

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



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

VOTE 82

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 Summary for Recurrent, Development and Deposit accounts
- Cash Flow Statement for Deposit Account
- Cash Flow Statement for Development Account
- Cash Flow Statement for Recurrent Account
- Summary Statement of Revenue
- Summary - Development Appropriation Account
- Summary - Recurrent Appropriation Account
- 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 82

Region means Ruvuma Region

ISA International Standards on Auditing

INTOSAI International Organisation of Supreme Audit Institution

LGAs Local Government Authorities

PO-RALG President's Office - Regional Administration and Local Government

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, Ruvuma for the year ended 30th June 2005. Audit findings arising from examination of accounting records, appraisal of activities and 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 Establishment

The Office of the Regional Secretariat was established under section 10 of the Regional Administration Act, No. 19 of 1997. The Office of the Regional Secretariat is a department of the Government. The head of the Regional Secretariat is the Regional Administrative Secretary whose post is established under section 12(1) and he is appointed under section 12(2) of the Regional Administration Act No. Act No. 19 of 1997, respectively.

1.3 Operational Objectives of the Region

The Regional Secretariat perform development and administrative functions which include 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.
- 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 deliver their responsibilities by providing 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

The main source of funds for the recurrent and development expenditure of the Regional Secretariat is through appropriation from the Exchequer and Development Partners (i.e. donors). During the year under review, a total amount of Shs. 2,579,773,470 was received as follows:

Description	Amount(TShs.)
(i) Supply vote	1,879,960,470
(ii) Development Vote	699,813,000
Total	<u>2,579,773,470</u>

1.5. Management Structure

The Organizational Structure of the Regional Secretariat, Ruvuma shows that the Secretariat was under the President's Office - Regional Administration and Local Government (PO-RALG). The Regional Commissioner is the Head of the Region and the Regional Administrative Secretary is the head of the Regional Secretariat and the Principal Adviser to the Regional Commissioner in the exercise of his functions in relation to the implementation of decisions of Government and recommendations of the consultative committee. The organization structure of the Regional Secretariat is shown as annexure 1.

1.6 Brief description of internal control system

1.6.1 Internal Audit

The Regional Secretariat Ruvuma has an Internal Audit Section which reviews day to day operations so as to evaluate the adequacy and effectiveness of internal control.

1.6.2 Audit Committee

The Regional Secretariat has established the audit committee to oversee implementation of the recommendations of Internal and external auditors.

1.6.2 Procurement Management Unit

Procurement Management Unit has not been established as at the time of audit.

1.7 Financial Performance

(i) Statement of Vote -Supply

The Supply vote for the year ended 30th June 2005 closed with a net expenditure of Shs. 18,931,441,254 against approved budget of shs.18,943,568,700 resulting in apparent saving of Shs. 12,127,446. However, the exchequer issues received during the year under review

amounted to Shs. 18,933,871,685 only resulting in cash balance of Shs. 2,430,430.98 with the Paymaster General's account.

(ii) Statement of Development Vote

The development Vote closed with a net expenditure of Shs.699,811,378 against approved budget of Shs. 1,503,792,200 resulting in apparent saving of Shs. 803,930,822. However, exchequer issues received during the year amounted to Shs. 699,813,000 only resulting in a cash balance of Shs. 1,622 with Paymaster General's Account.

(iii) Statement of Revenue

The actual collection of revenue during the year under review was Shs.690,622 against revenue budget estimates of Shs. 843,000 resulting in under collection of Shs. 152,378 or 18% below the revenue approved budget.

1.8 Audit Mandate

By virtue of the provision of Article 143 of the Constitution of the United Republic of Tanzania and Section 30 (1) and 37(1) of the Public Finance Act No.6 of 2001, the Controller and Auditor General is the Statutory Auditor of all government revenues and expenditure including the accounts of Regional Administrative Secretariat Ruvuma.

1.9 Audit Objectives

The main objective of conducting the audit is to enable me to express an independent opinion on the financial statements of the Regional Secretariat, Ruvuma for the year 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 International Accounting Principles and the existing financial legislation.
- To determine whether funds have been collected and used exclusively to meet eligible expenses as per the Regional Secretariat's approved budget and financial regulations.
- To ascertain whether all relevant supporting documents, records and accounts have been kept in respect of all activities.
- 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 whether the assets of the Regional Secretariat Ruvuma are adequately safeguarded against losses from unauthorized use or disposition.

1.10 Audit Scope

The audit was carried out in accordance with International Standards on Auditing. The audit covered the evaluation of effectiveness of the financial accounting systems and internal control over the activities of Regional Secretariat Ruvuma, examination and verification of the accompanying financial statements and carrying out other auditing procedures as was considered necessary for the purpose of forming an opinion on the financial statements. The audit was conducted on a test - check basis; therefore, the audit findings are confined to the extent that records and information requested for the purpose of the audit were made available to us.

As auditors we are not required to search specifically for fraud. Therefore our audit cannot be relied upon to disclose all such matters. However, our audit was planned so that we would have a reasonable expectation of detecting material misstatement in the financial statements resulting from irregularities or fraud. The responsibility for detecting and preventing fraud or irregularities rests with the Regional Secretariat, Ruvuma management who are responsible for setting up and maintaining an adequate and effective system of internal control.

1.11 Audit Methodology

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

- Examination of receipts and payments cash book, bank reconciliation statements to confirm compliance with existing legislation, financial regulations and other instructions or directives.
- Review of the internal control structure by assessing significant policies and procedures and determine its adequacy.
- Review of Regional Secretariat, Ruvuma financial statements, progress reports and other associated information.
- Conduct compliance tests on the procurement procedures 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 the audit exercise, respectively.

1.12 Presentation of Audit Findings

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

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

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

2.0 AUDIT REPORT AND FINANCIAL STATEMENTS

**To: The Regional Administrative Secretary,
Accounting Officer of Vote 82,
Regional Secretariat, Ruvuma**

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

I have audited the financial statements of the Regional Secretariat, Ruvuma shown in Annexure 2 for the year ended 30th June 2005.

Responsibilities of the Accounting Officer

Section 25(4) of the Act places responsibility to the Accounting Officer to prepare the financial statements 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 adopted by the Regional Secretariat Ruvuma 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 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; 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, expenditures of public monies 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 the ISA and procedures that are consisted 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes

assessing 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 circumstance of the Regional Secretariat Ruvuma (Vote 82) 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 Regulations 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 material matters specified below, the financial statements of the Regional Secretariat, Ruvuma comply with the generally accepted accounting standards; and that they fairly reflect, in all material respects, the results of its operations and cashflows for the year ended on 30th June 2005 and the financial position as at that date.

Further to my opinion, except for procurement of goods and services mention in part 4 below, the Procurement of office furniture and Equipment and Motor Vehicles was generally done in accordance with Public Procurement Act No. 21 of 2004.

Material disagreement and non-compliance with Law:

1. An amount of Shs.199,038,615 was paid without proper supporting documents. In addition a total amount of Shs.7,981,015 was paid on the strength of Proforma Invoices and ahead of delivery of goods, works and services respectively.
2. Stores amounting to Shs.24,727,180 were not accounted for in the stores ledger accounts.

3. Imprests totalling Shs. 162,310,718 issued to staff of the Secretariat were not retired as at the year end and at time of audit.
4. Procurement of goods and services worth Shs. 14,333,390 were made without following Procurement Procedures.

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 of previous year's audit Findings

Replies to management letter with reference No.SS.35/80/Vol.111/58 of 21/02/2005 and statutory report issued in September 2004 have not been received.

Implication

The Secretariat management is not taking appropriate action to deal and provide replies to the outstanding audit reports.

Recommendation

The secretariat management should comply with Public Finance Regulations No.11(4)(e) and send responses to audit for verification.

3.2 Current year's audit findings

3.2.1 Statement of Cash Receipt and Payments - Deposit Account

Statement of cash receipt and payments for deposit account as at 30th June 2005 showed a cash balance of Shs. 15,632,637.75. However, a scrutiny of deposit register together with payment vouchers revealed the following:

	Shs.
Payments not posted in the deposit register	(34,364,000)
Suppliers of goods and services	
Payments posted twice	1,950,000
Net amount not posted to deposit register	(32,414,000)

In the circumstance the balance of unpaid deposits results in a deficit of Shs. 16,781,362.25 and not Shs.15,632,637.75 as shown in the statement.

Implication

A large sum of money has been paid from deposit account than the actual amount deposited.

Recommendation

The management should investigate the reason for effecting payment in excess of actual amount deposited. In addition, the deficit of Shs.16,781,362.25 should be reimbursed to appropriate deposit account.

3.2.2 Outstanding loan Shs. 14,450,000

A total amount of Shs.14,450,000 was paid from deposit account to various Staff of the Regional Secretariat. The circumstances which led to advances being charged from deposit account were not known. In

addition, it was not clear whether the Loans advanced from the deposit account have since been recovered and reimbursed back.

Implication

Funds deposited were used for unintended purposes.

Recommendation

The Secretariat management should ensure that the advances are fully recovered and reimbursed to the deposit account.

3.2.3 Unvouched and Improperly Vouched expenditure Shs.193,038,615.61

Examination of payment vouchers and related records for the year under review disclosed unvouched and unsupported expenditure amounting to Shs. 193,038,615.61 as shown below:-

	Shs.
Improperly vouched expenditure	169,998,335.61
Unvouched expenditure	<u>23,040,280.00</u>
Total	<u>193,038,615.61</u>

Implication

The propriety of the expenditure incurred could not be confirmed.

Recommendation

The Secretariat Management should trace all supporting documents and submit them to audit for verification.

3.2.4 Payments based on strength of profoma Invoices Shs.7.980,825

A test audit of payment vouchers has revealed payments effected on the strength of Proforma invoices amounting to Shs.7,980,825 as follows:-

AQ Number	Amount Shs.	Account
7	1,402,825	Recurrent
11	474,000	Recurrent
17	<u>6,104,000</u>	Recurrent
Total	<u>7,980,825</u>	

Implication

Since payments were made in advance before the goods or services were delivered, lack of follow up may lead to loss due to non receipt of goods/services.

Recommendation

The Secretariat Management should submit to audit evidence of receipt of the goods/services paid for in advance by quoting relevant stores ledger folios in which the stores had been accounted for.

3.2.5 Outstanding Imprests Shs. 162,310,718

Imprest issued to various officers totalling Shs. 162,310,718 were not retired as at 30th June 2005. Also, it was noted that outstanding imprests were not reflected in the appropriation accounts at year end.

Implication

Outstanding imprests totalling Shs. 162,310,718 could not be ascertained, whether have been charged to the actual expenditure code. Further, the appropriation accounts submitted are incorrect due to the fact that they do not incorporate the outstanding imprests (TShs.162,310,718).

Recommendation

The Secretariat management should ensure that all imprests issued are retired on time and that outstanding imprest is incorporated in the final accounts at year end.

3.2.6 Contract files not produced

Payments totalling Shs. 85,785,291.15 were made to various contractors involved in different construction projects, however the relevant contract files were not produced for audit scrutiny.

Implication

It was not possible to ascertain whether requirements of the Public Procurement Act and related Regulations 2001 were followed. In addition the status of implementation of the Projects could not be ascertained and confirmed.

Recommendation

The Secretariat Management should trace the relevant contract files and submit them for audit scrutiny.

3.2.7 Procurement made without Competitive bidding Shs. 4,836,390

The procurement of goods worth Shs. 4,836,390 were made without competitive bidding in order to ensure that the goods were purchased at competitive prices.

Implication

Competitive prices were not sought contrary to the procurement legislation.

Recommendation

The Secretariat Management should ensure that procurement procedures as required by the laws are adhered to.

3.2.8 Weak internal control system over payments shs.35,571,000

The internal control system over payments was found inadequate in that the local purchase orders were not being signed by the Regional Accountant and in some instances payment vouchers were not routed through pre-audit section for examination before payments are effected with a view of minimizing the extent of errors.

Implication

Without strong internal control system unauthorized payments may go undetected.

Recommendation

The Secretariat Management should ensure that all payments are authorized by the Regional Accountant and passed through pre-audit section for pre-validation process before the payments are made or effected.

3.2.9 Payment to Contractor without Certificate Shs. 18,916,173

A payment of Shs. 18,916,173 was made to a Contractor without a payment certificate issued by the Building Engineer to satisfy the actual work done according to agreed standard and specifications.

Implication

Without payment certificate it was difficult to ascertain whether the amount paid was in respect of the actual amount of work done and according to agreed specifications.

Recommendation

The secretariat management should ensure that all payments related to construction activities are based on payment certificates satisfied by the Building Engineer before effecting any payment.

3.2.10 Questionable procurement of spare parts Shs.9,497,000

The Secretariat issued imprest to one officer for procurement of spare parts instead of following the normal procurement procedure as stipulated in section 59 of Public Procurement Act No. 21 of 2004. We noted that the quantity and type of the spare parts to be purchased were not identified in the payment voucher. Since the imprest has not yet been retired, audit has failed to confirm whether the spare parts were actually purchased or not and the accountability of the spare parts could not be ascertained and confirmed.

Implication

Non compliance with Procurement laws and regulations may lead to misappropriation of Public funds.

Recommendation

The Secretariat Management should ensure that all procurement do follow the requirements of the Public Procurement Act and related Regulations. The management should further ensure the retirement of outstanding imprest and the accountability of the spare parts.

3.2.11 Purchased stores not accounted for Shs. 24,727,180

Audit examination of the stores ledgers revealed that stores worth Shs.24,727,180 procured during the year under review were not taken on ledger charge.

Implication

The accountability of stores purchased could not be verified.

Recommendation

The Secretariat Management should ensure that all stores purchased are taken on ledger charge and that the accountability of the stores purchased is submitted to audit for verification.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to management of the Regional Secretariat, Ruvuma during exit meeting. Management of the Region has promised to take appropriate action with a view to rectify the situation. We shall appreciate to receive formally the action taken in this respect.

Lastly, I would like to express my appreciation for 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

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

“ Permanent Secretary,
Prime Minister’s Office
Regional Administration and Local Government
P. O. Box 1501
DODOMA

**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 Ruvuma 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 Ruvuma 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

5.0 ANNEXURES

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