

3.1.2 Revenue collection not banked Shs.3,609,000

It was noted during the audit that Shs.3,609,000 as revenue collected from various sources was not remitted to the main cashier for accounting and banking as per procedures required. The details of un-remitted revenue collected are as follows:

Date	C/No.	Amount (Shs).
27/4/05-31/5/05	00091301-0009125	1,512,000
3/10/04-23/12/05	00102651-00102700	875,000
15/3/04	00067101-00067104	40,000
	Total	3,609,000

Implication

This implies existence of gaps in internal control over revenue.

Recommendation

It is recommended that the management should make serious follow up of revenue not banked to prevent teaming and leading of revenue collected by its officers and should ensure that the same are banked. The audit should be provided with banking particulars for verification purposes.

3.1.3 Missing payment vouchers amounting to Shs.1,439,064

During the course of audit a test check on payment vouchers revealed that there are missing payment vouchers amounting to Shs.1,439,064.

Implication

- The legitimacy of the amount spent could not be ascertained
- There are poor records keeping.

Recommendation

It is the responsibility of the Council's management to find out the missing payment vouchers and submit them for audit. Also the management has a role to ensure that the Council maintains a culture of proper keeping of records.

3.1.4 Improperly vouched expenditure Shs.12,099,113

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 made to various payees during the year amounted to Shs.12,099,113 were not supported with adequate supporting documents during the year under review.

Implication

In absence of sufficient supporting documents the Geniuses of the transactions are in doubtful.

Recommendation

The missing supporting documents should be produced for audit purposes. The management is advised to improve documentation to ensure that every transaction bears relevant supporting documents.

3.1.5 Expenditure details missing Shs. 10,997,700.00

The following payments were made to different ward committee in respect of renovation of dips. However, the expenditure incurred were lacking sufficient supporting documents.

Pv No.	Chq No.	Account	Amount
2/9/04	030504	559,700	DADPS
2/9/04	030506	440,000	"
1/5/05	030526-29	4,000,000	"
3/5/05	030531-32	6,000,000	"
	Total	10,99,700	

Implication

Implies in adequate financial controls in place.

Recommendation

The management should trace and submit expenditure details showing how the amount was spent.

3.1.6 Stores not accounted for Shs.18,615,500

Stores worth Shs.18,615,500 purchased and paid for were noted to have not taken on ledger charge 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 ensure that goods/services paid for are delivered, and strong internal control is maintained to prevent possible losses of stores.

3.1.6 Questionable sitting allowance Shs.

Shs.1,184,000 were paid to District Executive Director as sitting allowance to head of departments while attending CRT (Maboresho) meeting, audit examination revealed that expenditures incurred to meet sitting allowances were not budgeted.

Pv No.	Chq. No.	Amount (Shs.)
12/9/04	017428	180,000
114/9/04	026505	170,000
3/3/05	027561	407,000
95/5/05	027943	427,000
Total		1,184,000

Implication

This implies inadequate budgetary control.

Recommendation

Management has to make sure that no expenditure is incurred without the approval of budget with a view of maintaining financial discipline.

3.1.7 Valuation payment Shs.1,560,000

Payments amounting Shs.1,560,000 was made to Jume Mkuke Hamuli Vide PV. 50/10/04 Cheque No.026639 in respect of valuation of Council's fixed assets. The name of recipient shown on the receipt attached to the payment voucher is Tabora Institute of Land.

Implication

The propriety of the expenditure incurred could not be established.

Recommendation

Management has the responsibility to confirm the exactly person who supposed to be paid and tendering procedures taken on awarding the service should be produced for audit.

3.1.8 Un collected teachers allowances of Shs.2,320,000

During the year under review audit revealed that a sum of Shs.40,570,000 was paid to DED Geita vide Pv. 202/6/05 Cheque No. 035376 as allowances to various teachers . However, examination in the list of payees shows that only Shs.2,320,000 out of 40,570,000 was not receipted by respective teachers. The names and the respective amounts are shown under the following table:

S/No.	Name	Amount (Shs.)
1.	Eunice Komba	300,000
2.	Gabriel Seni	140,000
3.	Kezia Odongo Nashon	40,000
4.	Joseph H. Mahari	120,000
5.	Thomas Sabuka	80,000
6.	Tedola Mtesigwa	80,000
7.	Gaudencia Furtunalius	80,000
8.	Sr. Adela Temba	300,000
9.	Elias Manyama	80,000
10.	Janet G. Makundi	240,000
11.	Salvatory Ikambula	40,000
12.	Kariba Kamalamo	120,000
13.	Daud Kanundo	40,000
14.	Joseph K. Mabula	80,000
15.	Delphina Phidelius	40,000
16.	Magreth Mathias Lupili	40,000
17.	Deogratias J. Mayunga	40,000
18.	Anthony Nyanda	40,000
19.	Berina Mabeba	120,000
20.	Gidion Kamoga	120,000
21.	Baraka Manyanda	80,000
22.	Laurian Makalanga	100,00
	Total	2,320,000

Implication

The circumstance suggests misuse of teachers allowances.

Recommendation

Management has the responsibility to ensure that the allowances are paid to intended teachers.

3.1.9 Missing donation receipt of Shs.16,914,200

The Council has paid Shs.16,914,200 PV No.94/5/05 cheque No.035162 being Council contribution made to RMO Mwanza for rehabilitation of Sekou-Toure Hospital. The funds were deducted from the salaries of Council's employees for the months of March and April 2005. However, receipt in respect of acknowledgment of amount paid was not produced for audit verification.

Implication

Either there is collusion or inadequate follow up.

Recommendation

Management is strongly urged to comply with the regulations in Public Finance Act which require obtaining receipt from every payments made.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Geita District Council during exit meeting. The Management of Geita 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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The Permanent Secretary and Paymaster General,
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5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF GEITA DISTRICT COUNCIL

