

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



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

VOTE 85

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 Secretariat 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.

The Act	-	Public Finance Act (2001) as amended in 2004
Regulations	-	Regulations of the Public Finance Act
Secretariat	-	Regional Secretariat
Vote means	-	Vote 85
Region means	-	Tabora Region
CAG	-	Controller and Auditor General
INTOSAI	-	International Organization of Supreme Audit Institutions
ISA	-	International Standards on Auditing
LGA	-	Local Government Authorities
MDA	-	Ministries, Departments and Agencies
RAS	-	Regional Administrative Secretary
RC	-	Regional Commissioner
RDD	-	Regional Development Director
SAI	-	Supreme Audit Institutions

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

We have completed the audit of the Regional Secretariat for the year ended 30th June, 2005. Audit findings arising from examination of accounting records appraisal of the Regional Secretariat 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 Client Establishment

In 1972 Tanzania embarked on decentralization by de-concentration where by the Regional Administration was established. The development directorate at the Regional level formed, the directorates which were led by the Regional Development Directors. The Decision to form Regional Administration resulted in 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 streamlining of its functions. It was decided to abolish the Regional Administration together with the title of RDD and established a 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 provision to advisory role (Regional Administration Act No.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 affairs 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

- 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 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.

1.4 Financing

The Regional Secretariat receives funds from Treasury in the form of exchequer issues. During the year under review, a total sum of Shs.21,069,811,126 was released for the operations of the Region as follows:-

<u>Description</u>	<u>Amount (Shs)</u>
Supply Vote	1,739,176,334
Development Vote	621,149,000
Exchequer Issues to Council	<u>18,709,485,792</u>
Total	<u>21,069,811,126</u>

1.5 Management Structure

The Regional Secretariat like other regional votes is under the President’s Office; Regional Administration and Local Government. The Region is headed by the Regional Commissioner (RC). The RC is assisted

by the Regional Administrative Secretary (RAS) who is also the Accounting Officer.

The Accounting Officer is assisted by five Assistant Administrative Secretaries who are heads of 5 clusters, these clusters are:

- Staff Services
- Management Support Services
- Economic Development Support Services
- Physical Planning and Engineering support services
- Social Sector Support services.

Assistant administrative Secretaries (Head of Clusters) are assisted by Technical advisors. The organization structure has been attached to this report as annexure.

1.6 Internal controls system

1.6.1 Internal Audit and Audit Committee

The Public Finance Regulations (2001), Regulation 28-35 requires Accounting Officers to establish an effective Audit Committee and Internal Audit Unit. The aim is to have effective Internal Controls functions.

During Audit it was noted that the Auditee has established an Internal Audit Unit, its status has been presented in Part 3 of this report. Further, there is Audit Committee comprising 6 members, contrary to financial Regulation No.31 (2) which states that Audit committee member shall not be more than five nor less than three.

1.6.2 Procurement Tender Board

The Secretariat established tender board to supervise all functions of procurement of goods and services. The board has six (6) members. For the year 2004/2005 the board met 10 times.

1.7 Financial Performance

Outturn

- **Supply Vote**

The supply vote closed with a saving of Shs.213,391 arising from net expenditure of Shs.20,448,448,809 against net approved estimates of Shs.20,448,662,200. However, exchequer issues received during the year amounted to Shs.20,448,662,126 making an unspent balance of issues of Shs.213,317 being cash on hand with paymaster generals account.

- **Development Vote**
The development vote ended with a saving of Shs.1,890,784,003 arising from net expenditure of Shs.621,135,097 against net approved estimates of Shs.2,511,919,100. However the exchequer issues received during the year amounted to Shs.621,149,000 making unspent balance of issues of Shs.13,903.
- **Revenue Collections**
The statements of revenue for the year under review reflected revenue collections of Shs.371,738 against the approved budget of Shs.1,082,000 registering under collection of Shs.710,262 which is 65.6% of the approved budget.
- **Statement of Appropriation -in-aid**
A statement of appropriation in aid for the year ended 30th June,2005 shows actual collection of Shs.275,260 against estimation of Shs.416,000 recording under collection of Shs.140,740 which is 33.8% of the 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) 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 Regional Secretariat.

1.9 Audit Objectives

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

- 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 Secretariat activities.
- To verify whether goods and services bought for the Secretariat's 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 Region's 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 safeguarded against losses from unauthorized use or disposition.
- To determine whether the management of Secretariat 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 full utilized and if need arises to advise otherwise on the size of the labour force.

1.10 Audit Scope

The audit of Regional Secretariat for the year ended June 30th 2005 was carried out in accordance International Standards on Auditing (ISA) and procedures that are consistent with those recommended by the SAI. 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 materials 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 Regional Secretariat management who are responsible for setting up and maintaining an adequate system of internal control.

1.11 Audit Methodology

In auditing the financial statements together with 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 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 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.

1.12 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: Regional Administrative Secretary,
Accounting Officer of Vote 85
Tabora Region,**

**Re: Audit Report on the Financial Statements of the Tabora-
Regional for the year ended 30th June,2005**

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

Responsibilities of the Accounting Officer

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

In addition, Regulation 35 of the Public Finance Regulations (2001) requires the Accounting Officer and the entity management to establish an effective Internal Control System appropriate to the circumstances of the 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 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 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 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, expenditures of public monies has been properly authorized; and 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 the 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 recognized when they are received and cash payments are recognized when they are paid.

Qualification

In my opinion, except for the matters specified below, the financial statements of the Regional Secretariat and related bodies have been prepared based on the generally accepted accounting standards and that they fairly reflect, in all material respect the true and fair view of the results of its operations and cash flows for the year ended on 30th June, 2005 and the financial position as at the date.

Limitation of Scope of Audit and non-Compliance with Laws:

- (i) Missing payment vouchers amounting to TShs.33,028,802 have been established during the year under review, indicating laxity in control over accounting records.
- (ii) Expenditure made without relevant supporting documentation TShs.174,906,495
- (iii) Bank reconciliation statements showing TShs.1,000,000 “Cash in transit” for miscellaneous Deposit Account, which as not been cleared.

Matters of emphasis

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

The Bank reconciliation statements have indicated unrepresented cheques which have not yet been cleared by the Bank as follows:-

<u>Serial</u>	<u>Account Description</u>	<u>Amount of Unrepresented Cheques (TShs)</u>
(i)	Supply Vote	85,252,810
(ii)	Development Vote	161,683,476
(iii)	Deposit Cash in transit	1,000,000
	Total	<u>247,936,286</u>

Without prejudice to the above stated opinion, the procurement of station wagon (GX), motor cycle, computers, Printers, projector, Office Carpets and Conference Chairs was generally done in accordance with Public Procurement Act No.21 of 2004 and related Regulations.

The details of these matters and other are given under part 3 of this report.

Dr. Frank Mosses Hiza Mhilu,
Ag: CONTROLLER AND AUDITOR GENERAL

National Audit Office,
Dar es Salaam,
February,2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Status of the Previous Years Audit Findings and Recommendations

3.1.1 2003/2004 Accounts

Para 13 Improperly vouched expenditure Shs.79,955,816

The position of the improperly vouched expenditure is as follows:-

<u>Amount Queried</u>	<u>Amount Replied</u>	<u>Outstanding Amount</u>
79,955,816	77,749,490	2,206,326

Implication

Effort has been in tracing the relevant documents.

Recommendation

Regional Secretariat should ensure that the remaining relevant documents are traced and attached to the relevant batches for easy audit verification

3.2 Current Audit Findings

3.2.1 Position of Audit Queries

A test check of the accounts and related records for the year ended 30th June,2005 resulted in 16 audit queries being issued. At the time of writing this report, January,2006, 11 audit queries were replied and the remaining 5 queries were yet to be replied and the outstanding significant matters are referred to in the succeeding paragraphs of this report.

3.2 Financial Control Issues

3.2.1 Bank Reconciliation

Sub-Treasury bank reconciliation statements for vote 85 have been submitted together with the accounts as at 30th June, 2005 the following items in the bank reconciliation statements have not been cleared.

<u>Item</u>	<u>Accounts</u>	<u>Development</u>	<u>Deposit</u>
	<u>Supply</u>		
Unpresented cheques	85,252,810	161,683,476	41,452,075
Deposit in Transit	-	-	1,000,000

Implication

This implies that uncleared matters in the bank reconciliation may Lead to the loss of Public funds undetected.

Recommendation

Management should make follow-up on the outstanding matters to Ensure early clearance.

3.3 Unvouched and Improperly Vouched Expenditure Shs.207,930,297

A test check of the payment vouchers for the financial year 2004/2005 disclosed existence of unvouched and improperly vouched expenditure to the tune of Shs.207,930,297 comprising of the following:-

<u>Description</u>	<u>Amount</u>	<u>Audit Query No.</u>
Missing acknowledgement receipts	116,757,575	9 and 16
Missing payment vouchers	33,028,802	13
Missing supporting documents	58,143,920	15
Total	<u>207,930,297</u>	

Implication

Public funds might have been used without authority or approval.

Recommendation

The Secretariat management should traced and submit to audit all relevant documents for verification.

3.4 Reliance on Internal Audit

During the year under audit (2004/2005) we have attempted to evaluate the effectiveness of Internal Audit Unit and ascertain any work carried out on which we could place reliance. We observed that there was no evidence of Internal Audit written report.

Implication

- 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.

Recommendation

- Management should ensure that the Internal Audit Unit is functional and effective.
- Management should ensure that the Annual Work Plan and Internal Audit Reports are submitted to external Auditors.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of Regional Secretariat during our 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 relationships will be extended during the future audits.

Dr. Frank Mosses Hiza Mhilu
Ag. **CONTROLLER AND AUDITOR GENERAL**

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

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

“ Permanent Secretary,
President’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 the Tabora 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 Tabora 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 Statements, the information it contains, and its compliance with the Public Finance act No.6 of 2001 and instructions from the Treasury in respect of the year under review.

Signed by Accounting Officer

Date

TABORA REGION

(VOTE 85)

BASIS FOR ASSESSING AUDIT OPINIONS

Para	Observation	Basis	Opinion
3.1.1	Previous Audit Findings (2003/2004) Improperly Vouched 79,955,816	Age of outstanding recommendation is less than 12 months	Unqualified
3.3.2	Unvouched and Improperly vouched expenditure Shs.207,930,297	<u>207,930,297</u> 2,360,325,334 =8.8%	Unqualified