

**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL  
ON THE FINANCIAL STATEMENTS OF BABATI DISTRICT COUNCIL  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2005**

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March, 2006

AR/LG051/2005

## **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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## DEFINITION OF TERMS AND ABBREVIATION

CAG	Controller and Auditor General
DED	District Executive Director
GDP	Gross Domestic Product
GOT	Government of Tanzania
IG	Investment Grant
ISA	International Standard on Auditing
LAAM	Local Authority Accounting Manual
LAFM	Local Authority Financial Memorandum
LGA	Local Government Authorities
OCAG	Office of the Controller and Auditor General
PMO-RALG	Prime Minister's Office - Regional Administration and Local Government
PS	Permanent Secretary
RAS	Regional Administrative Secretary

Act means Local Government Finance Act No. 9 of 1982

Financial Statements means:

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

Council means - Babati District Council, both as Councilors as well as an operating entity.

## **1.0 BACKGROUND INFORMATION TO THE AUDIT**

### **1.1 Introduction**

I have completed the audit of Babati 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 Babati District Council was established in 1984 in terms of the provision 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 the Local Government (District Authorities) Act, District Council of Babati has the following objectives:

- (a) To maintain and facilitate 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; which are own source and external source. The internal source includes collection of Public funds through taxes, fees, licenses and charges. On the other hand, external source includes subsidies from central Government as well as grants and loans from donor community. From these sources, total income during the year was Shs.7,447,115,172 made up of Shs.485,762,237 from own sources, Shs.6,961,352,935 from government grants.

## **1.5 Management structure**

The Babati District Council operates under directives of the Full Council which is a supreme body for legislative responsibilities. Under the Full Council there are three Committees, which are directly answerable to it. The Chief Executive for the Babati District Council is the District Executive Director (DED) who is responsible for the day-to-day activities. The structure has positions of Internal Auditor and Legal Officer with responsibilities of advising the Director on matters falling under their jurisdiction.

In addition the structure provides for functional departments namely: Administration, Finance and Trade, Health, Education, Works, Town Planning and Environment and Agriculture, Livestock and Co-operatives as well as Social Welfare and Community Development.

The pictorial management structure of the Babati District Council is shown as annexure II to this report.

## **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, an organization chart of the Finance Department, division of responsibilities 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 also mandatory. The Council is further required to employ its own Internal Auditor who reports directly to the Director. Similarly, the Public Procurement Act No.21 of 2004, Section 28 (1) requires the Council to establish a Tender Board and Sect.34 (1) provides for Establishment of Procurement Management Unit.

The Internal Control set up of Babati District Council complies with the statutory requirements. Nevertheless weakness arises 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.485,762,237 from own sources. In addition, the Council received grants amounting to Shs.6,961,352,935 making total revenue of Shs.7,447,115,172 during the year.

### Expenditure

The Council spent Shs.7,798,308,213 during the year against total income of Shs.7,447,115,172. 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.485,762,237 against expenditure of Shs.7,798,308,213 is only 6% implying that the District Council cannot sustain either its recurrent or development expenditure without depending on grants.

## 1.8 Audit Mandate

By virtue of the provisions of Article 143 of the Constitution of the United Republic of Tanzania, and Section 45 of the Local Government Public Finance Act No.9 of 1982, (revised, 2000); the Controller and Auditor General is the statutory auditor of all government revenues and expenditures, including the Local Authorities.

## 1.9 Audit objectives

The main objective of carrying out the audit is to enable me to express an independent opinion on the financial statements of the Babati District Council for the year ended 30<sup>th</sup> June, 2005 and in particular:-

- To determine whether transactions were executed in accordance with the financial regulations, and recorded properly in the books of account for easy preparation of the financial statements.
- To determine whether the revenues due have been collected and used to meet expenses as per approved budget and governing regulations.
- To ascertain whether all supporting documents, records and accounts have been properly kept in respect of all Babati District Council activities.
- To verify whether goods and services bought were acquired through laid down procedures.
- To perform compliance tests to confirm whether management complied in all material respects with regulations.
- 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 authority are adequately safeguarded against losses from unauthorized use or disposition.

- To verify whether the Council has implemented audit recommendations made in previous audits.

### **1.10 Audit Scope**

The audit was carried out in accordance with the International Standards on Auditing. The audit covered the evaluation of effectiveness of the financial accounting system and Internal Control over the activities of Babati District Council, examination and verification of the accompanying financial statements and other auditing procedures as was considered necessary for the purpose of forming an opinion on the financial statements. The audit was conducted on a test check basis; therefore the findings are confined to the extent that records and information requested for the purpose of the audit were made available to us.

As an auditor I am not required to search specifically for fraud; therefore my audit cannot be relied upon to disclose all such matters. However, my audit was planned so that I would have a reasonable expectation of detecting material misstatement in the financial statements resulting from irregularities or fraud. The responsibility for detection and prevention of irregularities and fraud, rests with the Council management who are responsible for setting up and maintaining an adequate and effective system of internal control.

### **1.11 Audit Methodology**

In examining the financial statements together with the underlying records the following audit 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.
- Review of financial statements, progress reports, various implementation reports and other associated information.
- 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 and compliance, 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,  
Manyara Region

District Executive Director and Accounting Officer  
Babati District Council

### **RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS OF BABATI 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 Babati District Council shown on appendix 2 of this report 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 Babati District Council.

Order Nos. 9 through 16 of the LAFM requires the Council to establish and support a sound 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 regard 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 Babati 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.

The financial statements have been prepared and presented based on the accrual principle of accounting pursuant to Order Nos.56 through 58 of the LAFM. Under the accrual basis, all revenues and all the related costs are matched with the period in which they were earned and incurred.

### **Opinion**

Except for the material matters pointed out below, in my opinion, the financial statements fairly reflect, in all material respects, the financial position of Babati District Council as at 30<sup>th</sup> June, 2005 and the results of its 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. Shs.96,330,590 were unvouched expenditure, in absence of relevant payment vouchers the genuineness of expenditure incurred could not be verified.
2. Shs.183,916,813 were improperly vouched expenditure in absence of relevant supporting documents the correctness of expenditure could not be verified.
3. Shs.3,480,084 were neither signed by the payees (to acknowledge receipts) nor produced for physical counting, hence its availability could not be ascertained.
4. Shs.13,379,100 were payments made on strength of proforma invoices, no confirmation from the Council on receipt of goods paid for.
5. Issues of stores worth Shs.189,551,525 were not struck off ledger charge, hence accountability of these stores could not be ascertained.
6. The Council has failed to implement 13 agreed audit recommendations for previous years.

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.

31 March 2006.

### 3.0 AUDIT FINDINGS AND RECOMMENDATIONS

#### 3.1 Status of the previous year's audit recommendations

During the previous audit we noted audit findings which we recommended some actions to be taken by the management for further improvement. As at reporting date (February 2006) the following thirteen (13) recommendations have not been acted/implemented by the council management as follows:-

S/No	Year	Paragraph	Recommendation	Status
1	1998	11.2.6	Unpaid salaries not accounted for Shs.3,493,830	The culprit has been taken to court. Court ruling is awaited
2		11.3.3.2	Outstanding Debtors Shs.13,850,000	A sum of Shs.11,500,000 due to M/s Satchet is still outstanding
3	2001		Missing Revenue Receipt Books - 3	1 open receipt book with serial No. 46701-46750 for Ushuru wa Mifugo issued to Abel Marley has not been retrieved.
4	2002		Revenue earning receipt books not produced - 68	2 fixed receipt books worth Shs.1,225,000 and 3 open receipt books have not been traced.
5			Revenue collection not accounted for Shs.792,300	Not implemented
6			Penalty not imposed on late payment of business license fees Shs. 1,871,250	Not implemented
7			Infringement of loan terms Shs.1,302,500	Shs.228,000 not yet recovered
8	2003		Revenue earning receipt books not produced - 42	13 books are still missing
9			Revenue collections not accounted for Shs.790,700	Shs.355,000 yet to be brought to account
10			Penalty on late payment of business license fees not imposed Shs.3,172,500	Shs.495,000 still outstanding

11			Salary payments to ghost workers Shs.1,917,200	Not implemented
12			Unclaimed salaries not refunded to Treasury Shs.9,592,800	Not implemented
13			Unvouched expenditure Shs.8,909,293	A sum of Shs.5,316, 700 is still outstanding

### 3.1.2 Position of audit queries

Year	No of Queries Issued	No of Queries Closed	Balance
1998			2
2001	14	13	1
2003	26	20	6
2004	18	nil	18
2004/05	14	nil	<u>14</u>
<b>Total</b>			<b><u>41</u></b>

## 3.2 Current year's audit findings

### 3.2.1 Unvouched Expenditure Shs.96,330,590.

Examination of the payment vouchers for the period under review disclosed unvouched expenditure of Shs.96,330,590.

#### Implication

The expenditure from it could not be authenticated as properly vouched

#### Audit Recommendation

The council management should ensure that all missing payment vouchers are traced and made available for audit verification.

### 3.2.2 Improperly expenditure Shs.183,916,813

A test examination of payment vouchers revealed cases of improperly vouched expenditure of Shs.183,916,813

#### Implication

In absence of relevant supporting documents, validity of payments could not be established by the audit.

#### Audit Recommendation

Vouchers should bear all the necessary supporting documents to authenticate their genuineness. Furthermore, management should submit the relevant supporting documents for audit scrutiny.

### **3.3.3 Unreceipted cash payment Shs.3,480,084**

The bonafide payees on the paylists were neither receipted their payment of Shs.3,480,084 nor the same cash produced for physical counting.

#### **Implication**

Accountability of Shs.3,480,084 could not be ascertained by audit.

#### **Audit Recommendation**

The management should ensure that the unreceipted cash payment are banked accordingly or receipted by the respective officers involved.

### **3.2.4 Unretired imprest Shs.6,657,050**

#### **Education A/c Shs.6,657,050**

Special imprest issued to Esther Mkumbi vide PV/No.3/8 Shs. 1,100,000 to enable her “Kutathimini Walimu Wanafunzi wa Mwaka 2004 and Shs.5,557,050 was paid to A.G.Sarwat vide PV/No 28/9 being special imprest to enable him meet sundry expenses during Std VII-2004 examination:

- Emergency 3,377,050
- Hiring charges 980,000
- Maintenance and repair expenses 1,200,000

#### **Implication**

No confirmation as whether the imprest was properly utilized.

#### **Audit Recommendation**

The management should ensure that retirement particulars are made available for verification.

### **3.2.5 Questionable purchases of countable documents from local sources**

#### **Education A/c Shs.10,800,000**

The council incurred Shs.10,800,000 for purchasing countable documents from local sources instead of purchasing them from reliable government printing unit.

#### **Implication**

The council violated procurement procedures hence, value for money can not be evidenced.

#### **Audit Recommendation**

The management should confirm whether the said document was out of stock in government store.

### **3.2.6 Overpayment made to Suppliers Shs.1,072,000**

Comparison made between price list agreement between council and suppliers for 2004/2005 noted that the agreed price differs with the actual price paid for office supplies and stationeries. In this event, the suppliers were overpaid an amount of Shs. 1,072,000

#### **Implication**

The tender agreement between suppliers and the council was not observed by the two parties.

#### **Audit Recommendation**

The apparent overpayment of Shs.1,072,000 should be recovered the respective suppliers.

### **3.2.7 Payment made on Proforma invoices Shs.13,379,100**

**Education A/c Shs.13,379,100**

**Payment amounting to Shs.13,379,100 in respect of goods and services were made on the strength of proforma invoices.**

#### **Implication**

In absence of relevant supporting documents audit could not verify accountability of goods and services pre-paid.

#### **Audit Recommendation**

The utilization accounts of the stores procured should be furnished as well as delivery notes, cash sales and reference to ledger folios upon which the stores have been recorded.

### **3.2.8 Stores not struck off ledger charge Shs.189,551,525**

Comparison between ledger balances and actual stock balances disclosed that stores valued Shs.189,551,525 purchased during the year and correctly posted in stores ledgers were deficient as were not supported by dully signed issue vouchers.

#### **Implication**

Procedures on issues of stores for use at the intended activities were not followed and the possibility of such stores being walked off with cannot be ruled out.

#### **Audit Recommendation**

Whenever stores are issued particulars of the stores should be made in an issue voucher before stores are removed from store.

### **3.2.9 Development project performance**

One project (Arri Dispensary) was not implemented apart from receiving Shs.4,700,000. Reasons for non implementation was not made available to audit. Also technical and financial report for projects implemented were not availed to Audit.

#### **Implication**

Non implementation of approved development projects will retard the anticipated social economic development of Babati District Council.

#### **Audit Recommendation**

The Council authority should strive to implement their projects according to the development programme implementation plans.

### **3.2.10 Imprest not retired Shs.185,968,043**

Imprests amounting to Shs.185,968,043 issued to officers of the council for conducting various activities for the period under review were not retired.

#### **Implication**

It could not be verified that the imprests were actually used for the intended purposes as they are still unretired.

#### **Audit Recommendation**

Imprest should be retired as soon as the purposes for which they were issued are finalized and recovery be effected against each imprest holder for each balance remaining unaccounted for.

### **3.2.11 Salary Advances not recovered Shs.35,350,429**

Salary advances amounting to Shs.35,350,428 granted to council officials have not been recovered as at the time of audit.

#### **Implication**

The council management should ensure recovery of Shs.35,350,428 still outstanding.

#### **Audit Recommendation**

Delay in clearing outstanding reconciling items implies inadequate control over the council finances.

### 3.2.12 Debtors Shs.195,055,373

#### Imprests and Advances Outstanding Shs. 195,055,373

The balance sheet as at 30<sup>th</sup> June, 2005 showed outstanding debtors of Shs.195,055,373 as follows:-

Advances	25,010,707
Debtors	86,557,022
Imprest	<u>83,487,644</u>
<b>Total Shs.</b>	<b><u>195,055,373</u></b>

#### Implication

The existence of large amount of un recovered Debtors addresses deficiency of strategy on collection and recovery of money due to the Council.

#### Recommendation

The management should compile an aged analysis of Debtors and introduce an effective method of their collection.

### 3.2.13 Creditors Shs. 22,268,749

The Council financial Statement reflected creditors of Shs.22,268,749; this figure does not include an amount of unclaimed salaries of Shs.10,567,951

#### Implication

The omission of Shs.10,567,951 has direct effects on the financial statement amounts.

#### Recommendation

The Council management should draw a plan to liquidate creditors and adjust the creditors total.

### 3.2.14 Stale cheques Shs. 2,173,136

Cheques amounting to Shs. 2,173,136 which became stale continued to be reflected in the bank reconciliation statement of General fund instead of adjusting the same in the cash book and establish the respective creditors.

#### Implication

Accounting action to clear stale cheques was not carried out. Also, creditors and cash balances have been understated.

#### Recommendation

Prompt action should be taken to make adjustment of any cheque that became stale.

#### 4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Babati District Council during exit meeting. Management of Babati District has promised to take appropriate action with a view to rectify the situation. I 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 Babati District Council - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF BABATI DISTRICT COUNCIL

