

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



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

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AR/LG/060/2005

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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Terms and Abbreviations

INTOSAI	International Organization of Supreme Auditing Institutions
ISA	International Standards on Auditing
LAFM	Local Authority Accounting Manual
PMO-RALG	Prime Minister's Office -Regional Administration and Local Government
URT	United Republic of Tanzania
PV	Payment Voucher
C/N	Cheque Number
DADP	District Agriculture Development Programme

Financial Statements mean:

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

Council means: Tarime District Council, both as Councillors as well an operating entity.

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

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

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

1.3 Operational Objectives

According to section III (1) of the Local Government (District Authorities) Act and the Local Authority financial Memorandum, the District Council of Tarime has the following operational objectives.

- (a) To maintain and facilitate the 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.

1.4 Financing

The Council has two sources of funds, own sources and external sources. The Internal source included collection of Public funds through taxes, fees, licenses and charges. On the other hand external source include subsidies from central government, grants and other funds from the Donor community.

During the year 2004/2005 the council received a total income of Shs.7,416,076,948 from the following sources;

	Shs.
Own Sources (as per supporting schedule)	572,116,020
Government (as per supporting schedule)	6,843,960,9275
Total	<u>7,416,076,948</u>

1.5 Management

The Tarime District Council operates under directives of the Full Council and the day to day activities are administered by the District Executive Director who is the Accounting Officer of the council. The Council is organized into different departments supervised by heads of department who reports to the District Executive Director. The detailed organization chart is given in Annex 2.

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 through the issue of a detailed job description for each post in the Finance Department, production of an organization chart for the Finance Department showing lines of reporting and supervision, Division of responsibilities for related operations between several officers 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 mandatory. The Council is also required to employ its own Internal Auditor who report directly to the Director. Similarly, the Public Procurement Act NO. 21 of 2004 section 28 (I) requires the Council to establish a tender Board and Sect.34 (I) provides for establishment of Procurement Management Unit.

The Internal Control system of Tarime District Council complies with this order of the Procurement Act. Nevertheless weakness raised 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. 572,116,020 from own sources against the internal revenue budget of Shs.559,298,482 reflecting an over collection of Shs. 12,817,538 or 2.29%. The large difference between the actual revenue collection and estimates was not explained. In addition the Council received grants amounting to Shs.6,843,960,927 making total revenue of Shs.7,416,076,948 during the year.

Expenditure

The Council spent Shs. 7,494,195,161 during the year against total income of Shs. 7,416,076,948 or 101% of total revenue, an over expenditure amounting to Shs. 78,118,123. 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. 572,116,020 against expenditure of Shs. 7,494,076,948 is only 7.6% 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 provision of Article 143 of the Constitution of the United Republic of Tanzania, and section 45 of the local government of Finance Act NO. 9 of 1982, (revised 2000) the Controller and Auditor General is the appointed auditor of all government revenue and expenditure, including this District Council.

1.9 Audit Objectives

The main objective of conducting the audit is to enable me to express an independent opinion on the statements of the Tarime District Council for the period ended 30th June 2005 and in particular:-

- To determine whether transactions were executed in accordance with management authorization and recorded properly in the books of account to permit the preparation of the financial statements in accordance with the International Accounting Principles and requirements of the Local Government Finance Act No.9 of 1982 and Local Authority Financial Memorandum 1997.
- To determine whether funds have been collected properly and used exclusively to meet eligible expenses as per approved budget and regulations governing government expenditure.
- To ascertain whether all relevant supporting documents records and accounts have been kept in respect of all Tarime District Council activities.

- To verify whether goods and services bought were acquired through laid down procurement procedures and the Public procurement Act No. 3 of 2001 have been complied.
- To perform compliance tests to determine whether the management complied in all material respects with the Public procurement Act No 3 of 2001
- 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 Tarime District Council are adequately safeguarded against losses from unauthorized use or disposition.
- To determine whether the management of the Tarime District Council has taken adequate corrective action on the previous years audit recommendations.

1.10 Audit Scope

The audit of Tarime District Council for the period ended 30th June 2005 was carried out in accordance with International Standards on Auditing (ISA). The audit covered the evaluation of the effectiveness of the financial accounting system and internal control over the activities of the Council, Examination and verification of the accompanying financial statements, the performance report and other auditing procedures as was considered necessary under the circumstances for the purpose of forming an opinion on the financial statements. The audit was carried out on a test check basis, therefore the audit findings are confined to the extent that records, documents and information requested for the purpose of 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 as that we would have reasonable expectation of detecting material misstatements in the financial statements, including those resulting from fraud or irregularities. The responsibility for detection and prevention of fraud and irregularities rests with the Council management who are responsible for setting up and maintaining an adequate system of internal control.

1.11 Audit Methodology

In auditing the financial statement together with the related records and schedules, the following 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.
- 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 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,
Mara Region

Council Director and Accounting Officer
Tarime District Council

RE: **Independent audit report on the Financial Statements of
Tarime District Council for the year ended On 30th June 2005**

I have audited the consolidated balance sheet, consolidated statement of income and expenditure, consolidated cash-flow statement, and the related notes and schedules of the Tarime District Council shown on the annexure 2 given in the book marked "Examined" 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 Tarime District Council.

Order Nos. 9 through 16 of the LAFM requires the Council to establish and support a solid 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 attention 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 Tarime 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.

Qualification

Except for the material matters pointed out below, in my opinion the financial statements fairly reflect, in all material respects, the financial position of Tarime 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.

Limitation of Scope of Audit and non-compliance with laws:

1. Unvouched and Improperly vouched expenditure amounting to Shs.44,712,450 were incurred by the councils hence its genuineness could not be ascertained.
2. Irregular and questionable expenditure amounting to Shs.46,970,854 were made without authorization of the council and hence it may lead to loss of Public funds.
3. Shs.2,788,00 were unclaimed salaries not accounted for.
4. Outstanding imprests amounting to Shs.94,763,877 made by the Council was not retired indicating non adherence to Financial Rules and Regulations.
5. Stores worth Shs. 102,561,031 ordered and paid for were not confirmed to have been taken on ledger charge and its accountability could not be verified.

6. The financial statements were inconsistently prepared. Audit revealed that figures in the income and expenditure statements differ with the figures in the supporting documents and supplementary schedules.

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

Dr. Frank Mosses Hiza Mhilo
Ag. CONTROLLER AND AUDITOR GENERAL

Office of the Controller and Auditor General
The National Audit Office
Dar es Salaam

February 2006.

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Current audit findings

3.1.1 Unvouched Expenditure shs.4,059,139

Examination of records, vouchers and related supporting documents for the year under review disclosed unvouched expenditure amounting to Shs. 4,059,139.10 as follows:

Description	Amount (Shs.)
Health Account	1,204,788
Education Account	2,306,000
Kilimo/Mifugo Account	522,000
Ujenzi Account	26,351
Total	<u>4,059,139</u>

Implication

- The legitimacy of the expenditure or the purpose of which the payments were made could not be ascertained and hence might lead to loss of Public funds.

Recommendation

Management should ensure that the missing payment voucher and supporting documents should be traced and produced for audit verification. In addition, management should strengthen the system of record keeping.

3.1.2 Improperly vouched expenditure Shs.40,653,311.00

Audit examination of payment vouchers of the council for the year under review has revealed that payment vouchers amounting to shs.40,653,311.00 had no supporting documents to authenticate their genuineness as follows:-

Description	Amount (Shs.)
General Fund Account	26,953,811
Education Account	676,000
Maji Account	7,920,000
Afya Account	3,536,000
Ardhi Account	<u>1,567,500</u>
Total	<u>40,653,311</u>

Implication

The legitimacy of the expenditure incurred or the purpose of which the payment were made could not be ascertained.

Recommendation

It is recommended that the missing supporting documents to the payment vouchers should be produced for audit scrutiny.

3.1.3 Irregular and/or questionable expenditure Shs. 46,970,854

It was revealed during audit that payment amounting to Shs.46,970,854 were made without invitation quotations and authorized signature. It was also revealed that Bills of Quantity and Production of certificates for completion of work for construction of Food and animal products control center at Sirari Boarder were not produced for audit. Details are produced as follows.

Details	Amount Shs.	Account	Description	Remarks/Missing Document
PV. 7/4 of August 2005 C/N 012377	20,484,000	Maji	Payment made to M/S Pipeline Products Mwanza in respect of supply of water pipes	Payment made without inviting quotations
PV1/7 of July 2005 C/N 015484	5,792,484	DADP	Payments made to M/S Rayah Enterprises co. Ltd. for construction of Food and Animal Products Control Centre at Sirari Boarder	<ul style="list-style-type: none">• Relevant certificates for completion of work not produced• Bills of Quantity were not produced
PV.2/7 of July 2005 C/N 015485	11,584,968	DADP		
PV/1/9 of September 2005 C/N 015487	2,896,242	DADP		
Pv. No.16/5 of May,2005	6,213,160	Afya	Payment made to Mr. Ludovick Kirina in respect of purchase of medicines and hospital equipments	Unauthorised payment (signature of authorizing officer missing)
Total	46,970,854			

Implication

- The circumstance implies that there is no strong internal control system in place
- This implies that the Financial Rules and Regulations were not complied with and hence there might be misuse of Public Funds.

Recommendation

Management should ensure that there is a clear compliance of Financial Rules and Regulations.

3.1.4 Unclaimed salaries not accounted for shs. 2,788,000

During audit, salary record particulars revealed laxity in control over salary payments and accountability of unclaimed salaries by the council.

Examination of computerized payrolls for the month of November 2004 and February 2005 revealed unclaimed salaries amounting to shs.2,788,000 in respect of salaries for employees have not been receipted and repaid to the Treasury as required by accounting rules.

Implication

This implies that the salaries might be misappropriated and hence loss of Public funds..

Recommendation

Management should account for the unclaimed salaries and in future management should strengthen the control over payrolls.

3.1.5 Outstanding Imprests Shs.94,763,877

Audit of the final financial statement disclosed uncleared balance of imprests amounting to Shs. 94,763,877 as at the time of audit 30th June 2005

Implication

This implies that genuineness of the expenditure incurred in respect of the imprests, could not be ascertained, hence may lead to loss of government funds.

Recommendation

- The management should ensure that the imprests are retired and retirement particulars are submitted for audit verification.
- In future management should strengthen internal control over imprests.

3.1.6 Sundry Debtors Shs. 18,974,400

The Balance sheet as at 30th June 2005 disclosed outstanding sundry debtors amounting to Shs.18,974,400. However, as at the time of writing the report (December 2005), no evidence of recovery have been made.

Implication

Non clearance of the debtors affects the financial position and smooth operation of the council.

Recommendation

The Council Management should make follow up on clearance of outstanding debtors.

3.1.7 Sundry Creditors Shs.365,948,182

An amount of shs. 365,948.07 in respect of sundry creditors were reflected in the balance sheet as at 30th June 2005 comprising of the following:-

Description	Amount (Shs.)
Treasury (Computer bills)	15,574,960
LAPF	157,443,313
Salaries for WEO's and VEO's	190,051,498
TALGWU	1,418,105
TUGHE	1,460,306
Total	365,948,182

Implication

- This implies that if the council did not settle debts, then the smooth operation of the council might be affected during settlements.
- The outstanding creditors will result in huge budget outstanding balances in the council books of account.

Recommendation

The council's management should ensure clearance of debts.

3.1.8 Stores worth Shs.102,561,029 not accounted for

A test check carried out during audit revealed that stores worth Shs.102,561,029.50 were purchased, paid for and supplied to the council but not taken on ledger charge and were not produced to audit for verification.

Implication

Non recording of stores may lead to loss and misplacement of purchased items and hence loss of Public funds.

Recommendation

The management should ensure that all stores purchased are accounted for in the stores ledger and respective ledger folio references quoted for verification.

3.1.9 Bank Reconciliation

The Bank Reconciliation statement as at 30th June 2005 reflected the following uncleared balances:-

S/N	Account	Unpresented cheques (Shs)	Receipt in cash book not in Ban Statement	Payments in Bank not in Cash Book
1.	3041200002 GF	46,649,612	6,855,494	281,555
2.	3041200004 Deposit	19,890,905	23,201,941	-
3.	3041200006 Elimu	258,276,222	-	22,931,509
4.	3041200007 Afya	74,066,812	-	-
5.	3041200008 Maji	12,980,559	-	-
6.	3041200012 Govt Hospital	360,000,000	1,660,904	-
7.	3041200014 Road Toll	333,000	-	3,000
8.	3041200021 Upimaji	2,079,500	390,000	-
9.	3041200027 Ext. Service Fund	283,500	-	-
10.	3041200032 Rwang'enyi	4,400,000	-	-
11.	3041200033 Uchaguzi	303,950	-	-
	Total	419,624,062	32,108,339	23,216,064

Implication

Non-clearance of the items implies inadequate internal control system, and hence may lead to the loss of council's funds.

Recommendation

The council management should take necessary action to clear the outstanding items in the Bank reconciliation and strengthen internal control system.

4.0 CONCLUSION

The detailed audit finding presented above have been communicated to management of the Tarime District Council during our exit meeting. Management of the Tarime District Council has promised to take appropriate action with a view to rectify the situation. We shall appreciate to receive a formal action taken in this respect.

Lastly, I would like to express my appreciation for the cooperation given to the audit team. It is my hope that such good working relationships will be extended during future audits.

Dr. Frank Mosses Hiza Mhilu
Ag: CONTROLLER AND AUDITOR GENERAL

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The Regional commissioner
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5.0 ANNEXURES

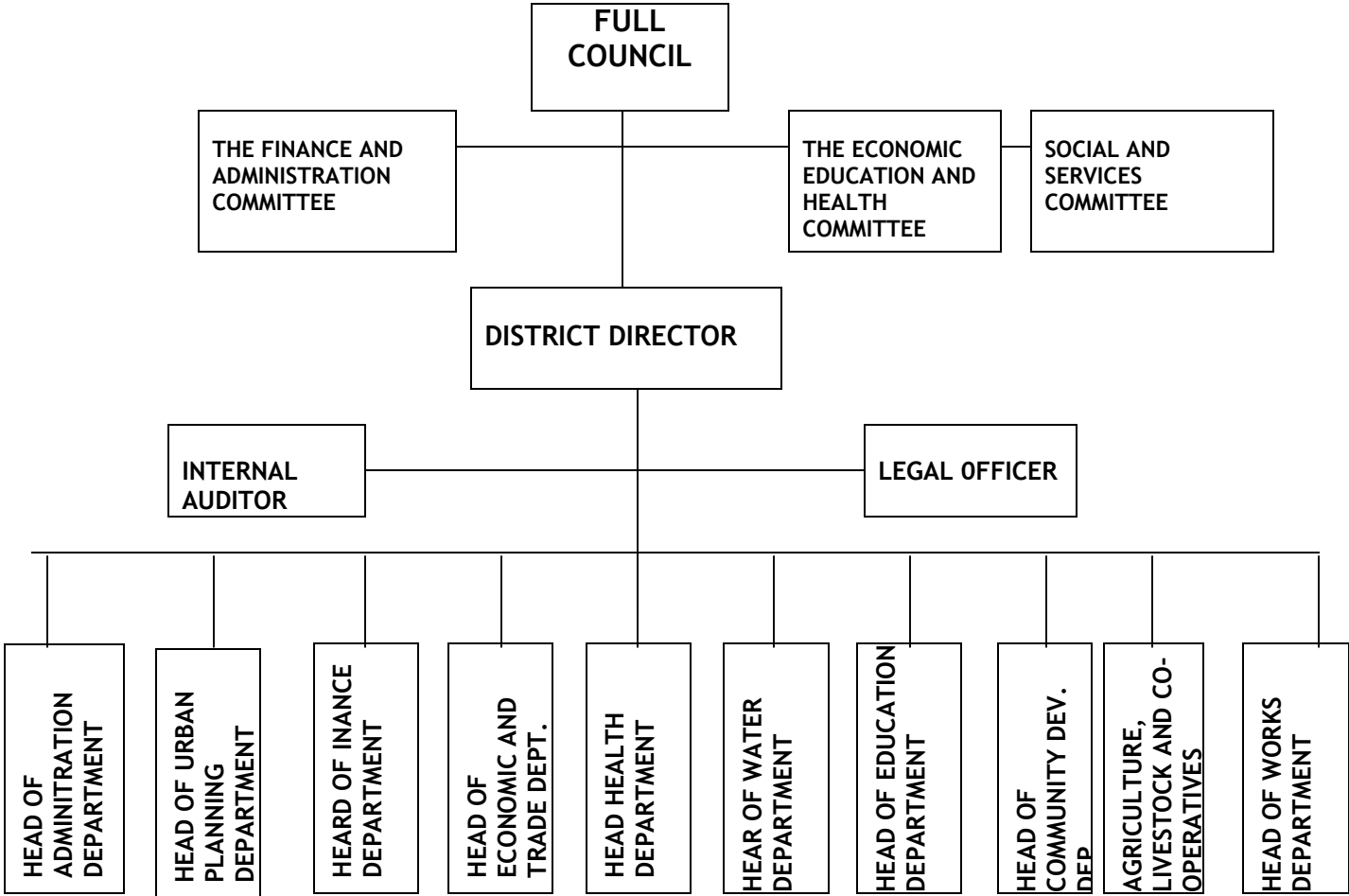
- Financial Statements and notes to the financial statements - annexure I
- Organization structure of Tarime District Council - annexure II

5.1

Annexure I

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF TARIME DISTRICT COUNCIL



**PURCHASE OF HOSPITAL CARDS CHARGED OVER AND ABOVE THE MARKET
PRICE SHS.27,471,925/=**

PV. NO.	CHEQUE NO.	AMOUNT	DETAILS OF PURCHASES
76/6	027317	3,920,000/=	<ul style="list-style-type: none"> • 3600 Ea Outpatient Cards @ 550/= • 2800 Ea Inpatient Cards @ 550/= • 1000 Ea Continuation Cards @ 400/=
75/6	027316	1,097,500/=	<ul style="list-style-type: none"> • 500 Ea Observation Card @ 445/= • 500 Ea Discharged card @ 550/= • 1000 Ea Laboratory forms @ 400/= • 500 Ea Treatment chart forms @ 400/=
143/6	027385	458,950/=	<ul style="list-style-type: none"> • 289 Ea MCH No. 1 @ 550/= • 300 Ea MCH No. 4 @ 550/= • 300 Ea MCH No. T.T @ 450/=
91/5	027295	2,302,200/=	<ul style="list-style-type: none"> • 3000 Ea Outpatient Cards @ 450/= • 2116 Ea Inpatient Cards @ 450/=
150/6	027398	3,200,000/=	<ul style="list-style-type: none"> • 2000 kadi za matibabu @ 550/= • 2000 fomu za uchangiaji @ 550/=
157/6	027399	2,920,000/=	<ul style="list-style-type: none"> • 1000 Ea MCH cards No. 4 @ 550/= • 1000 Ea MCH cards No. 5 @ 550/= • 1800 Ea Temperature chart forms@ 450/= • Laboratory forms @ 450/=
158/6	027400	2,650,000/=	<ul style="list-style-type: none"> • 2000 Ea Discharge forms @ 550/= • 1000 Ea Observation forms @ 450/= • 2000 Ea Outpatient cards @ 550/=
28/2		2,200,000/=	<ul style="list-style-type: none"> • 1000 Ea of Outpatient @ 550/= • 1000 Ea of Inpatient cards @ 550/= • 1000 Ea Discharge forms @ 550/= • 1000 continuation forms @ 550/=
11/2	029929	4,064,875/=	<ul style="list-style-type: none"> • 2850 Ea of MCH No. 1 @ 425/= • 2000 Ea of MCH No. 4 @ 425/= • 785 Ea of MCH No. 5 @ 425/= • 2800 Ea of T.T @ 425/= • 200 Ea of VSC forms for BTZ @ 800/= • 400 Ea of forms for Norplant @ 800/=

28/1	029909	3,100,000/=	<ul style="list-style-type: none"> • 1500 Ea of Outpatient cards @ 550/= • 700 Ea of Inpatient forms @ 550/= • 500 Ea continuation forms @ 550/= • 500 Ea of Treatment forms @ 550/= • 500 Ea observation forms @ 550/= • 500 Ea Temperature chart forms @ 700/= • 500 Ea of Discharge cards @ 550/= • 800 Ea Laboratory forms @ 550/=
4/12	039222	1,558,400/=	<ul style="list-style-type: none"> • 822 Ea of MCH cards No. 1 @ 450/= • 400 Ea of MCH cards No. 4 @ 400/= • 1000 Ea T.T cards @ 450/=
Total shs.		27,471,925/=	

**TARIME DISTRICT COUNCIL
BASIS FOR ASSESSING AUDIT OPINION**

Para	Observation	Basis	Opinion
3.1.1 and 3.1.2	Unvouched and Improperly unvouched expenditure amounting to Shs. 44,712,450.10	$\frac{44,712,450.10}{7,494,195,160.67} = 0.59\%$	Unqualified
3.1.3	Irregular and/or questionable expenditure amounting to Shs.46,970,854	$\frac{46,970,854}{7,494,195,160.67} = 0.62\%$	Unqualified
3.1.4	Unclaimed salaries not accounted for Shs.2,788,000	Statutory	Qualified
3.1.5	Outstanding imprests amounting to Shs.94,763,877	Statutory	Qualified
3.1.8	Stores worth shs.102,561,029.56 not accounted for	Statutory	Qualified