

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



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

IRINGA REGION

VOTE 73

FOR THE FINANCIAL YEAR ENDED 30TH 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 mean Financial Statements and notes of the Regional Administrative Secretariat -Iringa for the period ended 30th June, 2005.

- Statement of Vote Account -Recurrent(Balance Sheet)
- Statement of Vote Account-Development(Balance Sheet)
- Cash flow statement for Recurrent
- Cash flow statement for Development
- Cash flow statement for deposit
- Detailed statement of Revenue-Recurrent
- Summary Appropriation Account-Recurrent
- Summary Appropriation Account-Development
- Summary Statement of Losses
- Statement of commitment outstanding
- Statement of composition of fund
- Notes to the accounts

These financial statements and notes are attached as annexure to this report

Vote	Vote 73
Region means	Iringa Region
A/C	Account
AQ	Audit query
Act	Public Finance Act, 2001 as amended in 2004 Public Procurement of 2001 as amended in 2004
ISA	International Standards on Auditing
LGAS	Local Government Authorities
MDAs	Ministry Department and Agencies
RAS	Regional Administrative Secretariat
URT	United Republic of Tanzania

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1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

We have completed the audit of the Regional Secretariat for the year ended 30th June 2005. Audit findings arising from examination of accounting records, appraisal of the Regional Secretariat activities as well as an evaluation of the internal control system which require management attention and action are set out on paragraph 3 of this report.

1.2 Brief history of establishment of the Secretariat

The Secretariat was established the under the Regional Administrative Act no.19 of 1997.The government decided to abolish the former Regional Directorates(RDDs) and establish the Regional Secretariats which are composed of Technical Advisers to the Regional Commissioners(RCs) who is assisted by the Regional Administrative Secretary (RAS).

1.3 Operational objectives

The Regional Administrative Secretariat was established to perform the following:-

- To assist the local authorities to build capacities so as to enhance economic development
- To introduce good planning of engineering services on infrastructure and land management development
- To supervise and manage social services and regulation of policies relating to health education, water and other social welfare
- To be a representative of the Central Government in the Region

1.4 Financing of the Regional Secretariat

The Regional Secretariat like any Regional Secretariat receive funds from the Treasury in the form of Exchequer issues. During the financial year 2004/2005 the Exchequer Issues received by the Secretariat were as follows:-

<u>Description</u>	<u>Amount (Shs)</u>
(i) Recurrent	24,590,359,547
(ii) Development Vote	2,573,635,000
Total	<u>27,163,994,547</u>

1.5 Management Structure

The Regional Secretariat is headed by the Regional Commissioner. The day today activities are managed by the Regional Administrative Secretary (RAS) who is also the Accounting Officer of the Region. The detailed Organization Structure of the Secretariat is attached as Annexure II to this Report.

The Region is subdivided into five functional districts namely:-
Other supporting divisions include Policy and Planning, Administration & Personnel and Finance and Accounts. These divisions are available at the Regional and District level.

1.6 Brief description of internal control system

- **Accounting System**

The Secretariat operates the usual government accounting system. The financial statements are being prepared and presented based on cash basis of accounting pursuant to Public Finance Act No.6 of 2001.

- **Internal Audit**

To comply with Public Finance Regulation 28, the Regional Administrative Secretary has established the unit of Internal Audit to examine and evaluate the adequacy and effectiveness of internal control in the Secretariat. The Secretariat operates under its system of internal control as stipulated by Public Finance and Procurement Acts of 2001 as amended in 2004 and Regulations of 2001 as amended in 2004 guidelines to ensure orderly and efficient conduct proper recording and safeguarding of assets and resources.

1.7 Financial Performance

Supply Vote

The Supply vote account for the year ended 30th June 2005 closed with an apparent saving TShs.29,244,468 arising from net expenditure of TShs.24,570,912,432.

Since the actual exchequer issues received during the year amounted to TShs.24,590,359,547 the real saving was TShs.19,447,115 with PMG's account.

Development Expenditure Account

The development vote for the year ended 30th June 2005 closed up with an apparent savings of Shs.367,540,927 resulting from net expenditure of Shs.2,264,232,873 against approved estimates of Shs. 2,631,773,800.

However, since the exchequer issues received during the year amounted to TShs. 2,573,635,000 real savings was TShs.309,402,127 with the PMG's account.

1.8 Audit mandate

By virtue of the provision of section 143 of the constitution of United Republic of Tanzania and section 30 (i) of the Public Finance Act No.6 of 2001 the Controller and Auditor General is the appointed Auditor of all Government revenue and expenditure including the Regional Secretariat Mwanza.

1.9 Audit Objectives

The main objective of conducting the audit is to enable me to express a professional opinion on the financial statements of the Secretariat for the period ended 30th June, 2005 and in particular:

- To determine whether transactions were executed in accordance with management authorization and recorded properly in the books of accounts to permit the preparation of the financial statements in accordance with the International Accounting Principles and requirements of the Public Finance Act No.6 of 2001.
- To determine whether funds have been collected properly and used exclusively to meet eligible expenses, as per regulations governing the Secretariat.
- To ascertain whether all relevant supporting documents, records and accounts have been kept in respect of the Secretariat's activities.
- To verify whether all relevant supporting documents, records and accounts have been kept in respect of the entire Secretariat financial directives.
- To perform compliance tests to determine whether the Secretariat's management complied in all material respects with the Public Finance Act No.6 of 2001 as amended in 2004.
- 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 Secretariat are adequately safeguarded against losses from unauthorized use or disposition.
- To determine whether the management of the Secretariat has taken adequate corrective action on the previous years audit recommendations
- Accounts have been kept in respect of all the Secretariat financial directives.
- To perform compliance tests to determine whether the Secretariat management complied in all material respects with the Public Finance Act No.1 of 2001.

1.10 Audit methodology

Our audit included tests of the accounting records; other procedures in order to satisfy the objective of the audit. The procedures included the following.

- (a) Review the Internal Control System and testing whether it complies with the Public Finance and Public Procurement Act of 2001 as amended in 2004.
- (b) Examination of payment vouchers and their related supporting documents to establish compliance with proper documentations.
- (c) Planning the audit to obtain adequate information of RAS operations.
- (d) Making Comparison of budgets estimate against actual expenditures to establish reasons for variances.
- (e) Obtaining Bank Reconciliation Statements and note any unreconciled items with the cash book balances.
- (f) Evaluating the status of implementations of previous year's audit recommendations to determine whether management has taken action to implement them.

1.11 AUDIT SCOPE

The audit of the Secretariat's financial statements for the period ended 30th June, 2005 was carried out in accordance with International Standards on Auditing (ISA) and procedures that are consistent with the recommended by the INTOSAI. The audit covered the evaluation of the effectiveness of the financial accounting system and internal control over the activities of the Secretariat, examination and verification of the accompanying financial statements and other auditing procedures as was considered necessary under the circumstances for the purposes of forming and 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 so that we would have a reasonable expectation of detecting material misstatements in the financial statements including those resulting from fraud or irregularities. The responsibility for detecting and prevention of fraud and irregularity rest with the Secretariat's who are responsible for setting up and maintaining an adequate system of internal control.

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 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 Administrative Secretary,
Accounting Officer of Vote 73,
Iringa Region.

Re: Audit Report on the Financial Statements of the Regional
Secretariat for the year ended 30th June, 2005.

I have audited the financial statements of the Regional Secretariat attached as annexure I for the year ended 30th June 2005.

Responsibilities of the Accounting Officer

Section 25(4) of the PFA places responsibility to the Accounting Officer to prepare the financial statements based on 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 Regional Secretariat

Responsibilities of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements, and on procurement procedures 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 Regional 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; all 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, all expenditures of public money has been properly authorized; and to satisfy myself whether the funds appropriated to the Secretariat 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 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 are consistent with those recommended by INTOSAI. Those standards 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 Regional Secretariat (Vote 81) 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 pointed out below, the financial statements of the Regional Secretariat 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 30th June, 2005, and the financial position as at that date.

Without prejudice to the qualified opinion given above, the procurement of office supplies, motor vehicles, computers and scanners were generally done in accordance with the requirements of the Public Procurement Act No. 21 of 2004 and the related Regulations.

- During the year under review, assets were neither depreciated nor valued to reflect their true values.
 - Deposit balances not reconciled and cleared (TShs.45,912,806)
 - Stores purchased using Secretariat funds apparently not accounted for in the secretariat's ledger account.
 - Questionable contract payments made for work not done and completed (TShs.42,835,830)
1. There are long outstanding audit queries that are yet to be acted upon.

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

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

Office of the Controller and Auditor General
National Audit Office,
Dar es Salaam
February 2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Status of the previous findings and recommendations

3.1.1 Position of Audit Queries

A test check of the Regional Secretariat accounts and related records for the year under review resulted in the issue of 18 audit queries; the more significant matters of which are referred in the succeeding paragraphs. At the time of writing this report (February 2006) none had been replied.

In addition 59 audit queries pertaining to the previous financial years were still outstanding as follows:-

<u>Year</u>	<u>No of Queries Outstanding</u>
2002/2003	13
2003/2004	<u>46</u>
Total	<u>59</u>

3.1.2 Assets not valued and depreciated

The Public Finance Act No.6 of 2001, Para 25 (e) stipulates that all accounting officers should prepare and transmit to the Controller and Auditor General yearly a statement of assets containing details and values of all classes of assets under their control.

We noted that the statement submitted giving details of Government assets such as buildings, motor vehicles, and furniture and equipment do not reflect the value of assets.

Implication

This is a violation of best accounting practice.

Recommendation

Statements of assets submitted along with the Appropriation Account should indicate the values of the individual assets listed therein.

3.1.3 Movable assets not reflected in the asset schedule

The underlisted assets were not reflected in the movable asset schedule submitted along with the annual accounts and statement as shown below:-

S/N	Name	Description	Reg. No.
1.	DAS -Makete	Motorcycle	STJ.5222 STJ.5223 STJ.5224 STJ.5225 STJ.5221 STJ.52261
2.	DAS-Mufindi	Motorcycle	STJ.5209

			STJ.5210 STJ.5211 STJ.5212 STJ.5213
3.	RAS-Iringa	Motor Vehicle Suzuki	STH.2601

Implication

Failure to include these assets is violation of financial Regulations.

Recommendation

Management should comply with the financial Regulations of the Act.

3.1.4 Deposit balances not reconciled and cleared (TShs.45,912,806)

According to the Public Finance Regulation section 129 (I), deposit accounts may only be opened with the specific approval of the Accountant General and the responsibility for keeping proper accounts for deposits which relate solely to the Treasury or which otherwise do not fall within the responsibility of any other department or office, rests with the Accountant General. However, during the year under review the deposit account ended with uncleared balances totaling TShs.45,912,806.00 consisting of the following:-

<u>Cost Centre</u>	<u>Description</u>	<u>Balance (TShs)</u>
736930	Deposit General A/C	445,009
D01001	Regional Trade Office A/C	3,800
D01004	Local Authority A/C	7,167,614
D01005	TRA to Council A/C	1,138,600
D01006	Madawa baridi A/C	1,939,510
D01008	Mfuko wa Sherehe A/C	472,417
D01013	Maliasili and other A/C	6,850,290
D01014	Retention money A/C	1,781,848
D01016	Hima Iringa A/C	248
D01017	Unpaid Salary A/C	15,661,195
D01025	TanESCO Compensation A/C	1,879,023
D01048	Lishe (UNICEF)A/C	6,552,058
D01111	Regional tender board A/C	309,845
D02206	Mwenge A/C	183
D02210	Mapokezi ya Spika A/C	46,617
D02212	TOTAL	<u>45,912,806</u>

Further, the age analysis of these deposit balance were not analysed to indicate lifetime.

Furthermore, the deposit accounts have not been reconciled with a view of clearing them.

Recommendation

The Regional Secretariat should analyse all deposit account still outstanding with a view of clearing them.

3.1.5 Huge unspent development funds (TShs.309,402,127

Unutilized approved funds TShs.309,402,127

The statement of development vote account reflected that out of TShs.2,573,635,000 received during the year for capital expenditure only TShs.2,264,232,873 was utilized resulting in a huge unspent balance of TShs.309,402,127.

The sub-vote which recorded huge unspent balances were 2002 Economic Support, 2001 curative services and 3002 Presentive Services. No explanations have since been given regarding the failure to utilize fully development funds, which were approved and allocated for specific purposes.

Implication

Non compliance with the procurement procedures may lead items being purchased without giving the RAS the benefit of competitive prices.

Recommendation

Management should ensure that procurement procedures and regulations are adhered to.

3.1.6 Procurement without inviting proper tender procedures

TShs.23,823,338

The Secretariat paid a total of TShs.23,823,338, to various suppliers for supplying various office equipment Intended to be utilized at the new office (i.e. Kilolo Administration Block) without inviting tender procedures contrary to procurement regulations. Replies to my two (2) audit queries in this regard still awaited).

Recommendation

The Regional Secretariat should adhere to the requirements of the Public Procurement Act 21 of 2004.

3.2 Stores not accounted for TShs.10,622,655

Various items of stores worth TShs.10,622,655 which were purchased by the Regional Secretariat during the year under review where apparently not taken on ledger charge and their subsequent utilization account could not be rendered despite several requests. (Replies to my two (2) audit queries issued in this regard are waited).

Implication

There is an apparent risk of loss of stores without attention.

Recommendation

Management should ensure that all items of stores bought are taken on ledger charge.

3.2.1 Payments not supported by Original Signed paylists/invoices**TShs.81,913,638**

We noted that original signed paylists relating to allowances paid to various officers of the Secretariat amounting to TShs.81,913,638 were not made available during the examination of payment vouchers. Seven (7) audit queries raised on this matter have not been replied to date.

Implication

Amount involved might have been used for other purpose other than stated.

Recommendation

Original signed payroll should be traced and produced for audit verification.

3.2.2 Diversion of funds TShs.5,934,360

We noted that payment made to M/S Toyota Tanzania Ltd P.O. Box 9060 Dar es Salaam for service and General repair of motor vehicle with registration No.STJ.4094 were diverted as follows:-

- (i) The costs were raised to irrelevant department i.e. Code No.623-1014 (Maliasili and other account)
- (ii) No refund has been made to the account from recurrent A/C.

Implication

There is apparent misapplication of fund of Regional Administrative Secretary.

Recommendation

Management should ensure that funds are used for intended purpose only.

3.2.3 Contract payment Shs.14,887,840

A contract Agreement No.IR/UJ/2004/05/09 dated 18/4/2005 for Shs.18,000,000 involving Construction work of Grade I children ward at Regional Hospital Iringa. The Contract period was from 18/4/2005-18/6/2005. Audit has revealed the following:

- a) The above quoted contract was not produced for audit inspection despite several request.
- b) Site visit in November 2005 at the project area revealed that

despite the expiry of the contract period on 18/6/2005 the work had not been completed.

- c) Liquidated damages have not been imposed on the contractor for the delays.

Implication

Non submission of the contract is a limitation of scope of audit.

Recommendation

The contract documents should be availed to audit for verification and action taken on the anomalies noted.

3.3 Questionable contract payment Shs.42,835,830

A contract for construction of a combined metal and burnt clays brick fence wall at Kilolo District Office, for which two payments involving Shs.12,835,830 and Shs.30,000,000 have since been made to M/S.Santona General Enterprises on 28/6/2005 and 29/6/2005 respectively as per Certificate No.1 of 29/6/2005

- a) Both the project tender documents relevant to the contract were not availed for audit inspection.
- b) The costs of the work shown in the bill of quantities (BOQ) attached to support the payment made included several activities which had already been included and paid for vide certificate No.5 vide Pv.No.57/6/2005 cheque No.062531 for Shs.12,835,830.00.
- c) Site visit made in November 2005 at Kilolo District Office revealed that no construction work had been undertaken though claimed to have been done and completed.

Implication

There is a possibility that procurement procedures were not followed in awarding contract.

Recommendation

The Secretariat management should rectify the anomalies/irregularities revealed.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Regional Administrative Secretary during exit meeting. The Management has promised to take appropriate action with a view to rectify the situation. We shall appreciate to receive formally the actions 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 Moses Hiza Mhilu
Ag: CONTROLLER AND AUDITOR GENERAL

Copy to: - The Chief Secretary,
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,
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.