

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF MISSUNGWI 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
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
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 Missungwi District Council for the year ended 30th June, 2005.

Council means - Missungwi 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 Missungwi 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 Missungwi 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 Missungwi 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.7,846,364,196 made up of Shs.209,590,493 from own sources, Shs.7,636,773,703 from government grants and donors community.

1.5 Management structure

The Missungwi 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 Missungwi 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.209,590,493 from own sources against the internal revenue budget of Shs.239,463,612 reflecting a collection shortfall of Shs.29,873,119 or 12.47%. 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.7,636,773,703 making total revenue of Shs.7,846,364,196 during the year.

Expenditure

The Council spent Shs.7,309,376,314 during the year against total income of Shs.7,846,364,196 or 93.15% of total revenue, leaving unspent amount of Shs.536,987,882. 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.209,590,493 against expenditure of Shs.7,309,376,314 (net of depreciation) is only 2.8% 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,
Missungwi District Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
MISSUNGWI 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 Missungwi 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 Missungwi 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 Missungwi 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.

Adverse

In my opinion the financial statements do not present fairly the financial position of Missungwi District Council as at 30th June 2005.

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 Unproduced Receipt books

12 revenue receipt books (open) were not made available for audit examination, revenue collected on them could not therefore be confirmed to have been correctly received and accounted for.

Implication

The situation suggests for existence of chances for imbursement of Council's revenues.

Recommendation

The management has the responsibility to find out the missing revenue receipt books and should make sure that they are made available for audit verification.

3.1.2 Earning receipt books not recorded in the counterfoil register.

HW5 books were found in use without being registered in the counterfoil register for control purpose.

Implication

Lack of proper control over revenue suggests for existence of loopholes on management of Council's revenues.

Recommendation

Management should ensure that a strong and reliable internal control over receipts book is in a place with a view of monitoring, controlling and accounting of all revenue generated from its own sources.

3.1.3 Revenue collected but not Banked Shs.33,864,519.00

Revenue collections amounting to Shs.33,864,519.00 collected from various own sources was not evidenced to have been banked.

Implication

In the absence of proper controls, abuse of financial discipline cannot be ruled out.

Recommendation

Management should enforce strong internal controls over cash, daily cash banking should be encouraged, in addition to that relevant banking documents supports the deposits (if were done) should be produced for audit purposes.

- 3.1.4 Uncollected revenue from Council's Agents Shs.4,907,750.00**
A revenue collections amounting to Shs.4,907,750 collected by Agents on behalf of the Council were not remitted to Council authority.

Implication

Possible misappropriation of revenue collected.

Recommendation

Management should review its agreements with Agents by imposing strictly conditions on those who do not remit the revenue collected on time with a view to enhance financial accountability.

- 3.1.5 Outstanding water bills Shs.2,611,000**
Water bills amounting to Shs.2,611,000 was yet to be collected from water users.

Recommendation

Management should increase efforts on collection of water bills.

- 3.1.6 Missing payment vouchers of Shs.2,049,066,064**
Audit test check during the year under review revealed missing payment vouchers of Shs.2,049,066,064.

Implication

This implies that internal control system over custody of documents is inadequate.

Recommendation

Management should ensure strong internal control is in place, in addition, efforts should be done to submit missing payment vouchers for audit verification.

- 3.1.7 Improperly vouched expenditure Shs.218,808,318**
Audit examination during the year under review revealed payments amount to Shs.218,808,318 were effected without having sufficient supporting documents.

Implication

Gaps in internal control as payments are not subject to internal check and approved by responsible officer.

Recommendation

Management should ensure that Strong internal control system is in place and missing supporting documents are produced for audit verification.

3.1.8 Transfer of funds not supported by acknowledgement receipts

Shs.24,284,921.88

A total amount of Shs.24,284,921.88 was transferred from one account to another but acknowledgement receipts from the recipient accounts were not produced for audit verification.

Implication

In the absence of acknowledgement receipts, the genuineness of the transfers could not be established.

Recommendation

Management should ensure that the receipt of transfer of funds is availed for audit verification.

3.1.9 Stores not taken on ledger charge Shs.33,616,200

A total amount of Shs.33,616,200 was spent for purchase of various materials, but were not taken on charge.

Implication

Stores purchased could not have been delivered and therefore causing loss to the Council.

Recommendation

Management should ensure that goods paid for delivered and strong internal controls over stores is maintained to prevent further losses.

3.1.10 Outstanding Loans Shs.10,457,000

Loans amounting Shs.10,457,000 issued to Women and Youth Groups were observed to have not yet been recovered.

Implication

This implies less efforts in collection of loans.

Recommendation

Management has to strive to make sure that loans insured are recovered within stipulated period of time.

3.1.11 Imprests/Salary Advances not recorded Shs.5,746,200

Imprests and salary advances amounting to Shs.5,746,200 were not recorded in the register for control purpose.

Implication

Lack of proper control on issues of imprests and advances.

Recommendation

It is responsibility of the management to ensure that accounting and other related records or information are properly recorded

- 3.1.12 Payment vouchers not recorded in the cash book Shs.22,722,968.61**
Payment vouchers amounting to Shs.22,722,968.61 were not recorded in the cash book.

Implication

Understatement of the cash book balance.

Recommendation

Proper procedures for recording of transaction in the correspondence books of accounts have to be followed by the management.

- 3.1.13 Missing Cheques and Bank statement**

It was noted during the audit that cheques of various accounts listed were not recorded in the payment cash books. In the absence of bank statements of various accounts it could not be confirmed whether the cheques were encashed for payment or cancelled.

Implication

These implies shortfalls in internal controls over cash.

Recommendation

The management is responsible to ensure that all missing cheques are recorded in the relevant books of accounts as well as the missing documents are made available for examination.

4.0 CONCLUSION

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF MISSUNGWI DISTRICT COUNCIL

