

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



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

VOTE 87

FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2005

The Controller and Auditor General
National Audit Office
Samora Avenue/Ohio Street
P. O. Box 9080,
Tel: 255 (022) 2115157/8
Fax: 255 (022) 2117527/2255333
E-mail ocag@nao.or.tz
DAR ES SALAAM.

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.

© This audit report is intended for use by government authorities. However, upon receipt of the General Report of the CAG by the Speaker, this report is a matter of Public record and its distribution may not be limited.

CONTENTS

	Page
1.0 Background information to the audit	5
1.1 Introduction	5
1.2 Brief history of establishment	5
1.3 Operational objectives	5-6
1.4 Financing	6
1.5 Management structure	6-7
1.6 Brief description of Internal Control System	7
1.7 Financial performance	7-7
1.8 Audit Mandate	7
1.9 Audit Objectives	8-9
1.10 Scope of Audit	9
1.11 Audit methodology	9
1.12 Presentation of audit findings	10
2.0 Audit report and financial statements	11-13
3.0 Audit Findings and Recommendations	14
3.1 Current audit findings	14-16
4.0 Conclusion	17
Annexures	

Definition of terms and Abbreviations

Financial statements means the following statements, notes and supporting schedules of the Regional Administration Secretary for the year ended 30th June, 2005.

- Responsibility for the Financial Statements
- Notes to the Financial Statements
- Statement of Vote Account - Supply
- Statement of Vote Account - Development
- Cash Flow Statement for Recurrent Account
- Cash flow statement for Deposit Account
- Summary Statement of Revenue
- Summary - Development Appropriation Account
- Summary - Recurrent Appropriation Account
- Statement of Arrears of Revenue
- Summary Statement of Losses
- Statement of composition of Fund

These Statements and notes form part of this report.

Act means the Public Finance Act No. 6 of 2001 as amended in 2004.

Regulations means the Regulations of the Public Finance Act issued under G.N. Number 259 of 2003.

Vote means Vote 87

Region means Kagera Region

CAG	Controller and Auditor General
ISA	International Standards on Auditing
LGAs	Local Government Authorities
MDAs	Ministries, Departments and Authorities
RAS	Regional Administrative Secretary
RDD	Regional Development Director
URT	United Republic of Tanzania

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction

We have completed the audit of the Regional Secretariat Vote 87 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 Establishment

In 1972 Tanzania embarked on decentralization by de-concentration where by the Regional Administration was established. The development directorates at the District and Region were formed and were led by District and Regional Development Directors respectively. The Decision to form Regional Administration resulted into 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 streamlining its functions. It was decided to abolish the Regional Administration, together with the title of RDD and established Regional Secretariat to be led by Regional Administrative Secretary (RAS). The Regional Secretariat composes of sector Technical Advisors. In line with the abolition of Regional Administration the Regional Department heads titles were also abolished vide Prime Minister's Circular No.1 of 1996. The Establishment of Regional Secretariat changed the roles of the region from service providers to advisory role (Regional Administration 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 of the Regional Secretariat

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:

- ensuring peace and tranquility for all regional inhabitants so as to enable them to pursue their goals.
- facilitating and assisting LGAs in the region to undertake and deliver their responsibilities by providing and recurring the enabling environment for the successful performance of their duties and functions.
- representing the central government within the region. These roles and functions have been assigned in five clusters.

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.24,665,026,466 was released for the operations of the Region as follows:-

Description	Amount (TShs.)
Supply vote	1,847,305,874
Development Vote	340,024,000
Exchequer issues to Council	<u>22,477,696,592</u>
Total	<u>24,665,026,446</u>

1.5 Management Structure

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

The region is divided into five functional clusters namely:-

- Management support service cluster
- Staff service cluster
- Economic Development support services cluster
- Physical Planning & Engineering Support Service cluster
- Social Sector support service cluster

1.6 Internal Controls System

1.6.1 Internal Audit and Audit Committee

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

During Audit it was noted that the Auditee has Internal Audit Unit and their reports are copied to the CAG.

1.6.2. Procurement Tender Board

The Region established Tender Board to supervise all functions of procurement of goods and services.

The Board meet once a year and tender documents are evaluated.

1.7 Financial Performance

(i) Supply Vote

The vote account for the year under review closed with net expenditure of Shs. 24,324,588,415 against approved estimate of Shs.24,336,364,200 resulting in apparent saving of Shs.11,775,785. However, exchequer issues received during the year totalled Shs.24,325,002,466 leaving a saving balance of Shs. 4,414,057 on the Paymaster General's Account.

(ii) Development Vote

The Development vote closed with net expenditure of Shs. 338,947,869 against the approved estimates of shs.2,463,327,300 resulting unspent balance of Shs. 2,124,379,431. However, actual exchequer issues received during the year totalled shs.340,024,000 resulting a saving of balance of shs.1,076,131 on the Paymaster General's Account.

(iii) Statement of Revenue

The Statement of revenue of the year under review reflected revenue collection of Shs.1,170,235 against the approved estimates of shs.512,000 resulting over collection of shs.658,235 which represents 128.5 percent of the annual estimates revenue.

(iv) Statement of Appropriation in-Aid

The statement of appropriation in aid for the year ended 30th June 2005 showed actual collection of Shs. 122,824 against the estimate amounting of Shs. 175,000.

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 Kagera 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 Region for the period ended 30th June 2005 and in particular:-

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

Advise otherwise on the size of the labour force.

1.10 Audit Scope

The audit of Kagera Regional Secretariat for the year ended June, 30th 2005 was carried out in accordance with ISA and procedures that are consistent with those recommended by the INTOSAI Standards. The audit covered the evaluation of the effectiveness of the financial accounting system and internal control over the activities of the Region, 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 for the purpose of the audit were made available to us.

As auditors, we are not required to search specially for fraud; therefore our audit was planned in such a way that we would have a reasonable expectation of detecting material misstatements in the financial statements, including those resulting in 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 major audit steps were followed:-

- A review of the establishment Act, regulation, and other Region's documents as was deemed necessary under the circumstances.
- Examination of receipts and payments to confirm compliance with existing legislation, financial regulation and other instructions or directives.
- Review of the Internal control structure by assessing significant policies and procedures and determine its adequacy.
- Review of the Region'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 THE FINANCIAL STATEMENTS

**To: The Regional Administrative Secretary,
Accounting Officer of Vote 87
Kagera Region**

**Re: Audit Report on the Financial Statements of the Kagera
Region for the year ended 30th June 2005**

I have audited the financial statements of the Kagera Regional Secretariat attached as Annexure 1 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 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 Kagera Region and the affiliate bodies.

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 Kagera Region 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 Kagera Region.

In addition, Section 31 of the Act requires me to satisfy myself that the accounts have been kept in accordance with generally accepted accounting practice; reasonable precautions have been taken to safeguard the collection of revenue, the receipt custody, disposal, issue and proper use of public property, that the laws, directions and instructions applicable thereto have been duly observed, expenditure of public monies has been properly authorized; and to satisfy myself whether the funds appropriated to the Kagera 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 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 Central Government constitutently applies and adequately disclosed, evaluating the over all 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.

Opinion

In my opinion, the financial statements of Kagera Regional Secretariat 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.

Further to my opinion, the procurement of a Motor vehicle Toyota Land Cruiser Station Wagon (GX-C) was generally done in accordance with the Public Procurement Act No. 21 of 2004.

Matters of emphasis:

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

1. The payment totalling Shs.4,216,500 were effected in the strength of proforma invoice, thus the receipt of the items/services paid for could not be ascertained.
2. Stores purchased worth 16,920,585 were not posted in the stores ledger and their utilization could not be ascertained.

3. Payments amounting to Shs. 46,642,686 were apparently made without proper supporting documentation, therefore the nature and type of goods, works and services paid for could not be ascertained.
4. The secretariat has not established an Audit Committee as required by Public Finance Act Regulation and G/N number 259 of 2003.

The details of these Matters are given in Part 3 of this report

Frank Mosses Hiza Mhilu
Ag: CONTROLLER AND AUDITOR GENERAL

Office of the Controller and Auditor General
National Audit Office
Dar es Salaam

February 2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Current audit findings:

3.1.1 Position of Audit Queries

A test check of the accounts and related records for the year ended 30th June 2005 resulted in the issue of 37 audit queries. However, none of these queries have been settled as at the time of writing this report (January 2006).

3.1.2 Financial control issues

Losses of Cash and Stores Shs. 44,547,016

The statement of losses of cash and stores indicated that losses of cash and stores amounting to Shs. 38,787,916 and shs.5,759,100 respectively of which loss of stores amounting to Shs.5,759,100 were written off as per Parliament Resolution No. 9/2005 dated 28 July 2005 remaining loss of cash Shs.38,787,916 were not finalized as at 30th June, 2005.

3.1.3 Payment made on the strength of Proforma Invoice Shs.4,216,500

A test examination of payment vouchers for the year 2004/2005 revealed that the payment totalling Shs.4,216,500 were effected on the strength of proforma invoices. 5 queries raised on this matter are still outstanding as at the time of audit (January 2006).

Implication

In the absence of the Supplier's invoices and delivery notes, the receipt of the items/services paid for could not be ascertained, hence could lead to loss of Regional Secretariat funds.

Recommendation

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

3.1.4 Stores not taken on Ledger charge Shs. 16,920,585

Audit of payments made during the year under review revealed that stores purchased worth Shs. 16,920,585 were not posted in ledger and utilization of these stores were not revealed to audit. Nine (9) audit queries raised on this matter are still outstanding.

Implication

This implies that there is improper control of receipts and issues of stores.

Recommendation:

The Secretariat Management should ensure that goods are recorded in the ledger and that there is proper accountability of stores.

3.1.5 Irregular/Questionable Payments Shs.13,051,500

A test check of payments made during the year under review revealed that a sum of Shs. 13,051,500 was made without indicating the authority or nature of journey and even or activities performed 8 queries raised on this matter are still outstanding as at the time of audit (January 2006).

Implication

In the absence of proper documents, authority or description of the nature of the journey, it could not be confirmed whether such expenditure was relevant, and hence this could lead to loss of public funds.

Recommendation

Management should submit details of the Missing information in order to verify the genuiness of the expenditure incurred.

3.1.6 Improperly vouched expenditure Shs.46,642,686

Examination of payment vouchers during the financial year 2004/05 revealed improperly vouched expenditure Shs. 46,642,686 as follows:-

Description	Amount Shs.	Number of Audit	Account
(i) Missing supporting documents	26,345,766	11	Recurrent A/c
(ii) - " -	<u>20,296,920</u>	<u>4</u>	Deposit A/c
Total	<u>46,642,686</u>	<u>15</u>	

Implication

In the absence of the supporting documents, the nature of the payments made and expenditure charged in the RAS accounts could not be confirmed to be properly charged to public fund.

Recommendation

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

3.2 Loan Shs.2,993,500 not refunded to proper Account

Examination of the payment vouchers and other related records revealed that a sum of Shs.2,993,500 was issued on loan to meet various activities. However, the amount has since not yet been refunded to proper account.

Implication

This implies that the Financial position of “giving” account will be affected and hence, the planned activities under this account might not be accomplished.

Recommendation

The Regional Secretariat management should confirm whether the loaned amount has since been returned to the respective account by quoting the relevant receipt particulars for easy audit verification.

3.3 Missing fixed Assets valuation report

Audit of the Final Accounts for the year 2004/2005 revealed that Fixed Assets were revalued. However the valuation report was not availed to audit.

Implication

In absence of valuation report the value of fixed assets reported could not be ascertained.

Recommendation

The Management of Kagera Regional Secretariat is urged to submit the valuation report for audit verification.

3.4 Non-existence of Audit Committee

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

During Audit, it was noted that the Auditee has no Audit Committee contrary to the requirements of the Public Finance Regulation No. 31.

Implication

Absence of Audit Committee renders weak internal control function/system.

Recommendation

Secretariat Management should ensure that an Audit Committee which is functional and effective is established as per Public Finance Regulation requirement.

4.0 CONCLUSION

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

Lastly, I would like to express my appreciation for the Cooperation extended to the audit team. It is my hope that such good working relationship will be extended during future audits.

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

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

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

“ Permanent Secretary
Prime Minister's Office
Regional Administration & Local Government
P. O. Box 1501
DAR ES SALAAM

**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 Kagera Regional Secretariat 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 Kagera Regional Secretariat 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

