

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF BUNDA 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:

- 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

DED	District Executive Director
GF	General Fund
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
WEO	Ward Executive Officer
VEO	Village Executive Officer
LAPF	Local Authority Provident Fund
NAEP II	National Agriculture Extension Programme II

Financial Statements mean:

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

Council means: Bunda 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 Bunda 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 Bunda 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 Bunda 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.5,462,027,303.79 from the following sources;

Own Sources(as per supporting schedule)	Shs. 1,019,281,553
Grants (Government and Donors as per supporting schedule)	<u>4,442,745,751</u>
Total	<u>5,462,027,304</u>

1.5 Management

The Bunda 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 Bunda 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 Council collected an amount of Shs. 1,019,281,553 from own sources against the internal revenue budget of Shs.541,569,208 reflecting an over collection of Shs.477,712,345 or 88.2%. The difference between the actual revenue collection and estimates was not explained. In addition the Council received grants amounting to Shs. 4,442,745,751 making total revenue of Shs.5,462,027,304 during the year.

Expenditure

The Council spent Shs. 5,605,882,571 during the year against total income of Shs. 5,462,027,304 or 102.6% of total revenue, resulting to over expenditure amounting to Shs. 143,855,267. 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. 1,019,281,553 against expenditure of Shs. 5,605,882,577 is only 18% 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 Bunda 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 Bunda 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 Bunda District Council are adequately safeguarded against losses from unauthorized use or disposition.
- To determine whether the management of the Bunda District Council has taken adequate corrective action on the previous years audit recommendations.

1.10 Audit Scope

The audit of Bunda 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 Bunda 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 Bunda 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

The Regional Commissioner,
Mara Region

Council Director and Accounting Officer
Bunda District Council

RE: Independent Audit Report on the Financial Statements of Bunda 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 Bunda District Council shown on the annexure 1 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 Bunda 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 Bunda 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 Bunda 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. Six (6) General receipts books (HW5) were not produced for audit, hence revenue collected vide these books could not be ascertained.
2. Outstanding Advances, Imprests and Sundry Debtors amounting to Shs.48,912,800, remained uncleared as at 30th June,2005.
3. Shs. 83,091,224 observed as outstanding creditors in the Final Financial Statement as at 30thJune, 2005.
4. Payments amounting to Shs.166,065,520 were incurred by the council and were noted during audit as Irregular and Questionable payments.
5. Stores worth Shs. 15,392,700 were paid for and not taken on ledger charge hence its accountability could not be verified.
6. Shs.70,023,809 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.

7. The Final 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 Unproduced Receipt Books

It was noted during audit inspection that 6 receipt books being General Receipts (HW5) were not produced for audit inspection.

Implication

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

Recommendation

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

3.1.2 Sundry Debtors Shs. 46,920,000

The Balance sheet as at 30th June 2005 reflected outstanding sundry debtors amounting to Shs.46,920,000. The detailed list in support of these balances did not indicate action being taken or intended to be taken for their clearance considering some amount continues to appear as that of previous year.

<u>Description</u>	<u>Amount</u> <u>(Shs)</u>
Virian (T) Ltd	18,165,000
Kilawila Camp	28,755,000
Total	46,920,000

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.

3.1.3 Sundry Creditors Shs. 83,091,224

The Final financial Statements as at 30th June 2005 reflected a sum of Shs. 83,091,224 as outstanding in respect of creditors as follows.

Description	Amount (Shs)
Salaries for WEO's and VEO's	17,845,092
LAPF	62,446,132
Minimum Compulsory Reserve fund	2,800,000
Total	83,091,224

Implication

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

Recommendation

The Council's management should ensure clearance of outstanding creditors.

3.1.4 Outstanding Advances and Imprests Shs. 1,922,800

The Balance Sheet as at 30th June 2005 reflected outstanding advances and imprests amounting to shs. 1,922,800 as follows:

<u>Category</u>	<u>Amount</u> <u>(Shs)</u>
Advances	236,600.00
Imprests	<u>1,686,200.00</u>
Total	<u>1,922,800.00</u>

Implication

This implies that, genuineness of the expenditure 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.
- In future management should strengthen control over imprests and advances.

3.1.5 Irregular and/or Questionable Payments Shs.166,065,592

It was noted during audit inspection that expenditure amounting to Shs.166,065,592 were paid for and were not supported by relevant supporting documents. Details are as follows:-

Details	Amount (Shs)	Account	Description	Remarks
PV.57/6 of June 2005 C/N 026537	1,179,252	Afya	Payment made to M/S Mote Enterprises in respect of additional cost for construction made at Nansimo Dispensary	<ul style="list-style-type: none">• Absence of additional contract documents• Absence of Bills of Quantity
PV 12/8 of August 2005 C/N 010542	1,630,000	Development	Payment made to DED-Bunda in respect of Staff allowances	Paylist of payees not supporting the payments
PV 9/5 of May 2005 C/N 014858	2,106,000	DDP		

PV 70/6 of June 2005 C/N 026554	2,404,500	Afya		
PV 36/5 of May 2005 C/N 026473	4,060,000	Afya		
PV 1/8 of August 2005 C/N 020749	6,631,840	Elimu	Payment made to DED-Bunda in respect of monthly salaries for uncomputerised teachers for the month of June 2004	Paylist in support of the payment incurred. Overpayment of Shs. 100,000
PV 57/9 of September 2005 C/N 020869	27,665,000	Elimu	Payment made to DED-Bunda being expenses incurred during Standard VII 2004 examination	<ul style="list-style-type: none"> • Insupporting documents for payments • Shs.1,230,000 out of the payment made of Shs.27,665,000 not supported.
PV 103/7 of July 2005 C/N 009159	1,000,000	G. Fund	Payment made to Regional Manager SIDO Mara being contribution made by DED - Bunda	No acknowledgement receipt issued
PV8/7 of July 2005 C/N 005072	8,000,000	NAEP II	Being transfer of fund from NAEP II A/C to Prime Minister's Office Dodoma	<ul style="list-style-type: none"> • Nature of payment not confirmed • No acknowledgement receipts issued
PV 19/12 of December 2004 C/N 014693	111,389,000	DDP	Payment made to M/S Michael Thomas Kweka for the supply of 667 Pcs of UPVC - PN 12-6" for water system Rehabilitation	Purchase made without inviting quotations
Total	166,065,592			

Implication

- The circumstance implies that there is no strong internal control system in place.

- It also implies that Financial Rules and Regulations were not complied with and hence there might be misuse of Public Funds

Recommendation

- Management is requested to recover the overpaid amount of Shs.1,330,000 and furnish recovery particulars for audit verification.
- Management is requested to recover the missing documents and submit them for audit verification.
- Management should ensure that there is clear compliance of Financial Rules and Regulations in regard of all payments incurred by the council

3.1.6 Stores not taken on Ledger charge Shs.15,392,700

Audit verification carried out on accountability of stores purchased revealed that stores worth Shs. 15,392,700 being building materials, fuel and spare parts paid for and certified to be received were not taken on respective ledger charge

Implication

This implies that, 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 stores purchased are accounted for in the stores ledger and respective ledger folio and references quoted for verification.

3.1.7 Bank Reconciliation

During the audit for the year under review the Bank reconciliation statements as at 30th June 2005 reflected the following uncleared balances:-

S/N	Account Number	Unpresented cheques	Receipt in C/Book not in B/Statement	Payments in Bank not in C/Book
1.	6502000001 GF	46,683,002	2,451,400	4,367,007
2.	6502000002 DE	260,000	3,516,800	-
3.	6502000003 Deposit	154,077,225	17,261,500	-
4.	6502000004 Ujenzi	1,888,755	-	-
5.	6502000005 Education	119,760,369	10,214,508	-
6.	6502000006 Health	43,419,309	-	-
7.	6502000007 Maji	3,405,067	-	-
8.	6502000008 Road Fund	1,120,971	30,000,000	-
9.	6502000009 Livestock Dev.	4,400,000	-	-
10.	6502000010 Lishe	173,650	-	-
11.	65020000011 Emolument	58,420	6,000,000	-
12.	65020000013 Women Dev.	-	336,600	-

13.	65020000016 NAEP II	-	36,0000	-
14.	65020000018 Land Dev.	96,000	-	-
15.	65020000022 Women (Special)	-	207,000	-
16.	65020000023 DDP	19,726,818	-	-
17.	65020000027 Agriculture	1,400,000	-	-
	Total	396,469,588	70,023,809	4,367,007

Implication

- Non-clearance of the outstanding balances may lead to the loss of council's funds.
- It also Implies presence of inadequate internal control system.

Recommendation

The Council Management should take necessary action to clear the outstanding items on the Bank Reconciliation Statements and strengthen the internal control system.

4.0 CONCLUSION

The detailed audit finding presented above have been communicated to management of the Bunda District Council during our exit meeting. Management of the Bunda 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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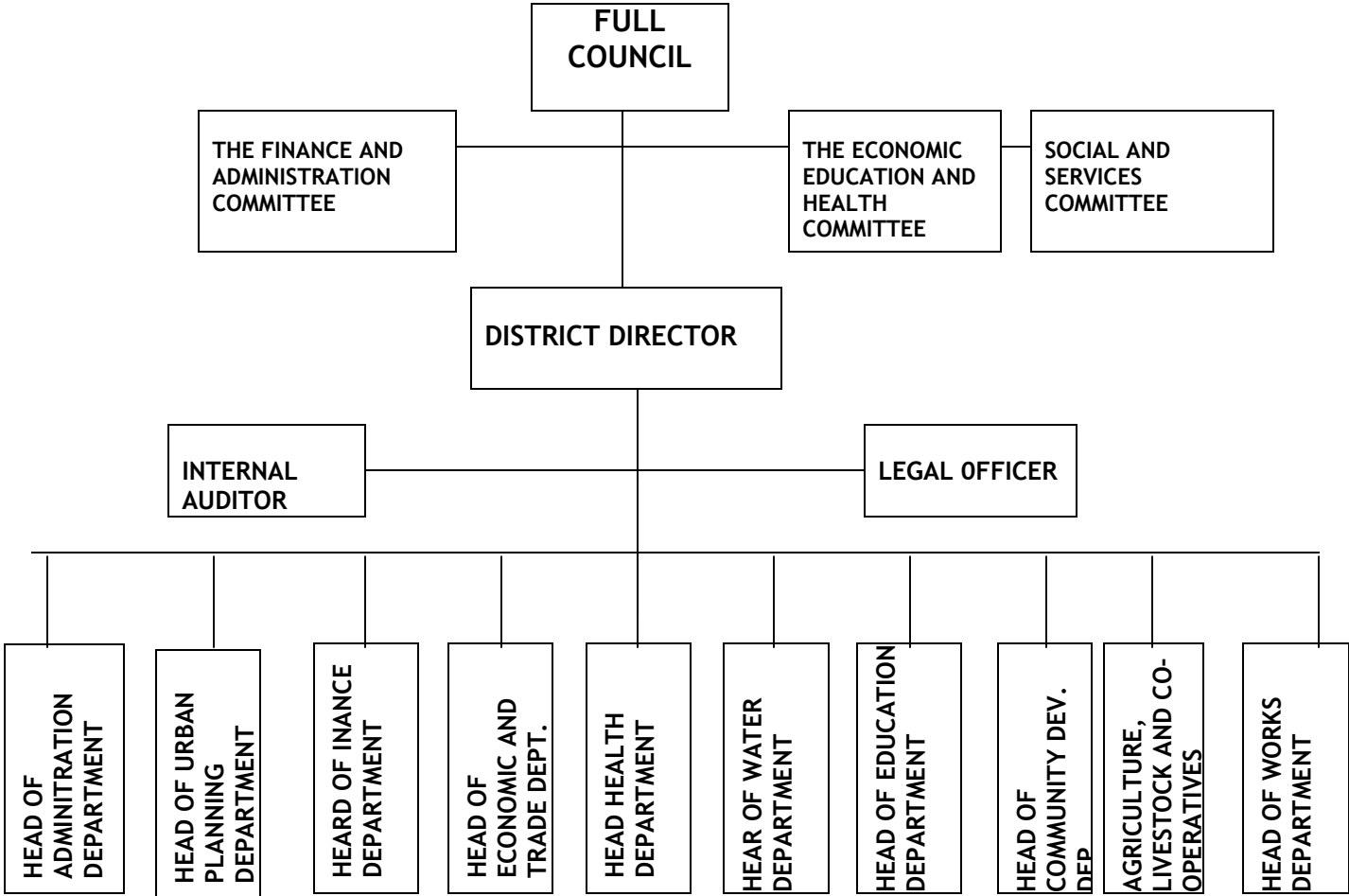
5.0 ANNEXURES

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

Annexure I

5.1 FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF BUNDA DISTRICT 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	$\frac{24,494,785}{3,063,394,592.67}=0.79\%$	Unqualified
3.1.8	Receipt in C/Book not in B/Statement Shs.16,392,057	$\frac{16,392,057}{3,147,109,167.08}=0.52\%$	Unqualified
3.1.9	Stores not accounted for Shs. 5,217,600	Statutory	Qualified