

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL
STATEMENTS OF THE REGIONAL ADMINISTRATIVE SECRETARY
KIGOMA REGION**

VOTE 74

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 Tabora 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
- 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.

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.

Region Means Kigoma Region

Abbreviations

AAS	-	Assistant Administrative Secretary
ISA	-	International Standards on Auditing
DAS	-	District Administrative Secretary
RAS	-	Regional Administrative Secretary
RMO	-	Regional Medical Officer
URT	-	United Republic of Tanzania
INTOSAI	-	International Organization of Supreme Audit Institutions
Region	-	Means Kigoma Region
CAG	-	Controller and Auditor General
LGA	-	Local Government Authority

1.0 BACK GROUND INFORMATION TO THE AUDIT

1.1 Introduction

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

1.2 Background

The Kigoma Region was established under the Regional Administration Act No.19 of 1997. Besides the Act, the Secretariat operates within the framework of the following instruments:

- Public Finance Act No.6 of 2001 and Public Procurement Act No.3 of 2001.
- Staff circulars and standing orders issued from time to time.
- Treasury regulations and other accounting circulars issued by the Treasury.
- Any other regulations issued by the management of the secretariat.

1.3 Operation Objectives of the Region

The Development role centres on 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 Nature 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.

The administration role includes:

- 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 delivery their responsibilities by providing and recurring the 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

Kigoma region like other Regions receives funds from Treasury in form of Exchequer issues. During the year ended 30th June,2005 the secretariat received Shs.18,396,763,770 as shown below:-

• Supply vote	Shs.	1,581,763,869
• Development vote	Shs.	554,672,000
• Exchequer issues to Councils	Shs.	<u>16,260,327,901</u>
Total expenditure for the year was	Shs.	<u>18,396,763,770</u>

1.5 Management

The Region is operating under directives of the Prime Ministers Office. The Organization structure is as per annexure I attached to this report.

1.6 Briefs description of Internal Control System

- **Accounting System**
The Region operates the usual government accounting system based on central payment office in Dar es Salaam and sub-Treasury in Kigoma using Integrated Financial Management System and Epicor accounting packages. The financial statements are being prepared and presented based on the cash basis of accounting pursuant to regulation 53 of the Public Finance Regulations,2001. To promote understanding and comprehension of the data the Region has included additional details incompliance with the International Public sector Accounting Standards for the cash basis of accounting.
- **Internal Audit Section**
The Region has an Internal Audit Section. The section is headed by a Principal Auditor, but no report was issued and copied to the CAG.
- **Audit Committee**
The Region has established an Audit Committee in May 2005 comprising of three members nominated by the Regional Administrative Secretary and one member from the Sub Treasury. No meeting was held up to the time of audit.

- **Regional Tender Board**
The Regional Secretariat has a Tender Board which supervises all Procurement of goods and services, while the Regional Supplies Officer is the Secretary to this committee.

1.7 Financial Performance Issues

- **Supply Vote**
The supply vote closed with an apparent saving of Shs.373,817 arising from net expenditure of Shs.17,841,717,952 against the approved estimates of Shs.17,842,091,800. However actual exchequer issues received during the year amounted to Shs.17,842,091,770 which resulted in a cash balance of Shs.373,818 with the Paymaster General's Account.
- **Development Vote**
The year's outturn of Development Vote was a net expenditures of Shs.554,672,000 against net approved estimates of Shs.1,465,671,400 resulting in a saving of Shs.910,999,400. However, since the exchequer issues received during the year was Shs.554,672,000 resulted a nil real saving with the PMG account.

1.8 Audit Mandate

The Controller and Auditor General is the statutory auditor of all Public Revenues and Expenditure by virtue of the provision of Article 143 of the Constitution of the United Republic of Tanzania, and Section 30 (1) (d) of the Public Finance Act. No.6 of 2001.

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 Kigoma Region 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 account to permit the preparation of the financial statements in accordance with the International Accounting Principles and requirements of the National Board of Accountants and Auditors.
- To determine whether funds have been collected properly and used exclusively to meet eligible expenses, as per approved budget and regulations governing government expenditure.
- To ascertain whether all relevant supporting documents records and accounts have been kept in respect of all regional administrative secretariat activities.
- To verify whether goods and services bought were acquired through laid down procurement procedures.

- To perform compliance tests to determine whether the management complied in all material respects with the International standards and Public Finance Act 2001.
- To evaluate whether the international 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 of disposition.
- To determine whether the management of the Kigoma Region has taken adequate corrective action on the previous years audit recommendations.

1.10 Audit Scope

The Audit of Kigoma region for the period ended 30th June, 2005 was carried out in accordance with International Standards on auditing (ISA). The audit covered the evaluation for the effectiveness of the financial accounting system and Internal control over the activities of the Region examination and verification of the accompanying financial statements and other auditing procedures as was considered necessary under the circumstances for the purpose of forming an opinion on the financial statements. The audit was carried out on a test check basis, therefore, the audit findings are confined to the extent that records, documents and information requested for the purpose of audit were made available to us.

As auditors, we are not required to search specifically for fraud; therefore our audit cannot be relied upon to disclose all such matters. However our audit was planned as that we would have a reasonable expectation of detecting material misstatements in the financial statements, including those resulting from fraud or irregularities. The responsibility for detection and prevention of fraud and irregularities rests with Region management who are responsible for setting up and maintaining an adequate system of Internal Control.

1.11 Audit Methodology

In auditing the financial statements together with the related records, the followings steps were followed.

- A review of the regulations, guidelines circulars and other documents such as standing orders, Treasury instructions as was considered necessary under the circumstances.
- Examination of receipts and payments to confirm compliance with the existing 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 any other associated information
- Conduct Local inspection to verify physical implementation of planned activities as well as assessing the progress made.
- Conduct compliance tests on the system of awarding contracts and their executions.
- Interview and discuss with some of the staff and other key stake holders in the implementation of various activities.

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 procedures that were considered appropriate in each situation.

The audit findings are divided into two parts. The first part comprises the opinion on the critical examination of the financial statements submitted for audit and the circumstances surrounding their preparation and presentation.

The second part comprises the detailed findings on the gaps and shortfalls in the internal control system which, if rectified on time, will greatly improve the effectiveness of the internal control system applied.

2.0 AUDIT REPORT ON FINANCIAL STATEMENTS

**To: The Regional Administrative Secretary,
Accounting Officer Vote 74,
Kigoma Region**

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

I have audited the financial statements of the Kigoma Region attached as Annexure II for the year ended 30th June 2005.

Responsibilities of the Accounting Officer

Section 25 (4) of the Public Finance Act of 2001 places responsibility to the Accounting Officer to prepare the financial statement based on the Generally Accepted Accounting Standards.

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

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 2001 my specific responsibilities are to examine, inquire into, audit and report on the accounts of the Region.

In addition, section 31 of the Act require me to satisfy myself that the accounts have been kept in accordance with generally accept accounting practices; all reasonable precautions have been taken on safeguard the collection of revenue, the receipt, custody, disposal, issues and proper use of public property, and that the law, directions and instructions applicable thereto have been duly observed, all expenditures of public money 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 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 about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures into 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 of 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 received and cash payments are recognized when they are paid.

Qualification Opinion

Except for the matters specified below, the financial statements of the Kigoma Secretariat fairly reflect in all material respects, the results of its operations and cash -flows for the year ended 30th June 2005, and the financial position as at that date.

Non - Compliance with financial Regulations:

Without qualifying my opinion stated above, I wish to highlight the following matters for your immediate attention.

1. Payment vouchers for Shs.31,100,042 are not supported by relevant documents.
2. Payments by cheque Shs.21,844,179 were noted drawn in favour of RAS/DAS Kigoma and presented to bank for encashment without being recorded in the cash book.
3. Goods amounting to Shs.23,181,165 were not confirmed to have been delivered and utilized.
4. Stores worth Shs.13,135,400 were not confirmed to have been taken into stores ledger.
5. Fixed assets including 3 motor vehicles 12 motor cycles and other furnitures and fixtures included in the statement of movable and immovable assets without having values
6. Revenue collection Shs.5,354,000 being cost sharing was spent by the hospital direct to meet office expenses without being banked.
7. There are long outstanding audit queries not yet 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 Follow up on Previous Audit Findings

58 queries relating to previous financial years are still outstanding.
Progress achievement in replying to audit queries is shown below:-

<u>Year</u>	<u>No. of Queries Outstanding</u>
2000/01	1
2001/02	4
2002/03	16
2003/2004	<u>37</u>
	<u>58</u>

The matters reported on the audit queries above are detailed here below:-

- 3.1.1 Para 573.3 Questionable Payments Shs.16,000,000**
The finalization of the Losses of Shs.16,000,000 issued for implementing water project in Kibondo Urban Areas was not made available to audit.
- 3.1.2 Para 574 Appropriation in Aid Shs.6,717,008**
Clearance on the expenditure of Shs.3,217,008 above the approved budget of Shs.3,501,000 is still awaited.
- 3.1.3 Para 581 Unvouched and Improperly Vouched Expenditure Shs.1,109,217**
Expenditure of Shs.1,109,217 is yet to be justified.
- 3.1.4 Para 584 Losses of Cash Shs.624,000**
Losses of Shs.624,000 at the office of DAS Kibondo is yet to be finalized.
- 3.1.5 Para 585 Loans made from Development Funds Shs.300,000**
Recoveries of the issued Loans have not been affected.
- 3.1.6 Para 588 (ii) Stores not accounted for Shs.16,525,312**
The accountability of stores worth Shs.16,525,312 purchased for Karago refugees camp and DAS Kibondo were not yet affected.
- 3.1.7 Para 577 Revenue Collections not banked Shs.414,200**
In the absence of evidence confirming lodgment of the money into the bank, the matter is still outstanding.

- 3.1.8 Para 578.1 Deposit Balances not analysed Shs.13,358,795**
The deposit balances of general deposit and unclaimed salaries had not yet analysed.
- 3.1.9 Para 578.2 Outstanding Debts Shs.145,767,245**
Outstanding debts of Shs.145,767,245 is yet to be recovered.
- 3.1.10 Para 580. Unvouched and Improperly vouched expenditure Shs.36,705,756**
Out of Shs.36,705,756 reported as unvouched and improperly vouched expenditure, supporting documents for Shs.17,270,535 have been produced and verified. Expenditure of Shs.19,435,221 is yet to be justified.
- 3.1.11 Para 581.2 Questionable payments for goods and services Shs.28,205,063**
2 audit queries amounting Shs.3,097,000 are yet to be replied.
- 3.1.12 Para 581.4 Development Funds received from the Treasury for Regional Projects Shs.164,528,868**
The Project Implementation and expenditure analysis are yet to be submitted.

Implication

Non-response to audit observations implies that statutory requirements are not complied with.

Recommendation

The management should ensure that all outstanding queries are cleared as per statutory requirements.

3.2 Current Audit Findings and recommendations

3.2.1 Audit Queries

A test check of the accounts and related records for the year 2004/2005 resulted in the issue of 38 audit queries. At the time of writing this report (January 2006) 4 queries has been replied and settled.

Implication

This Implies weakness in replying to audit queries issued by the office of Controller Auditor General

Recommendation

The management should ensure that all queries issued are replied as soon as possible upon receipt.

3.2.2 Financial Control Issues

3.2.2.1 Statement of Losses Shs.624,000

The footnotes to the appropriation accounts disclosed outstanding losses of Shs.624,600. However, losses of Shs.544,000 from DAS Kibondo and urban water project Kibondo Shs.16,000,000 was not included in the statement.

Implication

This implies that the statement of losses has been understated by the same amount.

Recommendation

The management should ensure that all losses are included in the statement of losses.

3.2.2.2 Improperly vouched Expenditure Shs.31,100,042

Examination of the payment vouchers for the year under review revealed expenditures Shs.31,100,042 not supported by the relevant supporting documents.

Implication

The legitimacy of the amount spent could not be ascertained.

Recommendation

The missing supporting documents should be traced and produced for audit purposes. In addition the management should strengthen the system of record keeping.

3.2.2.3 Payments by cheque not accounted for Shs.21,844,179

Cheques worth Shs.21,844,179 were noted to have been drawn in favour of RAS/DAS Kigoma and presented to bank for encashment. However, the same were not recorded in the cash book contrary to financial procedures. In addition, acknowledgement receipts were not availed to audit.

Implication

This Implies weakness in Internal Control over expenditures and hence may lead to loss of Government funds.

Recommendation

The management should ensure that all payments are recorded in the cash book for control purposes and acknowledgement receipts submitted for audit verification.

3.2.2.4 Outstanding Imprests Shs.19,256,000

The footnotes to the appropriation account did not disclose outstanding imprests. However, a test check of the accounts during the year under review revealed existence of outstanding imprests totaling Shs.19,256,000. These Imprests have not been retired.

Implication

This implies that the genuineness of expenditure in respect of these imprests could not be ascertained hence may lead to loss of government funds.

Recommendation

The management should ensure that retirement particulars are submitted for audit scrutiny and in future the management should strengthen controls on imprests.

3.2.2.5 Virements of funds Shs.7,723,793

The Secretariat effected payments of Shs.7,723,793 into recurrent account. However it was noted during audit that the expenditures were wrongly charged into items and no virement approvals were produced for audit.

Implication

This implies non compliance of financial rules and regulations.

Recommendation

The amount wrongly charged should be rectified and reallocation approvals produced for audit purposes.

3.2.2.6 Statement of Immovable Fixed Assets

The Statement of movable and immovable fixed assets showed fixed assets worth Shs.1,211,629,489,161. However, fixed assets including 3 motor cycles and other furnitures and fixtures were recorded without values.

Implication

This implies that the figures of assets shown in the statement has been understated.

Recommendation

The management should ensure that all assets in the statement are recorded with values assigned to them

3.2.2.7 Revenue Collections used to meet office expenses Shs.5,354,000

The sum of Shs.5,354,000 being revenues collected from cost sharing at the Regional hospital Maweni, was spent by the Office prior to banking. The authority to disburse revenues were not yet sought as at the time of writing this report.

Implication

This implies a non compliance of financial procedures and hence may lead to loss of Public Funds.

Recommendation

The management should ensure that revenues collected are not spent before being banked and in future should comply with financial procedures.

3.2.2.8 Goods paid for but not delivered Shs.23,181,165

Examination of payments for procurement of stores revealed that Shs.23,181,165 was paid to Dar es Salaam Regional Trading Company Ltd for supplying building equipments to Regional Administrative Secretary - Kigoma, but the relevant items were not received and accounted in the stores ledgers as required by procurement regulations of 2001.

Implication

This implies that funds may not have been used for the intended purposes and hence may lead to loss of Public funds.

Recommendation

The management should ensure that the stores are delivered and accounted for in the books of accounts.

3.2.2.9 Stores not accounted in the stores ledgers Shs. 13,135,400

Various stores worth Shs.13,135,400 were purchased by RAS and RMO offices during the year under review. However, no records were made available to confirm whether the stores were received and taken on ledger charge. In addition, no utilization account was made available for verification.

Implication

Lack of proper record for stores purchased may cause losses of the Public properties.

Recommendation

The management should ensure that all stores purchased and paid for are accounted for into books of accounts.

3.2.3 Operational Performance issues

The Regional Secretariat targeted to accomplish various activities using the funds received during the year under review. However, the targeted activities were not reflected in the statement of performance.

Implication

Without further information from the accounting Officer, it could not be ascertained whether the funds were properly utilized.

Recommendation

The management should provide targeted activities and operational reports for audit purposes.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Region 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 Mosses Hiza Mhilu
Ag: CONTROLLER AND AUDITOR GENERAL

Copy to: - The Chief Secretary,
State House,
P.O. Box 9120,
Dar es Salaam.

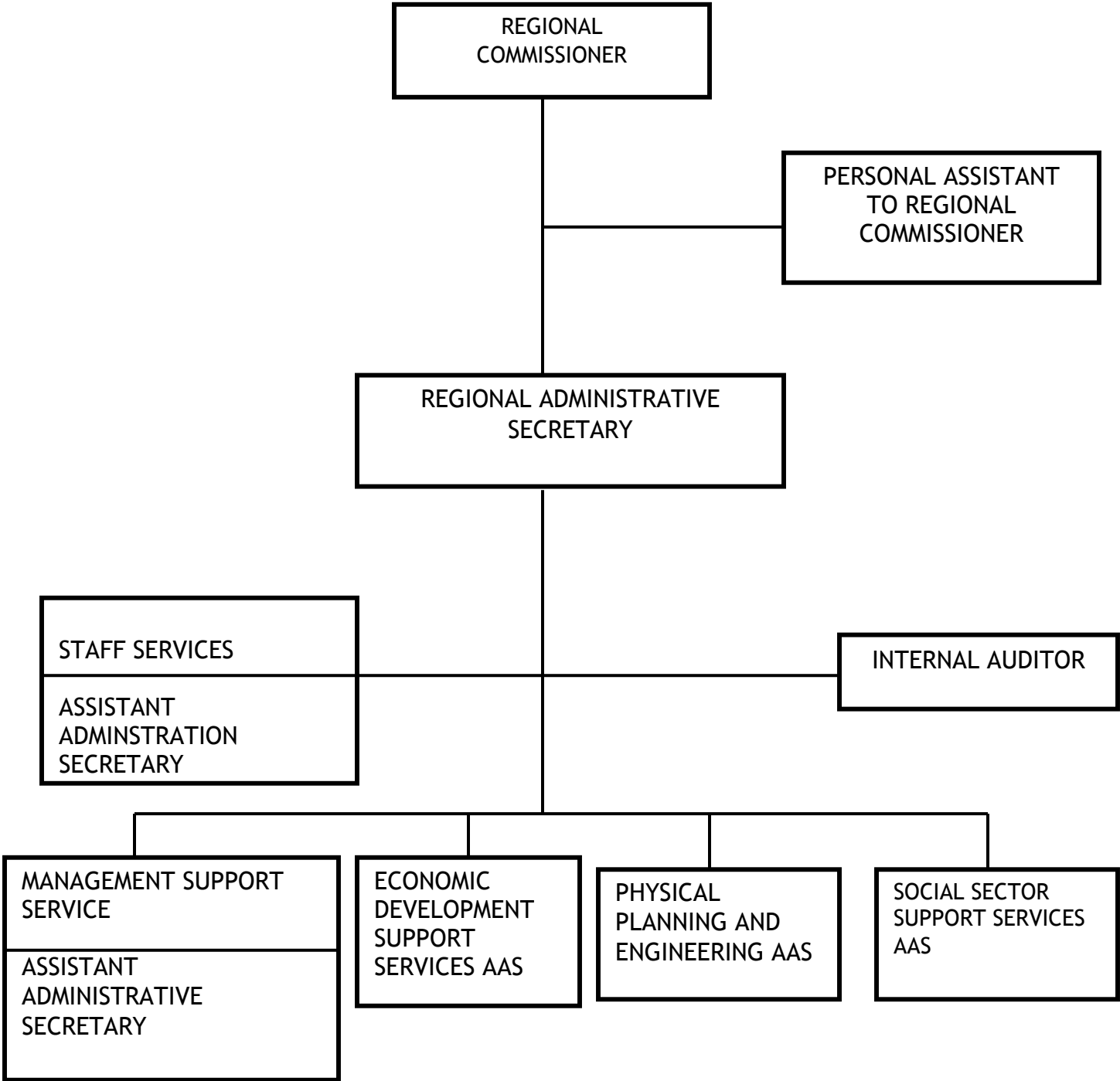
“ Permanent Secretary and Paymaster General,
Ministry of Finance,
P.O. Box 9111,
Dar es Salaam.

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

5.0 ANNEXURES

Financial statements, accounting policies and notes to the financial statements.

ANNEXURE I



**BASIS FOR ASSESMENT OF AUDIT OPINIONS KIGOMA REGION
VOTE 74**

SNO.	OBSERVATION	TOTAL AMOUNT	BASIS OF ASSESMENT	%	AUDIT OPINION
1.	Improperly vouched expenditure Shs.31,102,042	31,102,042	<u>31,102,042</u> 2,136,435,869	1.5	Unqualified
2.	Payment by cheque presented to bank without being recorded in the cash book	21,844,179	Statutory requirements	Material non compliance	Qualified
3.	Goods not delivered	23,181,165	Loss due to theft of stores	Material non compliance	Qualified
4.	Stores not taken on ledger charge	13,135,400	Statutory requirements	Material non Compliance	Qualified
5.	Fixed assets not included in the statement without value	-	Statutory requirements	Departure is not material	Unqualified
6.	Revenue collection spent without being banked	5,354,000	Statutory requirements	Departure is material	Qualified