

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



REPORT OF THE CONTROLLER AND AUDITOR GENERAL

**ON THE FINANCIAL STATEMENTS OF MUSOMA TOWN COUNCIL
FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2005**

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February, 2006

AR/LG/058/2005

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:

- 1 contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- 2 helping to improve the quality of public services by supporting innovation on the use of public resources;
- 3 providing technical advice to our clients on operational gaps in their operating systems;
- 4 systematically involve our clients in the audit process and audit cycles; and
- 5 providing audit staff with adequate working tools and facilities that promote independence.

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Terms and Abbreviations

A/C	Account
DADP	Agriculture Development Project
DED	District Executive Director
GRR	General Revenue Receipt
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
PV	Payment Voucher
TD	Town Director
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 Musoma Town Council for the period ended 30th June 2005.

Council means: Musoma Town 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 Musoma Town 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 Musoma Town 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 Town Council of Musoma 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.3,147,109,167 from the following sources;

	Shs.
Own Sources(as per supporting schedule)	366,473,127
Government (as per supporting schedule)	2,750,965,370
Funds from Donors	<u>29,670,670</u>
Total	<u>3,147,109,167</u>

1.5 Management

The Musoma Town Council operates under directives of the Full Council and the day to day activities are administered by the Town 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 Town 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 Musoma Town Council complies with this order of the Procurement Act but is lacking an audit committee which is part of transparency and good governance. Nevertheless weakness raised from review of internal control system are included under part 3 of this report.

1.7 Financial performance Issues

Revenue

The Town Council collected an amount of Shs. 366,473,127 from own sources against the internal revenue budget of Shs.418,560,000 reflecting a collection shortfall of Shs.52,086,873 or 12.4%. The difference between the actual revenue collection and estimates was not explained. In addition the Council received grants amounting to Shs.2,780,636,040 making total revenue of Shs. 3,147,109,167 during the year.

Expenditure

The Council spent Shs. 3,063,394,593 during the year against total income of Shs. 3,147,109,167 or 97.3% of total revenue, leaving unspent amount of Shs. 83,714,574.

A comparison of the internal revenue of Shs. 366.473,126 against expenditure of Shs. 3.063.394.593 is only 11.96% 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 Town 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 Musoma Town 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 Musoma Town 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 Musoma Town Council are adequately safeguarded against losses from unauthorized use or disposition.
- To determine whether the management of the Musoma Town Council has taken adequate corrective action on the previous years audit recommendations.

1.10 Audit Scope

The audit of Musoma Town 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 Musoma Town 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 Musoma Town 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: Hon. Mizengo Pinda (MP)
Minister, PMO-RALG

The Regional Commissioner,
Mara Region

Council Director and Accounting Officer
Musoma Town Council

Re: **Independent Audit Report on the Financial Statements of Musoma Town Council or 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 Musoma Town Council shown on the annexure 1 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 Musoma Town 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 Musoma Town 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 Musoma Town 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. 47 General receipts books (open) were not produced for audit, hence revenue collected vide these books could not be ascertained.
2. Shs.127,101.17 were paid to retrenched employees as salaries, this implies that there is laxity in control over salary payments.
3. Payment vouchers worth Shs. 24,494,785 were not produced for audit hence the legitimacy of the expenditure could not be ascertained.
4. Shs.16,392,057 was observed in Bank reconciliation statements as Receipt in cash book not in bank statement, non clearance of the matter may lead to loss of Public funds undetected.
5. Stores worth Shs. 5,217,600 were paid for but its accountability could not be verified

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 Unproduced Receipt Books

It was noted during the audit inspection that 47 receipt books being General Receipts (Open) were not produced for audit inspection.

Implication

Accountability of Revenue collected vide these receipt books could not be ascertained, hence may lead to loss of government revenue.

Recommendation

The relevant receipt books should be traced and produced for audit verification.

3.2 Sundry Debtors Shs. 43,511,348.75

Debtors amounting to Shs. 43,511,348.75 were noted outstanding as at 30th June 2005.

Implication

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

Recommendation

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

3.1.3 Sundry Creditors Shs. 36,884,927

The balance sheet reflected a total amount of Shs. 36,884,927 in respect of sundry Creditor which included statutory deductions payable of Shs.12,918,979.25 other creditors of Shs.20,453,274.45 and Youth and Women Group of Shs. 3,512,673.30.

Implication

This implies that if the council did not settle debts, then the smooth operations of the council might be affected during settlements

Recommendation

The Council's management should ensure clearance of debts.

3.1.4 Infringement of Loan Terms Shs.9,550,750

Since the Government introduce the system of loaning money to Economic Development groups to enable them develop economically, the Musoma Municipal Council through District Agriculture Development Project (DADP) had managed to loan 9 groups. At the time of audit (August 2005) the bonafide payees failed to meet their legal obligation

on meeting loan terms agreements involving a sum of shs. 9,550,750.00 due for the council as quoted hereunder:

Pv	C/No.	Amount	Name of the Group	Interest (3x25%)	Penalty (3 +5 x10%)	Total O/S (3+5+6)
2/3/2005	049102	770,000	Jitegemee	192,500.00	96,250.00	1,058,750.00
3/3/2005	049103	919,000	Nyanza	229,750.00	114,875.00	1,263,625.00
4/3/2005	049104	560,000	Juakali	140,000.00	70,000.00	770,000.00
5/3/2005	049105	740,000	Baruti Nyanya	185,000.00	92,500.00	1,017,500.00
6/3/2005	049106	896,000	Lake Victoria	224,000.00	112,000.00	1,232,000.00
7/3/2005	049107	578,000	Sizaki	144,500.00	72,250.00	794,750.00
8/3/2005	049108	928,000	Mchicha	232,000.00	116,000.00	1,276,000.00
9/3/2005	049109	530,000	Mapambano	132,500.00	66,250.00	728,750.00
10/3/2005	049110	1,025,000	Wakulima	256,250.00	128,125.00	1,409,375.00
					Total	<u>9,550,750.00</u>

Implication

- Non reimbursement of the loaned money will affect the financial position of the Council.
- The targeted programme by the Government of loaning money to Economic development groups might not be achieved.
- It implies that there is a breach of contract by the Economic development groups to the council

Recommendation

The management should ensure that loans are reimbursed and submit receipt and other particulars for audit verification and in future management have to ensure that the loaned groups adhere to their obligation.

3.1.5 Outstanding advances and Imprests Shs. 14,884,197.95

During audit of the year under review the final financial statements disclosed uncleared balances of advances and imprest amounting to Shs.14,884,197.75 as follows:

Category	Amount (Shs)
Advances	12,549,484.10
Safari and Special Imprest	2,334,713.85
Total	<u>14,884,197.95</u>

Implication

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

Recommendation

The management should ensure that the retired particulars are submitted for audit, and in future management should strengthen the internal control over imprest and advances.

3.1.6 Laxity in Control over salary records

It was noted during audit that, the degree of Internal Control exercised over payment of salaries and maintenance of the relevant records was observed to be weak when scrutiny of salary records revealed case of workers whose salaries continued to be paid while they were already retrenched from Government Services amounting to Shs. 127,101.17 (PV. 55 of December 2004 and cheque No. 047633) refer as follows:

C/No.	Payee	Amount (Shs)
4714938	Chausiku Mwanga	20,192.62
7050462	Halima Magesa	16,319.31
65500404	H. M. Ramadhani	15,988.00
5268003	A. Duke	15,988.00
5268106	S. Maregesi	15,988.00
5264739	E. Meneja	21,312.62
7099078	M.Magesa	21,312.62
	Total	<u>127,101.17</u>

Implication

This implies that the amount paid might be misappropriated, and hence loss of public funds.

Recommendation

The management should ensure recovery of the amount by submitting recovery particular and in future management should strengthen the controls over payrolls.

3.1.7 Unvouched Expenditure Shs. 24,494,785

Audit examination of the payment vouchers of the Musoma Town Council for the year under review has revealed that payment vouchers worth Shs. 24,494,785 were missing from the relevant batches contrary to section 95 of the Public Regulations of 2004. Details are as follows:

Description	Amount (Shs)
Afya Account	260,000.00
Revenue Account	1,706,333.75
Elimu Account	16,081,697.05
Development Account	350,000.00
Recurrent Account	5,233,054.00
Deposit Account	729,500.00
Kilimo Account	134,200.00
Total	<u>24,494,785.00</u>

Implication

- The legitimacy of the expenditure and the purpose for which the payments were made could not be ascertained.
- There is a poor record keeping.

Recommendation

The missing payment voucher and supporting documents should be traced and produced for audit purposes. In addition, the management should strengthen the system of record keeping.

3.1.8 Bank Reconciliation

Bank reconciliation statements as at 30th June 2005 showed a number of items that had not been cleared. The analysis of the most significant uncleared items is given in the following table below:

Account Number	Unpresented cheques	Receipt in C/Book not in B/Statement	Payments in Bank not in C/Book
Recurrent A/C -3031200018	3,670,310.40	3,648,925.00	-
Recurrent A/C -3031200020	15,902,426.9	10,237,632.00	237,000.00
Elimu A/C -3031200022	13,676,862.50	1,02,000.00	-
Afya A/C -3031200023	780,090.00	-	-
Deposit A/C -3031200024	104,331,753.64	12,000.00	-
Road Toll A/C -3031200030	150,000.00	-	-
Kilimo A/C -3031200031	884,200.00	180,000.00	-
Retention A/C -3031000005	-	1,221,500.0	336,011.00
Total	139,395,643.53	16,392,057.00	573,011.00

Implication

This implies that uncleared matters in bank reconciliation may lead to the loss of Public funds undetected.

Recommendation

Management should make followup on the outstanding matters to ensure early clearance.

3.1.9 Stores not Accounted for Shs. 5,217,600

A test check carried out on payment records for the year under review has revealed that stores worth Shs. 5,217,600 mainly fuel, tyres, stationeries, computer and timbers purchased and paid for were not verified to have been recorded and therefore audit failed to establish whether stores were bought and properly utilized.

Implication

Non recording of stores may lead to loss and misplacement of the purchased items.

Recommendation

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

4.0 CONCLUSION

The detailed audit finding presented above have been communicated to management of the Musoma Town Council during our exit meeting. Management of the Musoma Town 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

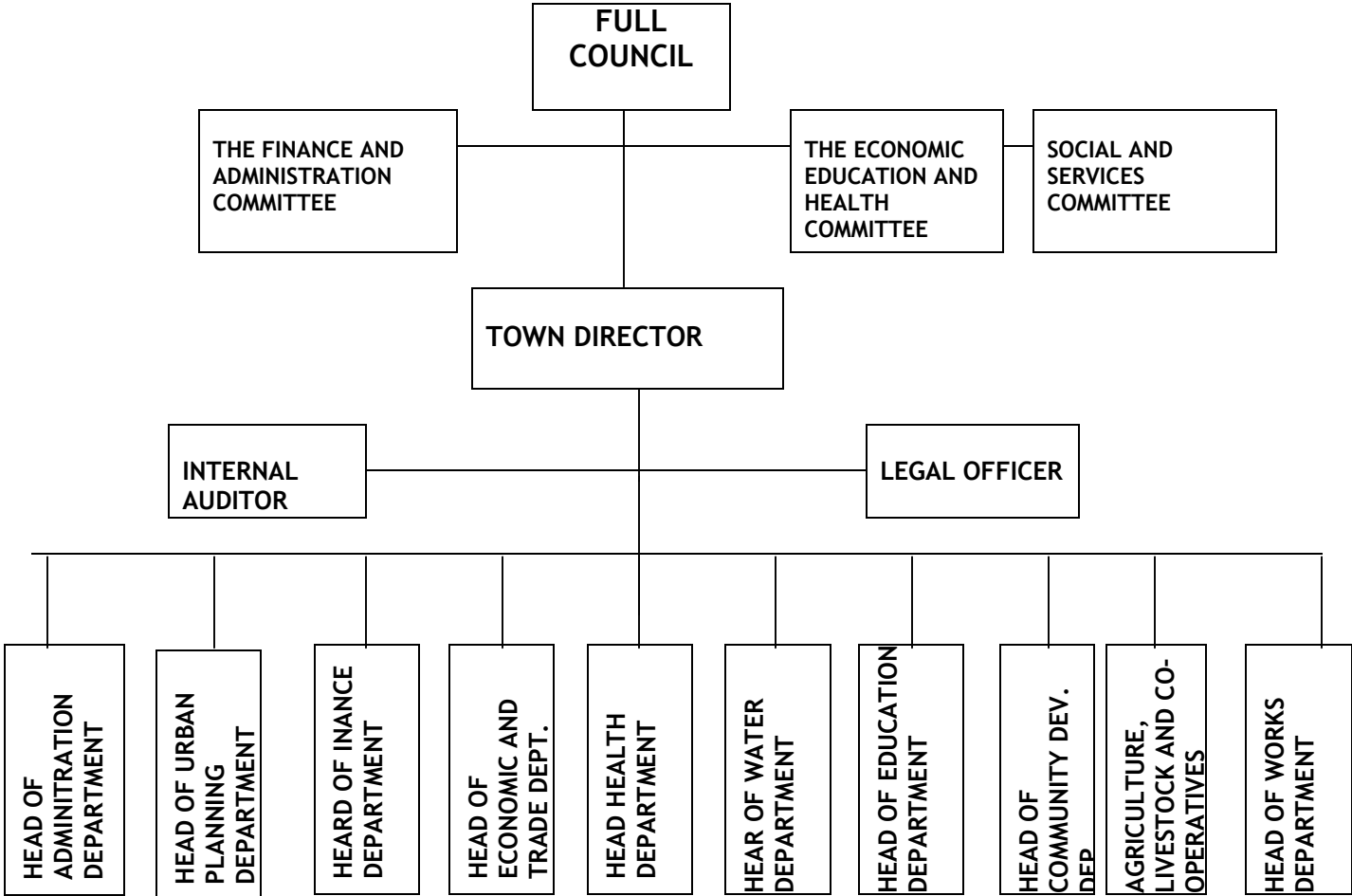
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Prime Minister's Office,
Regional Administration and Local Government,
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5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF MUSOMA TOWN COUNCIL



**MUSOMA TOWN COUNCIL
BASIS FOR ASSESSING AUDIT OPINION**

Para	Observation	Basis	Opinion
3.1.1	47 unproduced receipt books	Number of books not submitted	Disclaimer
3.1.7	Unvouched Expenditure Shs.24,494,785	<u>24,494,785</u> 3,063,394,592.67=0.79%	Unqualified
3.1.8	Receipt in C/Book not in B/Statement Shs.16,392,057	<u>16,392,057</u> 3,147,109,167.08 =0.52%	Unqualified
3.1.9	Stores not accounted for Shs. 5,217,600	Statutory	Qualified