

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



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

VOTE 83

FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2005

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February 2006

Office of the Controller and Auditor General

The National Audit Office,
United Republic of Tanzania

(Established under Article 143 of the Constitution of the URT).

The statutory duties and responsibilities of the Controller and Auditor General are given in the Public Finance Act No 6 of 2001.

Our Vision

We aspire to be an organization that fosters a culture of financial discipline, transparency and accountability within the Government of Tanzania.

Our Mission

We are the Supreme Audit Institution in Tanzania, which strives to provide timely and high quality audit services to all our clients in order to enhance public sector financial performance by educating key stakeholders on the effective management of public finances; providing value added services and functioning independently and impartially in auditing and reporting on public accounts.

Therefore, our Core Values are

- ✓ We strive to achieve and maintain objectivity in providing impartial audit services so as to promote our independence
- ✓ We pursue excellence in the provision of our audit services
- ✓ We exercise professional integrity by demonstrating high ethical standards
- ✓ We focus on people and have great respect to our stakeholders
- ✓ We encourage and promote innovation amongst our members of staff; and
- ✓ We ensure best resource utilization at national as well as individual public entity level.

We do this by.....

- contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- helping to improve the quality of public services by supporting innovation on the use of public resources;
- providing technical advice to our clients on operational gaps in their operating systems;
- systematically involve our clients in the audit process and audit cycles; and
- providing audit staff with adequate working tools and facilities that promote independence.

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Definition of terms and Abbreviations

Financial statements 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 83

Region means Shinyanga 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, Shinyanga 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.

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. 3,065,722,601 was received as follows:

	Description	Amount(TShs.)
(i)	Supply vote	2,538,003,601
(ii)	Development Vote	<u>527,719,000</u>
	Total	<u>3,065,722,601</u>

1.5. Management Structure

The Organizational Structure of the Regional Secretariat, Shinyanga 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 The Regional Secretariat Shinyanga 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 since October, 2003 but the committee is not yet functional.

1.6.2. Procurement Management Unit

Procurement Management Unit was established very recently, in January 2006. Prior to that there was a Regional Purchasing Committee which supervised all functions of procurement of goods and services.

1.7 Financial Performance

(i) Statement of Vote Account - Supply

The Supply vote for the year ended 30th June, 2005 closed with a net expenditure of Shs. 30,325,965,350 against approved budget of Shs.30,339,537 resulting in apparent saving of Shs. 13,572,163. However, the exchequer issues received during the year under review amounted to Shs. 30,325,977,622 leaving a cash balance Shs. 12,272 with Paymaster General's Account.

(ii) Statement of Vote Account - Development

The Development Vote closed with a net expenditure of Shs.527,439,007 against approved budget of Shs.527,719,000 resulting in apparent saving of Shs. 279,993. However, the exchequer issues received during financial year amounted to Shs. 527,719,000 resulting into actual saving of Shs. 279,993 being cash balance with Paymaster General's Account.

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 Shinyanga.

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, Shinyanga 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 Shinyanga 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 Shinyanga, 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, Shinyanga 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, Shinyanga 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 ON FINANCIAL STATEMENTS

**To: The Regional Administrative Secretary,
Accounting Officer of Vote 83,
Shinyanga Region**

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

I have audited the financial statements of the Regional Secretariat, Shinyanga shown as annexure II attached 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 Regional Secretariat Shinyanga.

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 Shinyanga 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 misstatements. 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 Shinyanga (Vote 83) 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 pointed out below, the financial statements of the Regional Secretariat Shinyanga comply with the generally accepted accounting standards; and that they fairly reflect, in all material respects, the results of its operations and cash-flows for the year ended on 30th 2005 and the financial position as at that date.

Further to my opinion, except for the matter pointed out in item 3 below, the procurement of works, goods, and related services was generally done in accordance with the Public Procurement Act No. 21 of 2004.

Non compliance with the law

1. A total amount of Shs.13,967,518 in respect of losses of salaries and stores were not yet finalized for more than six years.
2. There is outstanding amount of unreconciled difference between cash book and bank balances of Shs. 12,075,565 and Shs.211,088,999 in Recurrent and Development Votes respectively.

3. An amount of Shs.25,349,962 was paid for procurement of various goods and services without proper supporting documents.

The details of these matters and others 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 Follow up of previous year's audit Findings

2000/2004 Audit report

Para 709.1: Deposit items which were not supported by schedules valued at Shs. 32,314,052

Schedules supporting an amount of Shs.12,046,250 in respect of Deposit General have not been submitted for audit verification.

Para 713 Losses of Stores and Cash shs.13,967,518

Losses of cash and stores of Shs. 11,967,518 and Shs. 2,000,000 respectively have not been finalized.

3.2 Current year's audit findings

3.2.1 Audit Queries

A test check of the accounts and related records for the year 2004/2005 resulted in the issue of 42 audit queries, of which the more significant are referred to in this report. At the time of writing this report (January, 2006) 16 queries had been replied satisfactory and closed, leaving 26 audit queries outstanding. In addition 14 audit queries relating to previous financial years are still outstanding as stated below:-

Year	No. of Queries
2002/2003	1
2003/2004	<u>13</u>
Total	<u>14</u>

Recommendation

Management should ensure that the outstanding audit queries are cleared.

3.2.2 Statement of Revenue

The Statement of Revenue for the year under review reflected actual collection of revenue of Shs. 6,798,382 against the approved estimates of Shs. 712,000 resulting in a surplus of Shs. 6,086,382 of the approved estimates as follows:

Sub-Vote	Item	Description	Amount budgeted	Amount collected	Variance
1001	80303	Rent from Government Quarters and office	712,000	458,786	(253,214)
1001	120103	Miscellaneous	-	6,339,596	6,339,596

		receipt			
		Total	712,000	6,798,382	6,086,382

Implication

The estimates were not realistic as some sources of revenue were not taken into consideration.

Recommendation

Management should ensure that in future all sources of revenue are taken into account during preparation of revenue estimates.

3.2.3 Statement of Losses

Losses of salaries amounting to Shs. 11,967,518 and stores Shs. 2,000,000 reported on 25/02/1999 and 01/01/2003 were still outstanding as at 30th June 2005.

The cases have remained pending in the court of law for a period of over six years, indicating that no serious effort have been made for their finalization.

Implication

Finalization of the losses will take much longer apparently due to inadequate follow up.

Recommendation

A follow up is needed to ensure that the losses are cleared at the earliest.

3.2.4 Schedule of Immovable Fixed Assets Shs.1,975,317,299

The footnotes to the appropriation accounts as at 30th June 2005 disclosed that value of fixed assets owned by secretariat as at 30th June 2005 was Shs.1,975,317,299.

However, valuation report from approved valuer was not made available to support the value of the assets reported in the statement.

Implication

The total value of assets owned by secretariat might have been over or understated.

Recommendation

The management should ensure that the Assets are valued by approved valuer and valuation certificate be produced to audit for verification.

3.2.5 Non-utilization of office equipment

A computer valued at Shs.1,990,000 issued to DAS - Maswa has remained unused since it was issued vide issue voucher No. RAS/G/03/04 dated

21/04/2004. The computer was not used because of security reasons since the office in which it was to be kept had no door and window grills.

Implication

The computer and software might become obsolete due to passage of times.

Recommendation

The management should provide funds required for strengthening the respective office so that the computer can be used as intended.

3.2.6 Statement of Deposit account

The amount of deposits outstanding as at 30th June 2005 according to the schedule of deposit account was Shs.37,565,327. However, records at the sub-Treasury office showed that amount of deposit outstanding in respect of Regional Administrative Secretary was Shs.17,197,215 showing a variance of Shs.20,368,112 which was not reconciled as at the time of writing this report, February 2006.

Implication

It is obvious that wrong payments were charged to the Regional Administrative Secretary's deposit account.

Recommendation

The variance of Shs.20,368,112 should be reconciled.

3.2.7 Unreconciled differences between cashbook and bank balances

Shs. 12,075,565.60 and Shs.211,088,939.70

Differences of Shs.211,088,939.70 and Shs.12,075,565.60 between cash book and bank balance as at 30th June 2005 in Recurrent and Development Votes respectively were not reconciled as shown below:-

	Recurrent Shs.	Development Shs.
Balance per Bank statement at 30/06/2005	261,209,171.26	24,359,538.60
Deposit in transit	0.00	0.00
Outstanding cheques	(50,107,959.29)	(12,003,980.00)
Adjusted Bank balance at 30/06/2006	211,101,211.97	12,355,558.60
C/Book balance at 30/06/2005	<u>12,272.27</u>	<u>279,993.00</u>
Unreconciled difference between Cash book and Bank	<u>211,088,939.70</u>	<u>12,075,565.60</u>

Circumstances which lead to such big unreconciled balances were not explained during audit.

Implication

It is clearly that the bank reconciliations were not being done properly to disclose mispostings in either cashbook or bank account.

Recommendation

The Management should ensure that the differences are reconciled.

3.2.8 Outstanding Imprests Shs. 1,493,500

The statement of vote account as at 30th June 2005 did not reflect any outstanding imprest.

However, examination of payment vouchers revealed that, imprests totalling shs.1,493,500 are not yet retired as shown hereunder.

Audit Query No.	Amount Shs
17	439,500
53	<u>1,054,000</u>
Tota	<u>1,493,500</u>

Implication

The amount of net expenditure has been overstated by the total amount of outstanding imprest of shs.1,493,500 because they were charged directly to expenditure items when they were issued.

Recommendation

The management should ensure that the outstanding imprest are retired.

3.2.9 Improperly vouched expenditure Shs. 25,349,962

Examination of the payment vouchers for the year 2004/2005 resulted in the issue of 12 audit queries questioning improperly vouched expenditure of Shs. 25,349,962 as detailed hereunder.

S/No.	Category	Audit Query No.	Amount Shs.
1.	Bus tickets are missing	21	583,000
2.	Quotation forms missing	24	722,000
3.	Travelling tickets needed	25	192,000
4.	Cash sale missing	49	1,422,000
5.	Certificate from E & M missing	59	1,456,250
6.	Details of budget expenditure is needed	121	418,000
7.	Engineer's certificate needed	128	453,930
8.	Supporting document missing	132	4,124,400
9.	Acknowledgement receipt missing	133	11,145,382
10.	Supporting document missing	134	3,295,000
11.	Forms not completed	135	768,000
12.	Control repair register is missing	136	770,000
		Total	<u>25,349,962</u>

Implication

The correctness of the amount paid could not be ascertained.

Recommendation

The missing supporting documents should be traced and submitted for audit verification.

3.2.10 Questionable and doubtful Payments Shs.2,463,000

A test check of payment vouchers for the year under review revealed questionable and doubtful payments totalling Shs. 2.463,000. Five audit queries raised on this matter are still outstanding.

Description	Audit Query No.	Amount Shs.
Nature of trip was not established	58	60,000
Documentary evidence not revealed	124	160,000
Specific duties not mentioned	125	590,000
Refund of money used from officers own pocket	123	533,000
Payments for transfer allowances	127	1,120,000
	Total	2,463,000

Implication

Genuiness of expenditure incurred could not be confirmed.

Recommendation

The management should confirm that the expenditure incurred is a proper charge to Public Fund.

3.2.11 Payment made from Miscellaneous Deposit Account without Authority Shs. 12,015,247

Payments totalling Shs. 12,015,247 were made from Miscellaneous deposit account without quoting the receipt on which the funds were received as authority for such payments.

Implication

The payments could not be confirmed to have been paid to bonafide depositors.

Recommendation

Reference numbers of receipts on which the deposits were received should be given for audit verification.

3.2.12 Stores not taken on ledger charge Shs.5,391,500

Stores worth Shs.5,391,500 as shown below purchased during the year under review were not brought to account in the stores ledger.

Audit Query No.	Amount Shs.
122	564,000
126	597,500
129	4,230,000
Total	<u>5,391,500</u>

Implication

We could not confirm whether the stores purchased was used for intended purposes

Recommendation

The management should confirm that the stores were properly recorded in the stores ledgers and produce their utilization account for verification.

MATTERS ARISING FROM LOCAL INSPECTION

Audit inspection carried out during the financial year under review revealed the following:-

3.2.13 Procurement of hospital generator Shs.23,729,100

Regional Medical Office Shinyanga

A sound proof generator worth Shs. 23,729,100 was purchased during the year under review for hospital use.

It was noted that the generator was not functioning properly. However, a certificate from E and M was not available to certify that the generator procured was brand new.

Implication

If it will be confirmed that the generator was not brand new it might develop frequent breakdowns and be out of service within a short period.

Recommendation

The Management should ensure that the generator is inspected by E and M and certificate made available for audit verification.

3.2.14 Outstanding bills Shs. 19,866,188

Audit inspection carried out in July, 2005 and November, 2005 at the Office of RMO and RAS Shinyanga revealed outstanding Bills of Shs.3,575,069 and Shs. 16,291,119, respectively, as at 30th June 2005.

However, the appropriation account did not disclose any outstanding debts in footnotes.

Implication

The outstanding bills will affect the 2005/2006 budget, therefore if not disclosed there won't be justification for increased budget.

Recommendation

The Regional Secretariat should settle the outstanding bills and ensure that all future bills are settled when they fall due.

4.0 CONCLUSION

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

“ 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 Shinyanga 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 Shinyanga 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