

**THE UNITED REPUBLIC OF TANZANIA**  
**NATIONAL AUDIT OFFICE (NAO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE  
FINANCIAL STATEMENTS OF THE REGIONAL SECRETARIAT ARUSHA**

**VOTE 70**

**FOR THE FINANCIAL YEAR ENDED 30<sup>TH</sup> JUNE, 2005**

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February 2006

## **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 Abbreviations

Financial statements means the following statements, notes and supporting schedules of the Regional Administration Secretary for the year ended 30<sup>th</sup> June, 2005.

- Responsibility for the Financial Statements
- Notes to the Financial Statements
- Statement of Vote Account - Supply
- Statement of Vote Account - Development
- Cash Flow Statement Summary for Recurrent, Development and Deposit accounts
- Cash Flow Statement for Deposit Account
- Cash Flow Statement for Development Account
- Cash Flow Statement for Recurrent Account
- Summary Statement of Revenue
- Summary - Development Appropriation Account
- Summary - Recurrent Appropriation Account
- Summary Statement of Losses
- Statement of composition of Fund

These Statements and notes form part of this report.

Act means the Public Finance Act No. 6 of 2001 as amended in 2004.

Regulations means the Regulations of the Public Finance Act issued under G.N. Number 259 of 2003.

Vote means Vote 70

Region means Arusha Region

ISA International Standards on Auditing

INTOSAI International Organisation of Supreme Audit Institution

LGAs Local Government Authorities

PO-RALG President's Office - Regional Administration and Local Government

RAS Regional Administrative Secretary

RDD Regional Development Director

URT United Republic of Tanzania

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

### **1.1 Introduction**

We have completed the audit of the Regional Secretariat, Arusha 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 3 of this report.

### **1.2 Brief History of Establishment**

The Office of the Regional Secretariat was established under section 10 of the Regional Administration Act, No. 19 of 1997. The Office of the Regional Secretariat is a department of the Government. The head of the Regional Secretariat is the Regional Administrative Secretary whose post is established under section 12(1) and he is appointed under section 12(2) of the Regional Administration Act No. Act No. 19 of 1997, respectively.

### **1.3 Operational Objectives of the Region**

The regional Secretariat perform Development and Administrative Functions which include building capacity within and supporting Local Government Authorities (LGAs) for them to be able to deliver the following.

- Management development services, which focus on local authorities putting together expertise in the area of local Government Administration and finance, training, planning and economic analysis, community Development, legal, labour affair's and Auditing.
- Economic Development services which focus on support for production related activities in the region provided through experts in Agriculture, Trade and Natural Resources.
- Physical Planning and Engineering services which focus on support to infrastructure and land management activity. This includes support for and regulation of technical designs; Contracting and tendering in the sections of physical planning engineering and land development.
- Social development services which focus on support services and regulation of services development activities related to health, education, water services and local welfare activities (both public and private) in the region.
- To ensure peace and tranquility for all regional inhabitants so as to enable them to pursue their goals.
- To facilitate and assist LGAs in the region to undertake and deliver their responsibilities by providing enabling environment for the successful performance of their duties and functions.
- To be the representative of the central government within the region. These roles and functions have been assigned in five clusters.

#### 1.4 Financing

The main source of funds for the recurrent and development expenditure of the Regional Secretariat is through appropriation from the Exchequer and Development Partners (i.e. donors). During the year under review, a total amount of Shs. 2,261,686,318 was received as follows:

Description	Amount(TShs.)
(i) Supply vote	1,831,356,318
(ii) Development Vote	430,330,000
<b>Total</b>	<b>2,261,686,318</b>

#### 1.5. Management Structure

The Organizational Structure of the Regional Secretariat, Arusha shows that the Secretariat was under the President's Office - Regional Administration and Local Government (PO-RALG). The Regional Commissioner is the head of the Region and the Regional Administrative Secretary is the head of the Regional Secretariat and the Principal Adviser to the Regional Commissioner in the exercise of his functions in relation to the implementation of decisions of Government and recommendations of the consultative committee. The organization structure of the Regional Secretariat is shown as annexure 1.

#### 1.6 Brief description of internal control system

1.6.1 The Regional Secretariat Arusha has an Internal Audit Section which reviews day to day operations so as to evaluate the adequacy and effectiveness of internal control.

#### 1.6.2 Audit Committee

The Regional Secretariat has established the audit committee since October, 2003 but the committee is not yet functional.

#### 1.6.2. Procurement Management Unit

Procurement Management Unit was established very recently, in January 2006. Prior to that there was a Regional Purchasing Committee which supervised all functions of procurement of goods and services.

#### 1.7 Financial Performance

##### (i) Supply Vote

The Supply vote closed with a saving of Shs. 133,883,505 arising from net expenditure of Shs. 19,244,309,795 against reported net approved estimates of Shs. 19,378,193,300. However, exchequer issues received during the year totalled Shs. 19,246,926,291 resulting in a cash balance of Shs. 2,616,496.

## **(ii) Development Vote**

The year's reported out-turn on Development Vote was Shs. 430,329,709 (Local) against approved estimates of Shs. 1,075,820,000 resulting in an apparent shortfall of Shs. 645,490,291. The amount of exchequer issues received during and in respect of the year under review was Shs.430,330,000 (Local) which resulted in a cash balance of Shs. 291 with the Paymaster General's Account.

The shortfall of shs.645,490,291 was due to funds (Foreign) in respect of sustainable Arusha Programme amounting to Shs. 374,266,000 and HIV/AIDS prevention Shs. 271,224,000, not released by DANIDA and TACAIDS, respectively.

## **1.8 Audit Mandate**

By virtue of the provision of Article 143 of the constitution of the United Republic of Tanzania and Section 30 (1) and 37(1) of the Public Finance Act No.6 of 2001, the Controller and Auditor General is the statutory Auditor of all government revenues and expenditure including the accounts of Regional Administrative Secretary Arusha.

## **1.9 Audit Objectives**

The main objective of conducting the audit is to enable me to express an independent opinion on the financial statements of the Regional Secretariat, Arusha for the year 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 accounts to permit the preparation of the financial statements in accordance with International Accounting Principles and the existing financial legislation.
- To determine whether funds have been collected and used exclusively to meet eligible expenses as per the Regional Secretariat's approved budget and financial regulations.
- To ascertain whether all relevant supporting documents, records and accounts have been kept in respect of all activities.
- 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 whether the assets of the Regional Secretariat Arusha are adequately safeguarded against losses from unauthorized use or disposition.

## **1.10 Audit Scope**

The audit was carried out in accordance with International Standards on Auditing. The audit covered the evaluation of effectiveness of the financial accounting systems and internal control over the activities of Regional Secretariat Arusha, examination and verification of the accompanying financial statements and carrying out 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 audit findings are confined to the extent that records and information requested for the purpose of the 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 so that we would have a reasonable expectation of detecting material misstatement in the financial statements resulting from irregularities or fraud. The responsibility for detecting and preventing fraud or irregularities rests with the Regional Secretariat, Arusha management who are responsible for setting up and maintaining an adequate and effective system of internal control.

### **1.11 Audit Methodology**

In auditing the financial statements together with their underlying records, the following principal audit steps were followed:

- Examination of receipts and payments cash book, bank reconciliation statements to confirm compliance with existing legislation, financial regulations and other instructions or directives.
- Review of the internal control structure by assessing significant policies and procedures and determine its adequacy.
- Review of Regional Secretariat, Arusha financial statements, progress reports and other associated information.
- Conduct compliance tests on the procurement procedures and their execution as well as stores management.
- Appraisal of the previous audit recommendations to determine whether the Management has taken adequate corrective action.
- Hold entrance and exit meetings with the auditee to discuss the audit objectives and results of the audit exercise, 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 AND FINANCIAL STATEMENTS

**To:** The Regional Administrative Secretary,  
Accounting Officer of Vote 70,  
Regional Secretariat, Arusha

**Re:** Audit Report on the Financial Statements of the Regional  
Secretariat Arusha for the year ended 30<sup>th</sup> June 2005.

I have audited the financial statements of the Regional Secretariat, Arusha shown in Annexure 2 for the year ended 30<sup>th</sup> June 2005.

### **Responsibilities of the Accounting Officer**

Section 25(4) of the Act places responsibility to the Accounting Officer to prepare the financial statements based on the Generally Accepted Accounting Standards.

In addition, Regulation 35 requires the Accounting Officer and the entity management to establish an effective Internal Control System appropriate to the circumstances of the entity.

### **Responsibilities of the Controller and Auditor General**

My responsibility is to express an independent opinion on the financial statements, and on procurement procedures adopted by the Regional Secretariat Arusha based on the audit. According to section 30 of the Act my specific responsibilities are to examine, inquire into, audit and report on the accounts of the Secretariat.

In addition, section 31 of the Act requires me to satisfy myself that the accounts have been kept in accordance with generally accepted accounting practice; reasonable precautions have been taken to safeguard the collection of revenue, the receipt, custody, disposal, issue and proper use of public property, and that the law, directions and instructions applicable thereto have been duly observed, expenditures of public monies have been properly authorized; and to satisfy myself whether the funds appropriated to the Region were used exclusively and judiciously to meet eligible expenditures with due regard to economy and efficiency.

### **Basis of Opinion**

The audit was conducted in accordance with the ISA and procedures that are consisted with those recommended by the INTOSAI. Those standards require that I plan and perform the audit to obtain reasonable assurance whether the financial statements are free of misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes

assessing 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 circumstance of the Regional Secretariat Arusha (Vote 70) consistently applied and adequately disclosed, evaluating the overall financial statements presentation, and assessing the extent of compliance with the relevant statutory requirements. I believe the audit provides a reasonable basis for my opinion.

The Financial statements have been prepared and presented based on the cash basis of accounting pursuant to Regulations 53. Under the cash basis, cash receipts are recognized when they are received and cash payments are recognized when they are paid.

### **Opinion**

In my opinion, the financial statements of the Regional Secretariat, Arusha comply with the generally accepted accounting standards; and that they fairly reflect, in all material respects, the results of its operations and cash-flows for the year ended on 30<sup>th</sup> June 2005 and the financial position as at that date.

Further to my opinion, on public procurement, the procurement of office equipment and related services, were generally done in accordance with the Public Procurement Act No. 21 of 2004 and related Regulations.

### **Matters of Emphasis:**

Without qualifying the opinion expressed above the following matters are brought to the attention of the Secretariat Management:

1. Cash and stores losses amounting to Shs.29,587,323 relating to 2004/03 financial year are yet to be finalized.
2. The Audit Committee has not been effective since it was established in October 2003.

The details of these matters are given under 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  
National Audit Office,  
Dar es Salaam,  
**February 2006**

### 3.0 AUDIT FINDINGS AND RECOMMENDATIONS

#### 3.1 Follow up of previous year's audit Findings

**Para 550: Losses of Cash and Stores Shs. 29,587,232**

The losses of cash and stores amounting to Shs. 29,587,232 have not been finalized.

#### 3.2 Current year's audit findings

**Statement of Revenue**

The actual collection of revenue during the year under review was Shs.411,135 against revenue estimates of Shs. 222,000, resulting in overcollection of Shs. 189,135 or 85% above the revenue estimates.

##### 3.2.1 Outstanding Liabilities - Shs.10,827,083

A total amount of Shs. 10,827,083 was outstanding as at the time of writing this report (February, 2006) in respect of the following:

(i)	Suppliers of goods and services	7,196,879
(ii)	Civil Servants	<u>3,630,204</u>
	<b>Total</b>	<b><u>10,827,083</u></b>

It has however been noted that the liabilities were not reflected in the footnotes of the Appropriation Account.

**Implication**

The outstanding liabilities affect next year's budget allocation, therefore, if not disclosed there won't be justification for increased budget.

**Recommendation**

Management should ensure that complete records are kept in respect of outstanding liabilities and that future outstanding liabilities are reported in the appropriation accounts.

##### 3.2.2 Losses of cash and stores Shs. 29,587,323

The losses of cash Shs. 2,722,500 and stores worth Shs. 26,864,732 related to the year 2002/2003 and no losses were reported during the year under review. The losses were not yet finalized as at the time of writing this report, February 2006.

**Implication**

It is evident that there is inadequate follow up in finalization of these losses as there is no evidence that the matter has been followed up in the near past.

**Recommendation**

Management should follow up to ensure that the losses are finalized at the earliest.

**3.2.3 Ineffectiveness of the Audit Committee**

The audit Committee of the Secretariat was established in October, 2003 as required under regulation 31 of the Public Finance Regulations. However, the Audit Committee has not yet become functional as at the time of audit.

**Implication**

Matters raised by the External and Internal Auditors were not attended to effectively.

**Recommendation**

Management should ensure that the Audit Committee perform its functions as required under regulation No. 32 of the Public Finance Regulations of 2001.

**Management Response**

We admit that the audit committee of the Secretariat was established in October 2003 in accordance with the Public Finance Act, 2001, Regulation 31.

However, the committee could not take up responsibilities as anticipated because the members are waiting for Ministry of Finance training on operations of audit committee. Our letter with ref. No. RC/AR/FI/5/20 of 5<sup>th</sup> December 2005 and the replies from Ministry of Finance with ref. No. EB/AG/32/01/72 of 22/12/2005 refer.

**Comment**

The Secretariat should follow up to ensure that the training is carried out as promised by the Ministry of Finance.

#### 4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Regional Administrative Secretary, Arusha during exit meeting. Management of the Region has promised to take appropriate action with a view to rectify the situation. We shall appreciate to receive formally the action taken in this respect.

Lastly, I would like to express my appreciation for 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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State House,  
P.O. Box 9120,  
Dar es Salaam

“ The Permanent Secretary and Paymaster General,  
Ministry of Finance,  
P.O. Box 9111,  
Dar es Salaam

“ Permanent Secretary,  
Prime Minister’s Office,  
Regional Administration and Local Government  
P. O. Box 1501  
**DODOMA**

**STATEMENT OF THE RESPONSIBILITY ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2005**

These Financial Statements have been prepared by the management of Regional Secretariat Arusha in accordance with the provisions of Section 25(4) of the Public Finance Act. No.6 of 2001. The Financial statements comply with the generally accepted accounting practices as required by the said Act and are presented in a manner consistent with the International Standards on Financial Reporting under the Cash Basis of Accounting.

The management of the Arusha Regional Secretariat is responsible for establishing and maintaining a system of effective Internal Control designed to provide reasonable assurance that the transactions recorded in the accounts are within the statutory authority and that they contain the receipt and use of all public financial resources by the Office of the Regional Administrative Secretary.

To the best of my knowledge, the system of Internal Control has operated adequately throughout the reporting period and that the records and underlying accounts provide a reasonable basis for the preparation of the Financial Statements for the 2004/2005 financial year.

I accept responsibility for the integrity of the Financial Statement, the information it contains, and its compliance with the Public Finance act 2001 and instructions from the Treasury.

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**Signed by Accounting Officer**

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**Date**

## 5.0 ANNEXURE

Financial Statements and Notes to the Financial Statements.