

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



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

VOTE 78

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 Regional Administration Secretary 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.

Vote means Vote 78

Region means Mbeya Region

ISA	International Standards on Auditing
LGAs	Local Government Authorities
MDAs	Ministries, Departments and Authorities
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 Mbeya (Vote 78) for the year ended 30th June 2005. Audit findings arising from the examination of accounting records, appraisal of the RAS Mbeya activities as well as an evaluation of the internal control system which require management attention and action are set out under paragraph 3 of this report.

1.2 Brief History of Establishment

In 1972 Tanzania embarked on decentralization by de-concentration where by the Regional Administration was established. The development directorates at the District and Region were formed and were led by District and Regional Development Directors respectively. The Decision to form Regional Administration resulted in the abolition of Local Government Authorities which were inherited during Independence.

In 1984 the Tanzania Government revisited its decision on the decentralization by de-concentration and hence reinstated the Local Government Authorities because it was realized that there was lack of community involvement in decision making. The decision was made vide Act No.7 of 1984, as a result the District Development Directorates were abolished.

In 1996 the government decided to further the reforms through stream lining of its functions. It was decided to abolish the Regional Administration together with the title of RDD and established a Regional Secretariat to be led by Regional Administrative Secretary (RAS). The Regional Secretariat composes of sector Technical Advisors. In line with the abolition of Regional Administration the Regional Department Heads titles were also abolished vide Prime Minister's Circular No.1 of 1996.

The Establishment of Regional Secretariat changed the roles of the region from service provider to advisory role (Regional Administration Act 19 of 1997 section 12). The Regional Secretariat as other MDAs Operates its mandate functions in fiscal year basis from 1st July to 30th June, each year.

1.3 Operational Objectives

The Regional Secretariat was established under the Regional Administrative Act No.19 of 1997 to perform Development and Administrative Functions.

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 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.

The administrative role includes:

- ensuring peace and tranquility for all regional inhabitants so as to enable them to pursue their goals.
- facilitating and assisting 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.
- representing the central government within the region.

1.4 Financing

The Regional Secretariat depends on funds from Central Government to run day to day scheduled activities, other funds are from development which also are incorporated in the regional secretariat's budget. For this financial year 2004/2005 Regional Secretariat was authorized to spend a total amount of Shs. 4,156,472,815 for its operations as follows:-

Description	Amount(TShs.)
Supply vote	1,674,796,397
Development Vote	1,712,746,000
Fund transfers to Council	28,456,888,368
Total	<u>31,844,430,765</u>

1.5. Management Structure

The Region is headed by the Regional Commissioner, The day to day activities of the region are managed by the Regional Administrative Secretary who is also the Accounting Officer.

The Secretariat is divided into five functional clusters namely:-

- Management Support Service Cluster
- Staff Service Cluster
- Economic Development Support Services Cluster
- Physical Planning & Engineering Support Service Cluster
- Social Sector Support Service Cluster

1.6 Audit Mandate

By virtue of the provision of Article 143 of the constitution of the United Republic of Tanzania and Section 30 (1) of the Public Finance Act No.6 of 2001, the Controller and Auditor General is the Auditor of all government revenue and expenditure including this of the Mbeya Regional Secretariat.

1.7 Financial Performance

(i) Supply Vote

The statement of supply vote account for the year under review closed with an apparent saving of Shs. 1,420,765,470 against the approved provision of Shs. 31,552,416,900 compared with the net expenditure of Shs.30,131,651,430. However, exchequer issues received during the year amounted to Shs. 30,131,684,765 leaving a saving balance of Shs.33,335 on the Paymaster General's account.

(ii) Development Vote

The Development vote account closed with an expenditure of Shs.1,712,746,000 against the approved estimates of Shs. 2,481,676,400 resulting to unspent balance of Shs. 768,930,400.

However, as exchequer issues received during the year amounted to Shs.1,712,746,000, the Development vote closed with a nil balance with the Paymaster General's account

(iii) Revenue account

The Statement of revenue of the year ended 30th June 2005 reflected revenue collection of Shs.44,510,538.46 against approved estimates of Shs.1,224,000 resulting to an over collection of Shs.43,286,538.46.

However, included in an overcollection figure are the following:-

- Shs. 41,800 was in respect of appropriation in-aid wrongly included as revenue and surrendered to the Exchequer account.

- Shs.39,809,210.21 was unclaimed salaries received from Municipal and District councils whereby there was no specific provision in Vote 78 regarding this type of revenue.

1.8 Audit Objectives

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

- To determine whether transaction 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 Treasury Instructions.
- To determine whether funds have been collected properly and used exclusively and judiciously for eligible expenses as per approved budget and regulations governing government expenditure with due attention to economy and efficiency.
- To ascertain whether all relevant supporting documents, records and accounts have been kept in respect of the Regional activities.
- To verify whether goods and services bought for the Secretariat were acquired through laid down procurement procedures and the Public Procurement Act No.3 of 2001 and 21 of 2004.
- To perform compliance tests to determine whether the Regional Secretariat management complied in all material respects with the Public Finance Act No.6 of 2001.
- 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 safe guarded against losses from unauthorized use or disposition.
- To determine whether the management of the Region has taken adequate corrective action on the previous year's audit observations/recommendations.
- To review the Management Structure with the aim of ensuring that
 - (a) There is clear segregation of duties
 - (b) The existing personnel is fully utilized and if need arises to Advise otherwise on the size of the labour force.

1.9 Audit Scope

The audit of Regional Secretariat for the year ended June,30th 2005 was carried out in accordance International Standards on Auditing (ISA). 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 of vote and appropriation account, 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 to the purpose of the audit were made available to us.

As auditors, we are not required to search specifically for fraud; therefore our audit was planned in such a way 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 the Region's Secretariat management who are responsible for setting up and maintaining an adequate system of internal control.

1.10 Audit Methodology

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

- A review of the establishment Act, regulation, and other Regional Secretariat documents as was deemed necessary under the circumstances so as to have a clear understanding of the auditee.
- Examination of receipts and payments to confirm compliance with existing legislation, financial regulation and other instructions or directives.
- Review of the Internal control structure by assessing significant policies and procedures and determine its adequacy.
- Review of the Secretariat's financial statements and other associated information.
- Conduct compliance tests on the system of procurements contracts 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 exercise respectively.

1.11 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 ON THE FINANCIAL STATEMENTS

**To: The Regional Administrative Secretary,
Accounting Officer of Vote 78
Mbeya Region**

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

I have audited the financial statements of the Regional Secretariat 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 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 Mbeya 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 adopted by the Regional Secretariat 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 Mbeya 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, that 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 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 Regional Secretariat 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 recognised when they are received and cash payments are recognised when they are paid.

Opinion

In my opinion, 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 respects, the true and fair view of the results of its operations and cash-flows for the year ended on 30th 2005, and the financial position as at that date.

Further to my opinion, the procurement of motor vehicle which I have tested as part of the audit have complied with the Public Procurement Act No. 21 of 2004 and related Regulations.

Matters of emphasis

Without qualifying my opinion, the following matters are brought to the attention of Regional Secretariat Management.

1. Expenditure totalling Shs.2,590,000 were made on strength of proforma invoice, hence stores/services paid for could not be ascertained.
2. A sum of Shs.3,599,168 was loaned from deposit account to recurrent account, however the expenditure details on how the funds were spent on the recurrent account were not produced for audit and no evidence was produced to confirm refund to the deposit account.

3. The assets presented in the schedules submitted together with the final accounts have no values shown against them.

The details of these matters are given in 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 Current audit findings:

A test check of the accounts and related records for the year ended 30th June 2005 resulted in the issue of 3 audit queries. However, none of these queries has been settled as at the time of writing this report January, 2006.

3.1.2 Financial Control Issues

3.1.3 Payment made on proforma invoice Shs.2,590,000

During the time of audit it was revealed that, payment of Shs. 2,590,000 was made on the strength of proforma invoice.

Implication

In the absence of the suppliers invoices and delivery notes, the receipt of the stores/services paid for could not be ascertained, hence could lead to loss of Public funds.

Recommendation

The Management should produce relevant invoices and delivery note for audit verification and confirm receipt of the stores/services paid for.

3.1.3 Refund of loan to deposit account - Shs.3,599,168

A total sum of Shs. 3,599,168 was loaned from deposit account to Recurrent account. However, the expenditure details on how the funds were spent in the recurrent account were not produced for audit. Further, the acknowledgement receipt from deposit account to confirm refund of the loaned amount was not produced to audit.

Implication

Missing of expenditure details and acknowledgement receipts may imply a loss of Public funds.

Recommendation

The management should produce relevant expenditure details and acknowledgement receipts for audit scrutiny, and in future the management should strengthen proper maintenance of accounting documents.

3.1.4 Fixed Assets

Audit of the Final Accounts for the year 2004/05 revealed that 99% of the assets shown in the schedules submitted together with the final accounts have no values shown against them. However, the reasons why the assets did not bear values was not given.

Implication

In absence of asset values, the value of fixed assets reported do not reflect the true value.

Recommendation

The Secretariat management should indicate the value of Fixed Assets and submit for audit verification.

3.2 Internal Controls System**3.2.1 Internal Audit and Audit Committee**

The Public Finance Regulations, Regulations 28-35 requires Accounting Officers to establish an effective Audit Committee and Internal Audit Unit. These will help on effectiveness of Internal Controls functions.

During Audit it was noted that the Auditee has no Internal Audit Unit. In addition, there were no evidence for existence of Audit Committee contrary to the above mentioned Regulation.

Implications

- Internal audit reports are not produced as intended.
- We could not place reliance on the work of the Internal Audit in order to reduce the extent of our audit tests.
- There is possibility of having improper risk management mechanism and non-compliance with good governance arrangement in public sector.

Recommendation

Management should ensure the establishment of Internal Audit Unit and Audit Committee which are functional and effective.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of Mbeya Region during exit meeting and were agreed upon. We shall appreciate to receive formally the action taken in this respect.

Lastly, I would like to express my appreciation for the Cooperation extended 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

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

“ The Permanent Secretary,
Prime Minister’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.

**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 Mbeya Region 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 Mbeya Region 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.

Signed by Accounting Officer

Date