

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF THE MTWARA REGIONAL
SECRETARIAT VOTE 80**

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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CONTENTS

	Page
1.0 Background information to the audit	5
1.1 Introduction	5
1.2 Brief history of the client establishment	5
1.3 Operational objectives	5-6
1.4 Financing	6
1.5 Management structure	6
1.6 Brief description of Internal Control System	7
1.7 Financial performance	7
1.8 Audit Mandate	7
1.9 Audit Objectives	7-8
1.10 Scope of Audit	8-9
1.11 Audit methodology	9
1.12 Presentation of audit findings	9
2.0 Audit report on financial statements	10
Audit report	10-12
3.0 Audit Findings and Recommendations	13
3.1 Status of the previous year findings and recommendations	13
3.2 Current year's audit findings	13-15
4.0 Conclusion	16
5.0 Annexures	17
Financial statements, accounting policies and notes to the financial statements.	

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.

- 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 80

Region: mean Mtwara Region

AU	African Union
AR	Audit Report
BOT	Bank of Tanzania
IAS	International Accounting Standards
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Standards
ISA	International Standards on Auditing
NAO	National Audit Office
NMB	National Microfinance Bank
PAC	Public Accounts Committee
PMS	Performance Management System
PPA	Public Procurement Act No. 21 of 2004
PPR	Public Procurement Regulation of 2005
RDD	Regional Development Director
RAS	Regional Administrative Secretary
MDAs	Ministries, Departments and Agencies
LGAs	Local Government Authorities
PFR	Public Finance Regulations
PFA	Public Finance Act

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

We have completed the audit of the Mtwara Regional Secretariat Vote 80 for the year ended 30th June, 2005. Audit findings arising from the examination of accounting records, appraisal of the RAS 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 Brief History of the client 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 formed the directorates, which 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 of its functions. It was decided to abolish the 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 title 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 providers to advisory role (Act 19 of 1997 section 12) 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 actives in the region provided through experts in Agriculture. Trade and Nature Resources.
- Physical Planning and Engineering services which foods on support to infracture and land management activity. This includes support for an 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:

- 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 of the Regional Secretariat

The Secretariat like any other Government Office receives funds from Treasury in the form of exchequer issues. During the year under review, a total sum of Shs.17,041,680,982 was released for the operations of the RAS Office as follows:-

Description	Amount (Shs.)
Supply vote	16,514,259,982
Development Vote	<u>527,421,000</u>
Total	<u>17,041,680,982</u>

1.5 Management Structure

The Regional Administration is headed by a Regional Commissioner and the day to day activities are managed by the Regional Administrative Secretary who is also the Accounting Officer for Vote 80 Organization Structure of the Mtwara Regional Secretariat is shown at annexure II of this report.

1.6 Brief description of Internal Control System

The internal control system is in place. The Internal Auditor was employed to check and report shortcomings in connection with the accounts, finances and related operations of the Secretariat. The accounting system in place is adequate. There is job description in order to ensure that, any activity is done by the appropriate officer. The procurement system is also in place and is headed by a Supplies Officer. Tender Board and Audit Committees are in place and they are functioning effectively according to the requirements of Public Finance Act No. 6 of 2001 and Public Procurement Act No. 21 of 2004.

1.7 Financial performance

Supply Vote

The Supply Vote account for the year 2004/2005 closed with an apparent saving of Shs.650,302,875 arising from net expenditure of Shs.16,512,826,625 against reported approved estimates of Shs.17,163,129,500. However since actual exchequer issues received totalled Shs.16,514,259,982 the Supply Vote ended with a saving of Shs.1,433,357.

Development Vote

The year's out turn on Development Vote was an expenditure of Shs.1,331,945,258 (audit figure) against reported approved estimates of Shs.1,770,103,000 resulted in an apparent saving of Shs.438,157,741. However, the exchequer issues received during the year amounted to Shs.527,421,000. No confirmation of exchequer issues were issued for "D" funds amounting to Shs.804,912,036 received by the Vote (as disbursed cash Shs.795,626,986 and supplies worth Shs.9,285,000) and the same was not reflected in the accounts.

1.8 Audit Mandate

The Controller and Auditor General is the statutory auditor of all Public Revenues and Expenditure which include this Secretariat's accounts by virtue of the provisions 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 objectives of conducting the audit is to enable me to express an opinion on the financial statements of Mtwara Region (Vote 80) for the period ended 30th June 2005 and in particular.

- To enable the Controller and Auditor General to express a professional opinion on the financial Statements of the Region Administrative Secretary for the year ended 30th June, 2005.
- To ensure that receipts and revenue due are properly assessed, and collected.
- To determine whether the Appropriation Accounts and other financial statements are prepared in accordance with Instructions/Guidelines and International Public Sector accounting standards (IPSAS).
- To ascertain whether all necessary documents, books, register, accounts and information have been kept in respect of all transactions.
- To ensure adequate disclosure of assets and liabilities in the statements of Assets and Liabilities.
- To verify that payments for goods and services have been made in accordance to the financial regulations.
- To determine whether the Internal Audit Section properly performs its duties with absolute independence and whether the Secretariat Audit Committee effectively performs its duties to ensure that the system of internal control is adequate and reliable.
- To determine whether the Internal control structure provides management with a reasonable assurance in regard to the procurement of goods and services.
- To determine whether the Regional Secretariat is utilizing its resources in an economical and efficient manner.
- To determine whether the Regional Secretariat has taken corrective actions on all matters raised in previous years audit findings.
- To ensure that good governance has been enforced in the day-to-day operations of the Secretariat and in carrying out the overall strategy of the Region.
- To determine whether the Regional Secretariat has properly addressed key social problem areas such as HIV AIDS, gender balance, environmental issues.

1.10 Scope of Audit

The audit of the Mtwara Regional Secretariat for the period ended 30th June 2005 was carried in accordance with International Standards on Auditing (ISA) and procedures that are consistent with those 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 Regional Secretariat, 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 specifically required to search for fraud, therefore, our audit cannot be relied upon to disclose all such matters. The responsibility for setting up and maintaining an adequate and reliable system of Internal control rests with the Management of the Regional Secretariat. Our audit, however, was planned and carried out in such a way that we would have a reasonable expectation of detecting any material misstatement in the financial statements.

1.11 Audit Methodology

Our audit included such tests of the accounting records, site visits and other procedures in order to satisfy the objective of the audit. Our audit procedures included the following steps:

- Planning the audit to obtain an adequate understanding of the Regional Secretariat, its activities and operations and assessment of the major risk areas.
- Carrying out substantive test of the balances reported by the Regional Administrative Secretary in order to obtain reasonable assurance regarding the amounts and disclosures included in the financial statements.
- Review the adequacy of the Internal Control System in place, testing whether it is in compliance with laid down rules, policies, procedures and regulations.
- Conducting Interviews and discussions with some of the employees of the Secretariat.
- Site visits to selected areas or districts.

1.12 Presentation of Audit findings

The audit was carried out according to the mandate stated above, applying professional standards and audit procedures that were considered appropriate in each situation. The audit findings are divided into two parts.

The first part comprises the opinion on the critical examination of the financial statements submitted for audit and the circumstances surrounding their preparation and presentation.

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

2.0 AUDIT REPORT AND FINANCIAL STATEMENTS

To: The Regional Secretariat,
Accounting Officer of Vote 80,
Mtwara Region

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

I have audited the financial statements of Mtwara Regional Secretariat shown as Annexure 1 for the year ended 30th June, 2005.

Responsibilities of the Accounting Officer

Section 25(4) of the Public Finance Act 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 and the entity management to establish an effective Internal Control System appropriate to the circumstances of the entity.

Responsibilities of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements, and on procurement procedures 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 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 practices; 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 have 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 about 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 Regional Administrative Secretary (Vote 80) 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.

Qualification

In my opinion, except for the matters specified below, the financial statements of the Mtwara Regional Secretariat have been prepared based on 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.

Material limitation on scope and non compliance with laws and Regulations

- (1) Valuation of assets has not being done in conformity with the Accounting Circular No. 1 of 1998.
- (2) Unvouched and improperly vouched expenditure incurred during the year worth Shs.971,012,548
- (3) Irregular and payment totalling Shs.10,192,575
- (4) Funds diverted of funds from Development Account without authority (Shs.46,574,500)
- (5) Stores purchased but not accounted for by the Regional Medical Officer Shs.7,264,133.

Further to my opinion, except for irregular payment amounting to Shs.108,518,764 in relation to construction of Tandahimba District Commissioners Office, the procedures applied for procurement of stationery supplies, computer, printers, scanners, motor vehicles and consultancy services were generally done in accordance with Public Procurement Act No. 21 of 2004 and the related Regulations.

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

Dr. Frank Mosses Hiza Mhlu
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 year findings and recommendations

All matters raised in the previous year's audit findings were satisfactorily settled.

3.2 Current audit findings

3.2.1 Position of audit queries

A test check of accounts and related records for the year under review resulted in 51 queries being issued the more significant of which form the basis of this report. As at this reporting data (January, 2006) the position is as follows:

Financial Year	Queries issued	Queries closed	Outstanding Queries
2001/2002	40	36	4
2002/2003	57	16	41
2003/2004	57	26	31
2004/2005	51	-	51
Total	205	78	127

Implication

Less effort is taken in replying audit queries.

Recommendation

The secretariat management should exert more effort in replying long outstanding audit queries.

3.3 Deposit account Cash balance of Shs.22,179,254

The cash balance of Shs.22,179,254 representing the deposit balance as at 30th June, 2005 was not supported by the relevant bank balance certificate.

Implication

Authenticity of the cash balance would not be confirmed

Recommendation

The Secretariat Management should obtain and produce the bank balance certificate for audit verification.

3.3.1 Fixed Assets not valued

Fixed assets owned by the Secretariat such as Buildings, Lands and Motor vehicles, Furniture and Fittings etc appended to the Appropriation Accounts were not valued contrary to Accounting Circular No. 1 of 1998.

Implication

Correct value of the assets of the Secretariat would not be established

Recommendation

The management should value its assets in accordance with Accounting Circular No. 1 of 1998.

3.3.2 Unvouched and Improperly Vouched Expenditure Shs.971,012,548

A test check made on payment vouchers for the year ended 30th June 2005 revealed that a sum of Shs.971,012,548 was unvouched and improperly vouched expenditure as shown below:

Category	Amount Tshs.
Unvouched	126,315,960
Improperly vouched	<u>844,696,588</u>
Total	<u>971,012,548</u>

Implication

Authenticity of the payments made would not be established.

Recommendation

Management should trace the missing payment vouchers together with the missing supporting documents for audit verification.

3.3.3 Irregular and questionable payments (Shs. 10,357,075)

A test check of payment vouchers has revealed irregular and questionable payments as detailed below. Four audit queries raised and directing recoveries of money fraudulently paid have since not be replied.

S/N	Description	Amount (Shs.)
(i)	Subsistence allowances paid for private business without proper authority	600,000
(ii)	Fictions subsistence allowances claims	5,680,000
(iii)	Motor vehicle repaint services by private dealers not routed through E & M Division	2,912,075
	Total	10,357,075

Implication

Misapplication of the Secretariat resources

Recommendation

The management of the Secretariat should regularize the payments in question and furnish to audit.

3.3.4 Questionable diversification of funds without authority**Shs.46,574,500**

During the year under review the Secretariat diverted a sum of Shs.46,574,500 from Development Account to perform activities other than what was budgeted for.

Implication

Misallocation of Secretariat funds

Recommendation

The Secretariat should adhere to budgetary allocations

3.3.5 Contracted work not completed but paid for in advance**Shs.108,518,769**

A sum of Shs.108,518,769 was paid in relation to construction of work of Tandahimba District Commissioner's Office. The whole contract sum was paid to the contractor within nineteen (19) days after commencement of the contract, which was intended to last for 120 days. A site visit three months after the contract completion date the construction work was still in progress, and no penalty had been imposed for late completion of the work. It was further noted that a sum of Shs.6,108,780 was overpaid to the contractor for the work either not executed or for purchasing items of low quality instead of what was stated in the contract.

Implication

Non compliance with the procurement procedures.

Recommendation

The management is urged to adhere to procurement procedures stipulated in the Procurement regulations.

3.3.6 Stores not accounted for Shs.7,264,133

Stores worth Shs.7,264,133 purchased by the Regional Medical Officer during the year were observed to have not been accounted for into ledger charge.

Implication

It implies that the amount involved could have been spent for goods and services not received.

Recommendation

The management is required to confirm receipt, accountability and final utilization of the items of stores paid for.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Mtwara Regional Secretariat during exit meeting. The management of the Regional Secretariat 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

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5.0 ANNEXURES

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