

**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL**

**ON THE FINANCIAL STATEMENTS OF MUSOMA DISTRICT COUNCIL  
FOR THE FINANCIAL YEAR ENDED 30<sup>TH</sup> JUNE 2005**

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February, 2006

AR/LG/057/2005

**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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## Table of Contents

	<b>Page</b>
1.0 Background information to the audit	5
1.1 Introduction	5
1.2 Brief history of establishment	5
1.3 Operational objectives	5
1.4 Financing	5-6
1.5 Management structure	6
1.6 Brief description of Internal Control System	6
1.7 Financial Performance	7
1.8 Audit Mandate	7
1.9 Audit Objectives	7-8
1.10 Scope of Audit	8
1.11 Audit methodology	8-9
1.12 Presentation of audit findings	9
2.0 Audit report and financial statements	10-11
3.0 Audit Findings and Recommendations	12
3.1 Current year's audit findings	12-16
4.0 Conclusion	16
Annexures	

## Terms and Abbreviations

DED	District Executive Director
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

### Financial Statements mean:

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

Council means: Musoma 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 Musoma District Council for the year ended 30<sup>th</sup> 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 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 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.6,759,494,199.75 from the following sources;

	Shs.
Own Sources	332,470,296
Government	6,044,950,523
Funds from Donors	<u>382,073,381</u>
<b>Total</b>	<b><u>6,759,494,200</u></b>

### 1.5 Management

The Musoma District 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 II.

### 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 District Council complies with this order of the Procurement Act.

## 1.7 Financial performance Issues

### Revenue

The Town Council collected an amount of Shs. 332,470,296 from own sources against the internal revenue budget of Shs.329,347,232 reflecting an over collection of Shs.3,123,064 or 100.9%. The large difference between the actual revenue collection and estimates was not explained. In addition the Council received grants amounting to Shs. 6,427,023,904making total revenue of Shs. 6,759,494,200 during the year.

### Expenditure

The Council spent Shs. 6,254,011,645 during the year against total income of Shs. 6,759,494,200 or 92.52% of total revenue, leaving unspent amount of Shs. 505,482,555. 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. 332,470,296 against expenditure of Shs. 6,254,011,645 is only 5.31% 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 Musoma District Council for the period ended 30<sup>th</sup> 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 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 Musoma District Council are adequately safeguarded against losses from unauthorized use or disposition.
- To determine whether the management of the Musoma District Council has taken adequate corrective action on the previous years audit recommendations.

#### **1.10 Audit Scope**

The audit of Musoma District Council for the period ended 30<sup>th</sup> 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  
Musoma District Council

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS  
OF MUSOMA DISTRICT COUNCIL FOR THE YEAR ENDED ON 30<sup>TH</sup>.  
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 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 Musoma 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 Musoma 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 Musoma District Council as at 30<sup>th</sup> 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. Unclaimed salaries amounting to Shs. 3,325,800 were not accounted for.
2. Unvouched and Improperly vouched expenditure amounting to Shs.560,044,609
3. Uncleared outstanding advances, Imprests, Loans and Sundry debtors amounting to Shs.84,408,816.
4. Shs.56,279,685 observed as outstanding creditors in the final Financial statements as at 30<sup>th</sup> June, 2005.
5. Uncleared Balances in the Bank reconciliation statement amounting to Shs. 3,485,100.00 being Receipt on cash book not on Bank Statement and Shs.2,571,229 being payment in bank not in cash book.
6. The financial statements were inconsistently prepared. Audit revealed that figures on 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**

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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 Unclaimed salaries not accounted for Shs. 3,325,800

Examination of computerized payrolls for the month of January 2005 revealed unclaimed salaries amounting to Shs. 3,325,800 in respect of salaries for new employees (Teachers) to 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 controls over payrolls.

##### 3.1.2 Improperly Vouched Expenditure Shs.34,838,650

Audit examination of payment vouchers of the council for the year under review revealed that, payment vouchers amounting to Shs.34,838,650 had not supported by documents to authenticate their genuinness as follows:

Description	Amount (Shs)
Afya Account	712,650.00
CSPD Account	19,286,000.00
Ujenzi Account	840,000.00
<b>Total</b>	<b>34,838,650.00</b>

##### **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 Unvouched Expenditure Shs.514,085,959

A test examination of payment vouchers revealed that expenditure amounting to Shs. 514,085,959 was incurred without payment vouchers contrary to section 95 of the Public Finance Regulations of 2004 as follow:

Description	Amount (Shs.)
Afya Account	15,939,801
CSPD Account	5,831,600
Deposit Account	479,567,936
General Fund Account	12,746,621
<b>Total</b>	<b><u>514,085,959</u></b>

### Implication

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

### Recommendation

It is recommended that missing payment vouchers and other relevant supporting documents for the expenditures incurred should be produced for audit scrutiny.

#### 3.1.4 Irregular and/or questionable expenditure Shs.11,120,000

It was noted during audit inspection that expenditure totalling Shs.11,120,000,000 were paid for, but were not supported by relevant supporting documents. Details are provided as follows:

S/No.	Details	Amount (Shs.)	Account	Description	Remarks
1.	PV1/11 of November 2004 C/N 00760	1,850,000	Kilimo/Mifugo	Payments in respect of Supply of water equipments for irrigation project at Suguti	Payments were made without competitive quotations
	PV1/10 of October 2004 C/N 007629	4,500,000	Kilimo/Mifugo		
2.	PV 40/6 of June 2005 C/N050809	500,000	Elimu	Salary advances for two Education Department Officers	Payment was made to staff terminated from Government services
	PV16/6 of June 2005 C/N 050824	350,000	Elimu		
3.	PV 1/11 of January 2005 C/N 039759	3,920,000	Elimu	Payment made as fares to Teachers for attending seminar at TTC - Bunda	An overpayment of 500,000 revealed
	<b>Total</b>	<b>11,120,000</b>			

### Implication

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

### Recommendation

- The management is requested to recover the overpaid amount of Shs. 500,000 from the respective Teachers and furnish recovery particulars for audit verification.
- Management should ensure that there is a clear compliance of Government Rules and Regulations

### 3.1.5 Outstanding Advances, Imprests and Loans Shs. 68,258,793

The Balance Sheet as at 30<sup>th</sup> June 2005 reflected outstanding advances, imprests and loans amounting to Shs. 68,258,793 as follows:

Category	Amount (Shs)
Safari and Special Imprests	54,665,733
Salary advances	5,956,380
Youth and Women (Loans)	7,636,680
<b>Total</b>	<b>68,258,793</b>

### Implication

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

### Recommendation

- The management should ensure that the advances and imprests are retired and retirement particulars are submitted for audit, and that loaned money is reimbursed and particulars produced submitted for audit.
- In future management should strengthen control over imprests and advances.

### 3.1.6 Sundry Debtors Shs. 16,150,023

The Balance sheet as at 30<sup>th</sup> June 2005 disclosed outstanding sundry debtors amounting to Shs. 16,150,023. However, as at the time of writing the report (November, 2005), no evidence or recovery have since been made.

Category	Balance as at 30/6/2005 (Shs.)
Mufilisi Mara Coop.	8,080,098
02/692 KJ. Musoma	3,090,000
Felix Oning'o	45,000
Mashauri Bigambo	470,000
Emmanuel Masige	163,000
Nyika Traders	320,000
Watendaji Vijiji	2,901,950

Kekondo Maseke	41,800
Joseph Burito	217,000
John Wambura	261,000
C. Nyamasagara	383,200
Mara Lint Ltd.	51,975
Kivuyo FC	15,000
Prospe V. Soku	50,000
Kayola General Supply	25,000
Hafidh Waziri	35,000
<b>Total</b>	<b><u>16,150,023</u></b>

#### **Implication**

No 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.

#### **3.1.7 Creditors Shs. 56,279,685**

The final financial statements as at 30<sup>th</sup> June 2005 reflected a total amount of Shs. 56,279,684 outstanding in respect of creditors as follows:

<b>Description</b>	<b>Amount (Shs.)</b>
Sundry creditors	53,500,975
Deposit general	890,000
LAPF	1,888,710
<b>Total</b>	<b><u>56,279,685</u></b>

#### **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 management of the council should ensure clearance of debts.

#### **3.1.8 Bank Reconciliation Statements**

The Bank reconciliation statement for the year ended 30<sup>th</sup> June 2005 submitted along with financial statements disclosed uncleared balances as follows:-

S/N	Account	Unpresented cheques Shs.	Receipts in cash book not in Bank Statement	Payment in Bank not in Cash Book
1.	3031200043- Wanawake	350,000	-	-
2.	3031200001- G/F	7,103,639	-	-
3.	3031200002- Development	1,526,000	-	-
4.	3031200008 - (CSPD)	26,564,500	-	-
5.	3031200004 - Ujenzi	715,000	-	-
6.	3031200009 - Maji	3,395,431	-	2,571,229
7.	3031200038- Kilimo/Mifugo	845,007	3,485,100	-
8.	3031200010 - Road Toll	2,497,524	-	-
9.	3031200044- Basket Fund	3,287,200	-	-
10.	3031200007 -Afya	20,478,398	-	-
	<b>Total</b>	<b>66,762,701</b>	<b>3,485,100</b>	<b>2,571,229</b>

### Implication

Non clearance of the items implies inadequate internal control system, which 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 Musoma District Council during our exit meeting. Management of the Musoma 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**

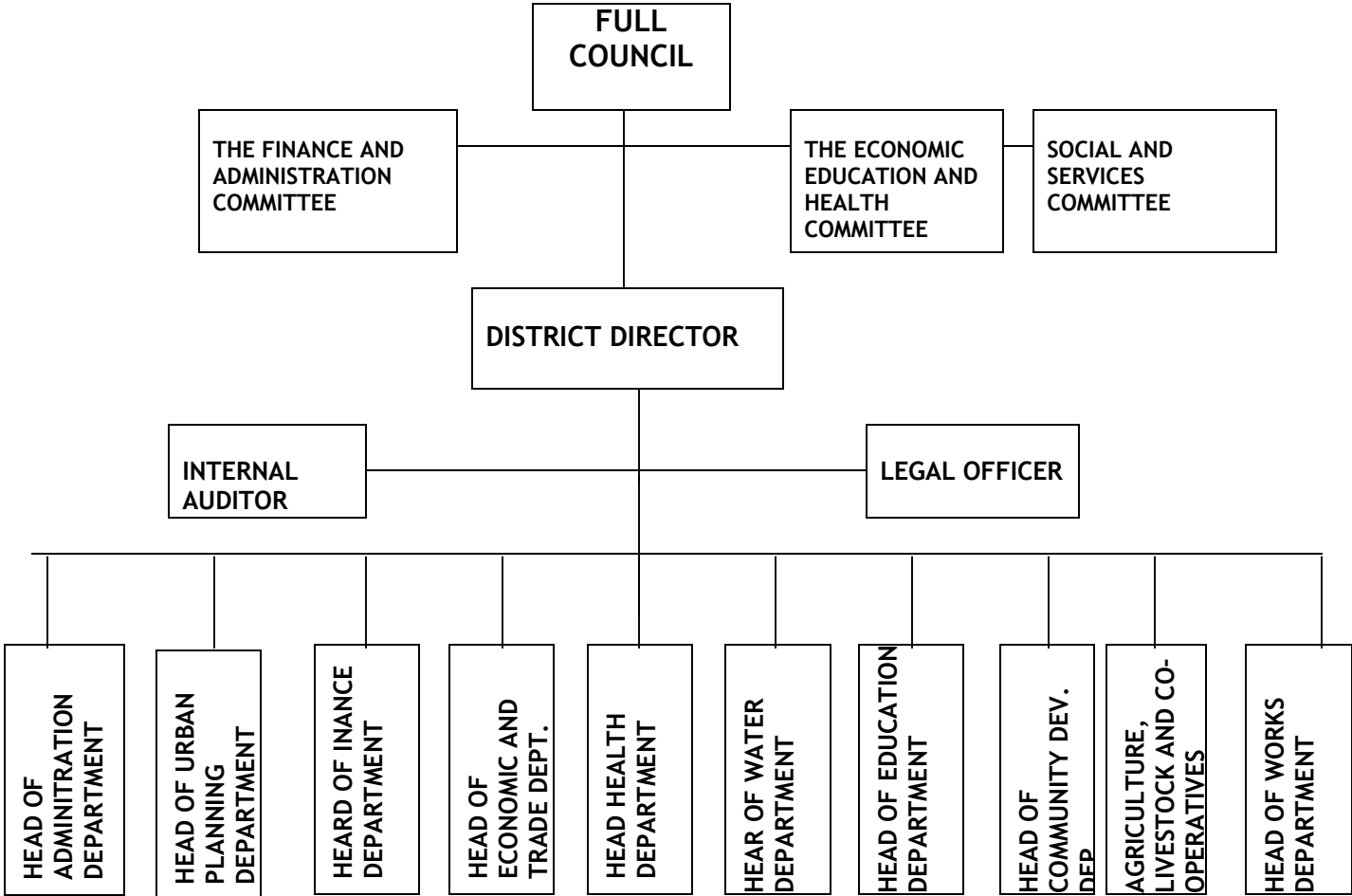
**Copy:** The Permanent Secretary,  
Prime Minister's Office,  
Regional Administration and Local Government,  
P.O. Box 1923,  
**DODOMA.**

## 5.0 ANNEXURES

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

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF MUSOMA DISTRICT COUNCIL



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

<b>Para</b>	<b>Observation</b>	<b>Basis</b>	<b>Opinion</b>
3.1.1	Unclaimed salary amounting to shs. 3,325,800.00 not accounted for	Statutory	Qualified
3.1.2 3.1.3 3.1.4	Unvouched and Improperly vouched Expenditures amounting to Shs.560,044,608.65	<u>560,044,608.65</u> 6,254,011,644.95 =8.9%	Unqualified
3.1.5 3.1.6	Outstanding advances, Imprests loans and Sndry debtors amounting to shs. 84,408,816.15	Statutory	Qualified
3.1.7	Creditors worth Shs. 56,279,684.70	Statutory	Qualified
3.1.8	Uncleared Balance amounting to shs. 3,485,100.00 (Receipts on cash book not in Bank Statement) and Shs. 2,571,229.40 (Payment in bank not in cash book	Statutory	Qualified