

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF SERENGETI DISTRICT COUNCIL
FOR THE FINANCIAL 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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Terms and Abbreviations

DED	District Executive Director
GF	General Fund
INTOSAI	International Organization of Supreme Auditing Institutions
ISA	International Standards on Auditing
LAFM	Local Authority Accounting Manual
LPO	Local Purchasing Order
NAEP	National Agricultural Extension Programme
PMO-RALG	Prime Minister's Office -Regional Administration and Local Government
URT	United Republic of Tanzania

Financial Statements mean:

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

Council means: Serengeti 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 Serengeti 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 Serengeti 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 Serengeti 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.4,379,897,334.92 from the following sources;

	Shs.
Own Sources(as per supporting schedule)	234,233,705
Grants (as per supporting schedule)	<u>4,145,663,630</u>
Total	<u>4,379,897,335</u>

1.5 Management

The Serengeti 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 (l) requires the Council to establish a tender Board and Sect.34 (l) provides for establishment of Procurement Management Unit.

The Internal Control system of Serengeti 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. 234,233,705 from own sources against the internal revenue budget of Shs.259,313,833 reflecting a collection shortfall of Shs. 25,080,758 or 9.67% 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.4,145,663,630 making total revenue of Shs.4,379,897,335 during the year.

Expenditure

The Council spent Shs. 4,763,498,269 during the year against total income of Shs. 4,379,897,335 or 108.7% of total revenue, resulting to over expenditure amounting to Shs.383,600,934. 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. 234,233,705 against expenditure of Shs. 4,763,498,269 is only 4.9% implying that the District Council cannot sustain either its recurrent or development expenditure without depending on grants.

1.8 Audit Mandate

By virtue of the 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 Serengeti 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 Serengeti 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 Serengeti District Council are adequately safeguarded against losses from unauthorized use or disposition.
- To determine whether the management of the Serengeti District Council has taken adequate corrective action on the previous years audit recommendations.

1.10 Audit Scope

The audit of Serengeti 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 Serengeti District 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 Serengeti District 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
Serengeti District Council

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS
OF SERENGETI 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 Serengeti District Council shown on the annexure 2 given in the book marked "Examined" for the financial year ended on 30th June 2005.

Responsibility of Council Management on the financial statements

These financial statements are the responsibility of the management of Serengeti 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 Serengeti 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 Serengeti 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.34,176,120 which might lead to loss of Public Funds.
2. Outstanding imprests advances and sundry debtors amounting to Shs. 79,542,729.
3. Irregular and questionable expenditure amounting to Shs.18,075,700.
4. Shs. 67,077,926 were observed as outstanding creditors in the final financial statements as at 30th June 2005.
5. Stores worth Shs. 5,136,000 were paid for but were not confirmed to have been taken on ledger charge and its accountability could not be verified.
6. Uncleared Balances for the cash in transit item on the Bank reconciliation statement amounting to Shs. 3,139,200.
7. A physical survey made on the council main store revealed goods and services worth Shs.29,327,950 not taken on ledger charges, the disparities were noted between Goods and Services taken on ledger Balance and Physical Balance observed.

8. 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 Mhilu

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 Improperly vouched Expenditure shs.21,629,895

Examination of vouchers and related supporting documents for the year under review disclosed improperly vouched expenditure amounting to Shs. 21,629,895 as follows:

Description	Amount (Shs)
Elimu Account	3,335,000.00
General Fund Account	12,966,895.00
DDP Account	3,360,000.00
CSPD Account	1,968,000.00
Total	21,629,895.00

Implication

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

Recommendation

Management should ensure that the missing payment vouchers supporting documents are produced for audit verification.

3.1.2 Unvouched Expenditure Shs . 12,546,225.05

Examination of payment vouchers during the year under review disclosed missing of payment vouchers amounting to Shs.12,546,225.05 as follows:-

Description	Amount (Shs.)
CSPD Account	125,999.45
WDF Account	200,000.00
Kilimo Account	667,014.20
Maji Account	168,996.40
DDP Account	6,126,600.00
Ujenzi Account	642,215.00
Education Account	4,615,400.00
Total	12,546,225.05

Implication

This implies that the legitimacy of the expenditure incurred or the purpose of which the payments were made could not be ascertained.

Recommendation

The Management is required to produce to audit the missing supporting documents for the expenditure incurred and in future management should adhere to Financial Rules and Regulations.

3.1.3 Irregular and/or questionable expenditure Shs.18,075,700

It was noted during audit inspection that, expenditure amounting to Shs. 18,075,700 were paid for and were not supported by relevant supporting documents. Details are as follows:

Delays	Amount (Shs)	Account	Description	Remarks
PV 1 /4 of April 2005 C/N 010970	14,250,000	DDP	Payment made to M/S Mbully enterprises for the supply of 5 EA Honda Motor Cycles	Purchase made without inviting quotations
PV 2/1 of January 2005 C/N 012693	2,225,000	DDP	Payment made to Sokoine University of Agriculture in respect of supply of fruit planting materials	No acknowledgement receipt issued
PV 33/5 of May 2005 C/N 014265	1,600,700	G/Fund	Part payment to M/S Natta Building General enterprises in respect of renovation of House No. 2A	<ul style="list-style-type: none">• Absence of contract agreement documents• Absence of Bills of Quantity• Absence of completion certificates
Total	<u>18,075,700</u>			

Implication

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

Recommendation

- Management is required to recover the missing documents for audit verification.
- Management should ensure that there is a clear compliance of Financial Rules and Regulations in regard of all payments incurred by the council.

3.1.4 Outstanding Imprests and Advances shs. 21,898,374

The final financial statements for the year ended 30th June 2005 disclosed uncleared balance of imprests and advances amounting to Shs. 21,898,374 as follows:-

Description	Amount (Shs)
Imprests	17,627,218.00
Advances	<u>4,271,156.00</u>
Total	<u>21,898,374.00</u>

Implication

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

Recommendation

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

3.1.5 Sundry Debtors Shs.57,644,355.13

The balance sheet as at 30th June 2005 reflected outstanding sundry debtors amounting to Shs.57,644,355.13

Implication

This implies that non-clearance of debtors affects the financial position and operation of the council.

Recommendation

The council management should make follow up in regard of clearance of outstanding debtors.

3.1.6 Sundry Creditors Shs.67,007,926

The Final Financial Statement as at 30th June 2005 reflected a sum of Shs.67,077,926 as outstanding sundry creditors.

Implication

This implies that, if the council did not settle debts, the financial position and smooth operation of the council will be affected during settlement.

Recommendation

The Council Management should ensure clearance of outstanding creditors.

3.1.7 Stores not accounted for Shs.5,136,000

It was revealed during the time of audit that stores worth Shs. 5,136,000 mainly tyres, seeds, stationeries and fuel were purchased and paid for but not taken on ledger charge.

Implication

This implies that, non recording of stores may lead to loss and misplacement of purchased goods and hence loss of Public funds.

Recommendation

Management should ensure that stores purchased are always accounted for in the stores ledger and respective ledger folio and references quoted for verification.

3.1.8 Bank Reconciliation

During audit for the year under review the Bank Reconciliation Statements as at 30th June 2005 reflected the following uncleared balances:

S/N	Account	Unpresented cheques (Shs)	Cheques/Cash in transit	Bank debits
1.	6502000001 GF	1,908,040.80	3,139,200.00	-
2.	6502000002 Deposit	117,287,530.25	-	-
3.	6502000003 Dev. Fund	12,956,522.90	-	-
4.	6502000004 Ujenzi	17,797,078.20	-	-
5.	6502000005 Road Fund	22,587,750.00	-	-
6.	6502000006 Education	110,427,926.55	-	-
7.	6502000007 Agency	2,778,096.50	-	-
8.	6502000008 Afya	49,181,876.40	-	-
9.	6502000010 CSPD	2,609,000.00	-	291,549.94
10.	6502000011 Maji	3,208,394.30	-	-
11.	6502000017 DDP	74,944,637.65	-	-
12.	6502000018 Kilimo	452,014.20	-	-
13.	6502000023 DADP	330,000.00	-	-
14.	6502000024Community Health Fund	-	-	-
15.	6502000025Charcodam	485,000.00	-	580,158.00
		Total	3,139,200.00	871,707.94

Implication

Non-clearance of the items implies inadequate internal control system hence this 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 statement and strengthen the internal control system.

3.1.9 Physical Survey

A physical survey was made on the council main store and revealed missing of items worth Shs. 29,327,950 as follows:

Item	L/Balance	P/Balance	Difference	Amount (Shs)	L/folio
Petrol	1048 Lts	NIL	1048 Lts @ 1000	1,048,000	DDP/2
Diesel	6773.5 Lts	420 Lts	6353.5 Lts @ 1400	8,894,900	DDP/122
"	11341 Lts	NIL	11,341 Lts @ 1100	12,475,100	Dev.J/14
Ridging	7 pcs	NIL	7 Pcs @ 4850	33,950	L3/14
Binding wire	6 Kgs	NIL	6 kgs @ 2000	12,000	L3/15
R/bars 12mm	2pcs	NIL	2pcs @ 8000	16,000	L3/35
Ex. Book	1288 ea	NIL	1288 ea @ 100	1,288,000	LE/50
Diesel	1572 Lts	NIL	1572 Lts @ 1400	2,200,800	5A/33
Petrol	332 Lts	NIL	332 Lts @ 1200	398,400	F/34
Diesel	1772 Lts	NIL	1772 Lts @ 1400	2,480,800	F69
Plastic drum	2 Ea	"	2 EA @ 60,000	120,000	H/15
Blood Lacent	48 pkt	"	48 Pkt @ 7500	360,000	H/28
				29,327,950	

Implication

- This implies that stores not taken on ledger charge might lead to loss of goods and services paid for by the council, and the intended purpose might not have been achieved and hence this may lead to loss of Public Funds.
- It also Implies that there is inadequate Internal control over management of stores by the management.

Recommendation

- Management should ensure that it strengthen the Internal control over management of stores.
- Management should adhere to Public Procurement Act of 2004 and Public Procurement Regulation of 2005.

4.0 CONCLUSION

The detailed audit finding presented above have been communicated to management of the Serengeti District Council during our exit meeting. Management of the Serengeti 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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P.O. Box 1923,
DODOMA.

5.0 ANNEXURES

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

5.1

Annexure I

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF SERENGETI DISTRICT COUNCIL

