

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



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

COAST REGION

VOTE 71

FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2005

The Controller and Auditor General
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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 Coast Region for the year ended 30th 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 for Recurrent Account
- Cash Flow Statement for Deposit Account
- Cash Flow Statement for Development
- Summary Statement of Revenue
- Summary - Development Appropriation Account
- Summary - Recurrent Appropriation Account
- Statement of Arrears of Revenue
- Summary Statement of Losses
- Statement of composition of Fund

These Statements and notes form part of this report.

AAS	Assistant Administrative Secretary
CAG	Controller and Auditor General
DPs	Development Partners
GDP	Gross Domestic Product
GOT	Government of Tanzania
HIPC	Highly Indebted Poor Countries
IFMS	Integrated Financial Management System
IG	Investment Grant
ISA	International Standard of auditing
LGA	Local Government Grant
LGRP	Local Government Authorities
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
OCAG	Office of the Controller and Auditor General
PER	Public Expenditure Review
PMO-RALG	Prime Minister's Office - Regional Administration and Local Government
PRSP	Poverty Reduction Strategy Paper
PSRP	Public Service Reform Programme
PS	Permanent Secretary
RAS	Regional Administrative Secretary
RS	Regional Secretariat

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

We have completed the audit of Coast Regional Secretariat - Vote 71 accounts for the year ended 30th June, 2005. Audit findings arising from examination of accounting records, appraisal of activities evaluation of the internal control system which requires Management attention and action, are set out under part three of this report.

1.2 Brief history of client establishment

The Coast Regional Secretariat was established by Section 10-(I) of an Act, Parliament No.19 of 1997(the Regional Administration Act of an1997) as a department of the Government and came into effect from 28th June1996.

The vision of the Regional Secretariats is a strengthened capability to offer a mult -skilled technical resource for supporting local development initiatives to exploit community-identified opportunities and (b) liking central and local government.

1.3 Operational objectives

According to the Regional Secretariats Act the Regional Secretariats - Coast has the following objectives:

- (a) To ensure and facilitate maintenance of peace to all the regional Inhabitants to enable them to pursue their goals.
- (b) To facilitate and assist LGAs in the region to undertake and discharge their responsibilities by providing and securing the enabling environment for the successful performance of their duties and functions.
- (c) To be representative of the Central Government (CG) within the region.
- (d) To help the local authorities putting together technical expertise in the area of local Government, Community development, legal and labour affairs and auditing.
- (e) To support the economic development for the production related activities in the region, provided through experts in agriculture, livestock, cooperatives, industry and trade, wildlife, fisheries and beekeeping.
- (f) To support infrastructure and land management activities. This includes support for and regulation of technical designs, surveys, contracting tendering in the sectors of physical planning, engineering and land development.
- (g) To support and regulate social development activities related to health, education, water provision and social welfare activities (both public and private) in the region.

1.4 Financing

The Regional Secretariat like any Government MDA received funds appropriated by Parliament through the Treasury by means of Exchequer issues. During the year under review, a total sum of Shs.32,308,482,486 was released for the operations of the Secretariat as follows:-

<u>Description</u>	<u>Amount (Shs)</u>
Supply Vote	16,074,500,898
Development	<u>1,333,099,365</u>
Total	<u>17,407,600,263</u>

1.5 Management

The Regional Secretariat -Coast operates under directives of the Prime Minister's Office-Regional Administration and Local Government.

Under the Ministry there is a Regional Commissioner, under RC there is Regional Administrative Secretary who is the Accounting Officer of vote 71. Below RAS there are four departments which are Management support, Economic Development, Physical planning &Engineering support services and each of them is headed by an Assistant Administrative Secretary.

The management structure of the Regional Secretariat is shown as annexure II to this report.

1.6 Internal Control System

A System of internal control that should be adopted by Secretariats is given under the Public finance Act No.6 of 2001. The Management should ensure 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 Regional Administration Secretary or his designated representative to check effectiveness of the control system is mandatory. The Secretariat is also required to employ its own Internal Auditors who report directly to the RAS. 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 Regional Administrative Secretary- Coast complies with this order. However, the office lacks an audit committee which is part of transparency and good governance.

1.7 Financial performance Issues

- **Supply Vote**

The Supply vote closed with a saving vote of Shs.85,608 arising from net expenditure of Shs.16,074,415,290 against reported net approved estimates of Shs.16,074,500,900. Exchequer issues received during the year totalled to Shs.16,074,500,899 equaled to net approved estimates resulting to a saving of Shs.85,608.

- **Development Vote**

The year's out-turn on the Development vote was a net expenditure of Shs.1,333,087,910 against net approved estimates of Shs.1,639,371,600, realizing a saving of Shs.306,283,690. However exchequer issues received during the year totalled to Shs.1,333,099,365 resulting to a cash balance of Shs.11,956 with PMG's account at the Bank of Tanzania.

- **Statement of revenue**

The statement of revenue for the year under review reflected revenue collections of Shs.14,046,492 against the provision of Shs.1,080,000 resulting to an over collection of Shs.12,046,492 or 1201%.

- **Appropriation - in - Aid**

The statement of appropriation - in - aid for the year ended 30th June 2005 showed actual collections of Shs.521,436 against estimated amount of Shs.441,000 recording a surplus of Shs.80,436 or 18%.

1.8 Audit Mandate

By virtue of the provision of Article 143 of the constitution of the United Republic of Tanzania of 1977 and Public Finance Act No.6 of 2001 and Procurement Act No.4 of 2004 the controller and auditor General is the appointed auditor of all government revenues and expenditure, including the revenues and expenditure of this Regional Secretariat.

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 Vote 71 for the year ended 30th June 2005 and in particular:-

- To determine whether transactions were executed in accordance with the financial regulations, and recorded properly in the books of accounts 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 governing regulations.

- To ascertain whether all supporting documents, records and accounts have been kept in respect of all Secretariat 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.

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 the Regional Secretariat, 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 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 detection and prevention of irregularities and fraud rests with the Municipal 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;

- A review of the council's regulations, guidelines and other Secretariat'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, which, if rectified on time, will greatly improve the effectiveness of the internal control system applied.

2.0 AUDIT REPORT AND FINANCIAL STATEMENTS

**TO: Regional Administrative Secretary,
Coast Region,
Accounting Officer of Vote 71**

**Re: Audit Report on the Financial Statements of the Coast-Region
for the year ended 30th June 2005**

I have audited the financial statements of Coast Region for the year ended 30th June 2005 which have been attached to this report as annexure.

Responsibilities of the Accounting Officer

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

In addition, Regulation 35 of the Public Finance Regulations (2001) requires the Accounting Officer and the entity management to establish an effective Internal Control System appropriate to the circumstances of the Region and the affiliate bodies.

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 Region 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 Region.

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, that the laws, directions and instructions applicable thereto have been duly observed, expenditures of public monies has been properly authorized; and satisfy myself whether the funds appropriate 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 consistent 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 material

misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit 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 Region 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 Regulation 53. Under the cash basis, cash receipts are recognized when they are received and cash payments are recognized when they are paid.

Qualification

In my opinion, except for the matters specified below, the financial statements of the Regional Secretariat have been prepared based on the generally accepted accounting standards and that they fairly reflect, in all material respect the true and fair view of the results of its operations and cash flows for the year ended on 30th June, 2005 and the financial position as at the date.

Further to my opinion, the procurement of rehabilitation of regional block, stationery, supply of office furniture and equipments was generally done in accordance with the Public Procurement Act No.21 of 2004.

Limitation of Scope of Audit and non-Compliance with Laws:

1. Neither progress report nor acknowledgment receipts in respect of development grants totalling Shs.158,892,000 made to local Authorities of the Secretariat during the year were made available to audit.
2. There has been Unvouched and Improperly vouched expenditure amounting to Shs.141,853,017.
3. Outstanding imprests totaling to Shs.6,485,731 were not reflected in the Statement of Vote Account.
4. Stores worth Shs.4,760,000 have not been taken on ledger charge.
5. Finalization Certificate from Treasury for loss of Toyota Land Cruiser Motor Vehicle worth Shs.32,000,000 not availed to audit.
6. There are Long outstanding items in the Bank Reconciliation totaling Shs.324,402,230.

7. Fixed assets worth Shs.41,843,978 are not shown in the fixed assets register.

The details of these matters are given in part 3 of this report.

Dr. Frank Mosses Hiza Mhilu
Ag: CONTROLLER AND AUDITOR GENERAL

National Audit Office,
Dar es Salaam
February, 2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Follow - up of Previous Audit Findings

3.1.1 Questionable issue of drugs 455,500

Drugs valued Shs.455,500 issued from Regional Medical Office stores to health centres within the region were not received and therefore they were not accounted for.

Recommendation

Management should trace the where about of the drugs

3.2 Current year's findings

3.2.1 Over expenditure of Shs.990,947,738

The Secretariat over spent an amount Shs.31,184,989 from Development Vote contrary to Public Finance Regulations 2001 regulation 51 as indicated below:-

<u>Project No.</u>	<u>Item (Description)</u>	<u>Approved Budget</u>	<u>Actual Expenditure</u>	<u>Amount Overspent</u>
6261	270503 - Diesel	178,900,000	210,084,988	31,184,989

Implication

Funds allocated to other activities have been utilized for activities not planned for.

Recommendation

Management should give reasons for the over - expenditure.

3.2.2 Building construction and renovation Shs.356,976,044

During the financial year under review, the Secretariat paid a sum of Shs.356,976,044 to various contractors for construction/renovations work of Regional Block, Regional Commissioners residence, District Commissioner's office and other public buildings. However, the contractual documents (e.g. Work in progress certificates, bill of quantities, variation orders and acknowledgement receipts) were not submitted to audit when called for.

Implication

Authenticity of the works carried out and value thereof could not be established.

Recommendation

Management should ensure that missing contract documents are produced for audit verification.

3.2.3 District project development grants Shs. 158,892,000

The Secretariat paid out a sum of Shs.158,892,000 to its Councils in respect of development grants for implementation of various development projects. However, neither acknowledgement receipts nor progress reports to indicate, receipt of the amount by the Councils and implementation status of the projects respectively.

Implication

Receipt and utilization of the funds involved could not be established.

Recommendation

The Secretariat Management should ensure that acknowledgement receipts for the funds and progress report are submitted for audit perusal.

3.2.4 Unvouched and improperly vouched expenditure - Shs. 141,853,017

During the financial year 2004/2005, the Secretariat purchased goods and services worth Shs.141,853,017 from various suppliers and contractors as follows:-

<u>Account</u>	<u>No. of Queries</u>	<u>Amount (Shs)</u>
Development	4	141,410,517
Supply	1	442,500
Total		<u>141,853,017</u>

The purchases and contracts were neither supported by quotations or contracts agreements nor confirmation of value for money for the services secured.

Implication

The huge amounts of unvouched and improperly vouched expenditures involved indicates internal control weakness in records keeping of the Secretariat.

Recommendation

The management should institute internal control system on records keeping.

3.2.5 Outstanding imprests Shs.6,485,731

The statement of vote account as at 30th June,2005 did not reflect any outstanding imprests. However, examination of payment vouchers for the year under review revealed that imprests totaling Shs.6,485,731 to have not been retired as at the end of financial year.

Implication

Contravention of financial regulations and tying up of funds which would have been utilized in other activities.

Recommendation

Management should ensure that imprests are accounted for as stipulated in the financial regulations.

3.2.6 Stores not taken on ledger charge - Shs.4,760,000

Examination of payment vouchers for the financial year ended 30th June 2005 revealed that stores worth Shs.4,760,000 purchased and paid for but have not been accounted for

Implication

There is a possibility of misuse or non-delivery of the goods paid for without management detection.

Recommendation

The Secretariat management should streamline stores management and controls to avoid possible losses.

3.2.7 Losses of Motor Vehicle - Shs.32,000,000

The Statement of losses as at 30th June,2005 reported a loss of motor vehicle with registration number STJ.2567 Toyota Land Cruiser GX valued TShs.32,000,000 which was stolen on 10th August,2004 and reported to Treasury on 17th December 2004. Though the loss was reported to the Treasury neither formal loss report has been availed to audit on request or loss finalization certificate obtained from the Treasury.

Implication

Loss of the Motor Vehicle could not be proved.

Recommendation

Management should ensure that all formalities for reporting the loss in question are completed and furnished to audit.

3.2.8 Fixed assets - Shs.4,329,480,454

The Balance Sheet as at 30th June,2005 disclosed fixed assets totalling Shs.4,329,480,454. However, the following discrepancies were noted.

- (i) The total value of Office/Household equipments & furniture and machinery were noted to have been in disagreement with the total value as per list/register of immovable fixed assets submitted along with the appropriation accounts by Shs.41,843,978 as shown here under:-

<u>Description</u>	<u>Amount as per B/Sheet</u>	<u>Amount as per Register</u>	<u>Differences</u>
Office/Household Equipment & Furniture	219,384,654	181,540,676	37,843,978
Machinery	<u>756,470,800</u>	<u>752,470,800</u>	<u>4,000,000</u>
TOTAL	<u>975,855,454</u>	<u>934,011,476</u>	<u>41,843,978</u>

- (ii) The total value of fixed assets does not include the value of the furniture (both office and household) of Kisarawe, Mkuranga old office and Rufiji.

Implication

Control over assets management is weak in that the assets of the Secretariat are not adequately safeguarded against losses from unauthorized use or disposition.

Recommendation

The Secretariat management should introduce a permanent assets register that would indicate location of each asset, value, date of acquisition, disposal etc. The register should be kept up-to-date and inspected on a regular basis.

3.2.9 Outstanding items of Bank Reconciliation Statements - Shs.324,402,230

A review of the Bank Reconciliation Statements for the year ended 30th June 2005 disclosed the following unpresented cheques which had not been cleared as at the time of audit, October 2005.

<u>Account</u>	<u>Amount (Shs)</u>
Recurrent	77,462,781
Development	<u>246,939,449</u>
Total	<u>324,402,230</u>

Implication

There is risk of temporary overstating of receipts.

Recommendation

Immediate follow - up is necessary to clear the outstanding items.

3.2.10 Matters arising from Local Inspections

An audit inspection made to the office of Regional Administrative Secretary disclosed various items of stores purchased during the year worth Shs.10,434,300 to have not been taken on ledger charge contrary to financial regulations.

Implication

Possible Misappropriation of the of stores.

Recommendation

The management should ensure that all items of stores are taken on ledger charge to avoid possible missaplacement.

4.0 CONCLUSION

The detailed audit presented above have been communicated to the Secretariat management during our exit meeting held on 8th February,2006. The Management of the Secretariat 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 the co-operation given to the audit team. It is my hope that such good working relationship will be extended during future audits.

Dr. Frank Mosses Hiza Mhilu

Ag: CONTROLLER AND AUDITOR GENERAL

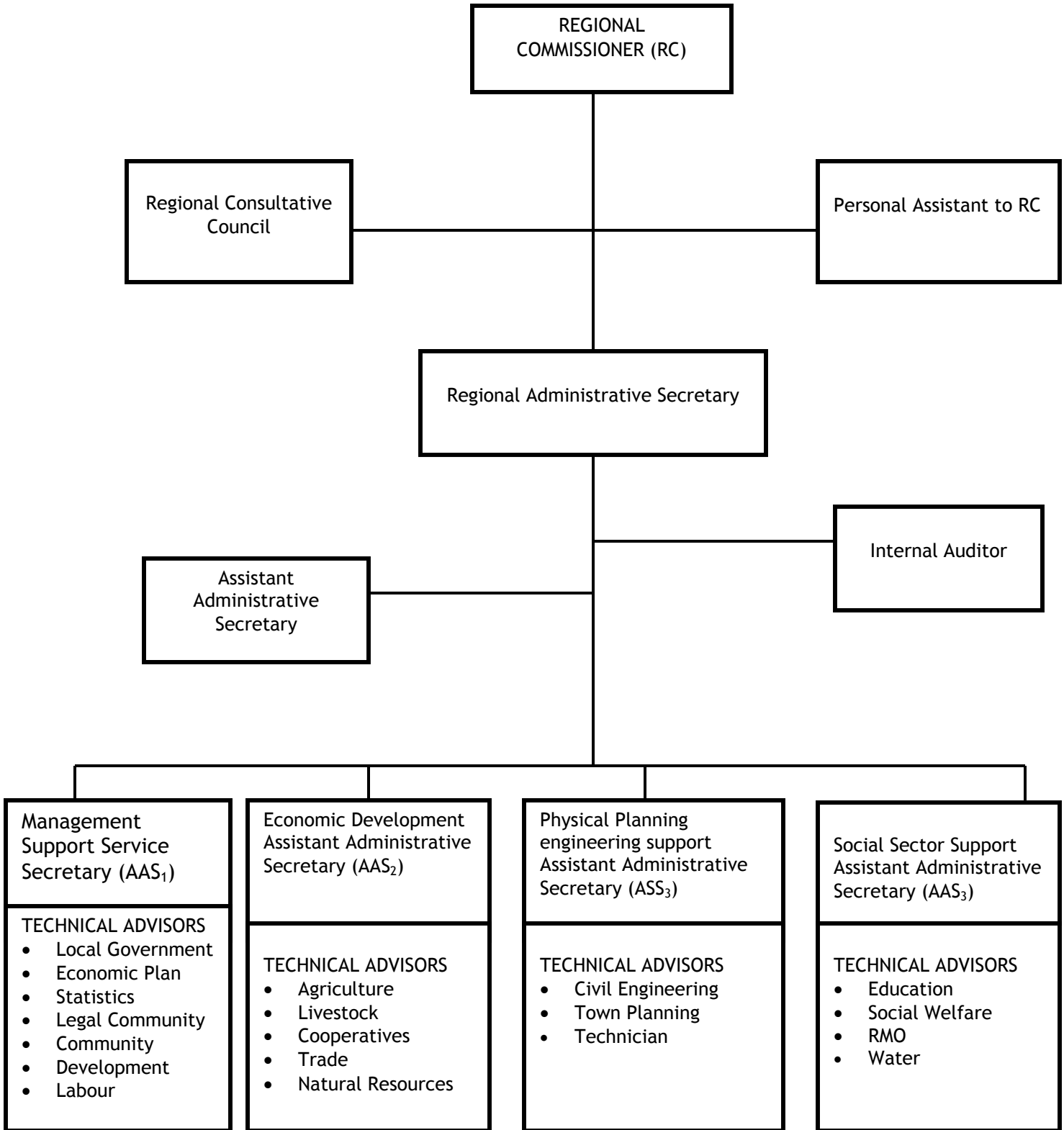
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Ministry of Finance,
P. O. Box 9111,
Dar es Salaam

“ Permanent Secretary,
President’s Office,
Regional Administration and Local Government,
P.O. Box 1501,
Dodoma.

5.0 Annexure
Financial Statements, accounting policies and notes to the financial statements.

**ORGANIZATION STRUCTURE
REGIONAL SECRETARIAT - COAST**



**STATEMENT OF THE RESPONSIBILITY ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE,2005**

These Financial Statements have been prepared by the management of the Regional Administrative Secretary Coast 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 Regional Administrative Secretary Coast 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 Regional Secretariat Coast.

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 Statements, the information it contains, and its compliance with the Public Finance act No.6 of 2001 and instructions from the Treasury in respect of the year under review.

Signed by Accounting Officer

Date