



YOUTH ACTION VOLUNTEERS

**Review of Audit Reports for Temeke,
Kinondoni, and Ilala Municipal Councils and
Kibaha District Council**

December, 2008

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LIST OF ACRONYMS

CAG	Controller and Auditor General
CCHP	Comprehensive Council Health Plan
CSPD	Child Survival Protection and Development
DCB	Dar es Salaam Community Bank
GAAP	Generally Accepted Accounting Principles
LAFM	Local Authority Financial Memorandum
LGFA	Local Government Finances Act
MKUKUTA	Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Tanzania
MTEF	Medium Term Expenditure Framework
NSGRP	National Strategy for Growth and Reduction of Poverty
PER	Public Expenditure Review
VAT	Value Added Tax
YAV	Youth Action Volunteers

1.0 INTRODUCTION

Cluster III of the National Strategy for Growth and Reduction of Poverty (NSGR)--known in Kiswahili as MKUKUTA (*Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Tanzania*)--recognises good governance and accountability as key ingredients in boosting economic growth and poverty reduction in Tanzania. In recent years, the Government of Tanzania has put in place several measures to ensure proper financial management. These include the Public Expenditure Review (PER) and Medium Term Expenditure Framework (MTEF) processes which are designed to improve financial planning and budgeting. This has resulted in enhanced transparency and predictability of resource allocation and improvements in budget execution.

The PER and MTEF are complemented by audits undertaken by the Controller and Auditor General (CAG) of central and local government accounts aimed at enhancing financial reporting and accounting. Increasingly, civil society organizations are simplifying and analyzing CAG reports so that citizens can better understand budgets that affect them and hold government accountable for public spending on social services. Further, participating fully in all financial management and accountability processes is in line with the Universal Human Right to social services declaration whereby everyone has the right of equal access to public services in his country and holds the government accountable for the way public resources are spent.

Audit reports contain technical information and language which the majority of people outside the accounting and auditing profession may not understand. The language used and information provided in those reports may make it difficult for the public to question and monitor the governance and accountability of the public entity managing resources on their behalf. Consequently, Youth Action Volunteers (YAV) initiated this review with the aim of documenting the findings in user-friendly language. The use of the information presented in this report is threefold:

- (i) The information is meant to increase awareness of citizens on how resources in their respective districts are managed. It will also strengthen the understanding of public officials on the magnitude of problems of management of public resources. District councillors and citizens are expected to use the information presented in this report to hold those responsible accountable.
- (ii) YAV will use the information for advocacy purposes to continue influencing the improvement in policy, governance and health planning decisions in the respective four districts.
- (iii) The information will set the base for future citizen monitoring of resource allocation and utilisation in the four districts analysed. The information will also feed back to central ministries and parliament on effectiveness and efficiency of management of resources at the district level.

2.0 OBJECTIVES OF THE REVIEW

The general objective of this review is to produce an analytical report based on the findings from the Controller and Auditor General's Audit Reports for Temeke, Kinondoni, Ilala and Kibaha Councils for financial years 2003/04, 2004/5, 2005/6 and 2006/07 and to produce a commentary presented in a popular manner for ordinary citizens to easily understand. The specific objectives of the analytical report are to:

1. Assess the implementation of Local Authorities Financial Memorandum (LAFM) and the Local Government Finances Act (LGFA) in each district.
2. Summarise all audit opinions and explain to ordinary citizen what they mean.
3. Summarise and collate all the audit queries by district and report on follow up and implementation of the actions promised by respective district managements.
4. Collate all information regarding financial performance of each district in a manner that is easily understood by ordinary citizens.
5. Summarise all discrepancies as noted in the balance sheets, bank statements, and local inspections made.
6. Assess whether preceding years' experiences have incrementally informed and improved subsequent years planning, implementation and reporting.
7. Collate all audit recommendations for all audit queries for each district for easy monitoring.
8. Assess whether there are mechanisms to prevent and correct cases of the misuse/abuse of public resources and document corrective actions that have been taken in response to cases of the misuse/abuse of public resources.

3.0 APPROACHES AND METHODS

3.1 Scope

This is a desk review of the reports of the Controller and Auditor General on the Financial Statements of Temeke, Kinondoni and Ilala Municipal Councils and Kibaha District Council for the financial years ending 30th June 2004, 2005, 2006 and 2007.

3.2 Themes for review

1. Implementation of Local Authorities Financial Memorandum

Here we assess whether the districts have:

- a. Complied with the auditing requirement that is, conducting auditing as required by the Local Authorities Financial Memorandum (LAFM).
- b. Complied with Generally Accepted Accounting Principles (GAAP).
- c. Implemented the Local Government Finances Act.

2. Audit Opinions

Under this theme we present a summary of all audit opinions regarding internal control systems.

3. Audit queries

Under this theme we present:

- a. Summary of all types of audit queries.
- b. Audit queries and amounts by department for each district.
- c. Income and expenditures by district for each year indicating amounts lost.
- d. Repetitive outstanding audit queries by district for each year.
- e. List all documents which were not submitted by each district for audit.
- f. Actions taken by districts in responding to audit queries.

4. Financial performance of each district

Here we assess the performance of districts in generating local revenue and expenditures in executing the planned activities.

5. Audit discrepancies

Here we summarise audit discrepancies as noted in:

- a. Balance sheets.
- b. Bank reconciliation statements.
- c. Local inspection of health centres and dispensaries.
- d. Implementation of projects/development activities.

3.3 Interpretation of key audit terminologies

1. Transactional enquiry

Normally, auditors start their audit process by looking at whether the previous year's transactional enquiries or questions and recommendation have been implemented. The auditors may question certain transactions on the basis of the information in the financial statements. The transaction is considered inaccurate or incomplete such that it is not conforming to the Generally Accepted Accounting Principles (GAAP), law and regulations such as the Local Government Financial Act and the Local Authorities Financial Memorandum. In such a situation, the auditors enquire from the management about that transaction and make recommendations to rectify the situation caused by the inaccuracy or incompleteness of the expenditure reported. It is the duty of the council management to give reasonable explanation for the cause and implement the auditor's recommendations. When the auditor receives satisfactory explanations from the management about the expenditure in question, it is referred to as "replied and closed." When there are no satisfactory explanations about the expenditure in question, it is referred to as "not replied."

Transactional audit queries have implications for the internal control system of an organisation over the resources entrusted to the management. Where a number of transaction audit queries are made it implies a weak internal control system. In the absence of a strong internal control system it is difficult to prevent fraud both in terms of misuse and stealing of resources as well as inaccurate financial statements reporting. Every transaction audit enquiry matters in judging the strength of the internal control system when it comes to accountability issues.

2. Auditor's opinion

Annually, following the completion of the audit exercise, the Controller and Auditor General (CAG) writes the audit report and produces a general conclusion known as "Auditor's Opinion." The Auditor's opinion expresses the extent to which the *internal accounting control* is available and used. Internal accounting control refers to a process put in place by the management to provide reasonable assurance regarding the reliability of financial statements reporting, effectiveness and efficiency of operations and compliance with applicable laws. In most cases, the internal auditor is normally employed to foresee the internal control system of an organisation. If an auditor is able to obtain sufficient evidential material, he/she must express an opinion on the financial statements. There are four types of opinions in which the auditor's opinion can fall. They are: *clean report, qualified opinion, adverse opinion and disclaimer of opinion*. The meaning and explanation of each opinion is given below:

- (i) Financial statement "*presents fairly in all material respect*" or clean report.
This means the financial statements:

- (a) Were prepared in accordance with Generally Accepted Accounting Principles (GAAP)¹ that have general acceptance and are appropriate in the circumstance. In this case, it will also include whether the financial statement were prepared in accordance to the laws and regulations such as the Local Government Financial Act and the Local Authorities Financial Memorandum.
 - (b) Give all essential information of the matters that may affect their use, understanding and interpretations.
 - (c) Were presented in a manner that is classified and summarised in a reasonable manner, neither too detailed nor too condensed.
 - (d) Were prepared to reflect transactions and events within the range of reasonable limit.
- (ii) *Qualified opinion*: This is when there is some inadequacy in the audit of the financial statement or when one or two items in the financial statement are not presented in accordance with the GAAP.
- (iii) *Adverse opinion*: This is when the financial statements are not fairly presented. In practice an adverse opinion is rare because if the statements contain material that departure from the GAAP to warrant an *adverse opinion*, normally it will be discussed between the auditor and management. The management would probably agree to make changes necessary to avoid *adverse opinion*.
- (iv) *Disclaimer of opinion*: This is when the auditor is unable to determine the overall fairness of the financial statement. This type of opinion results from very significant limitations of the scope of the auditor's examination or the limitations imposed by the client.

3.4 Implementation of Local Authorities Financial Memorandum and Local Government Financial Act

Orders Nos. 9 through 16 of the Local Authority Financial Memorandum (LAFM) of 1997 require councils to establish and support a solid system of internal control. These Orders require the Finance and Administration Committee to adopt written procedures for proper control of finances. In addition, the director and the treasurer should ensure there is assignment of specific responsibilities to individual officers, an organisation chart, and

¹ GAAP include conventions, rules and procedures necessary to define accepted accounting practices at a particular time. They include not only broad guideline of general application but also detailed practice and procedures. They provide a standard by which to measure financial presentation which is sufficient, reliable and accurate financial information to meet the need of a range of person or groups with legitimate interests in the financial affairs of the government (Whittington and Pany, 1995).

division of responsibilities and periodic rotation of duties. Accountability of all areas of operations by the director or his designated representative to check effectiveness of the control system is also mandatory. Councils are further required to employ an internal auditor who reports directly to the director. Similarly, the Public Procurement Act No. 21 of 2004, Section 28 (1) requires councils to establish a Tender Board and Section 34 (1) provides for the establishment of a Procurement Management Unit.

Further, Order No. 53 places responsibility on the council management to prepare the financial statements based on GAAP and Section 40 of the Local Government Financial Act No. 9 of 1982 requires the accounting officer to keep and maintain accounts and prepare financial statements in respect of council operations in a manner that promotes transparency, accountability and comparability. The LAFM of 1997 specifically requires the municipal or district director to prepare the final accounts and submit them to the CAG through the finance committee within three months of the end of the financial year (31st March). However, effective from financial year 2004/05 all local authorities were directed to harmonise submission of final accounts to match with that of the central government.

3.5 Public integrity processes

Public integrity refers to regular respect and maintenance in action of the right to social accountability of those responsible for management of the resources entrusted to them. Major issues in district specific public integrity processes are existence of mechanisms to prevent the misuse/abuse of public resources, and the capacity to respond to cases of misuse and/or abuse of public resources. It is worth noting that the audit reports reported below do not reflect the mechanisms to oversee the use of resources.²

The CAG report on financial statements can shed some light on public integrity processes as it points out the case of misuse or misappropriation of funds but does not say anything on actions taken. It is upon the council to provide guidelines on measures to be taken when there are cases of misuse and abuse of council funds.

Although the audit report is intended to be used by government, its distribution to the public is also imperative (although due to the technical language used common people may not be able to understand it). Upon receipt of the CAG report by the Speaker of the National Assembly, and once tabled in Parliament, the report becomes a matter of public record and its distribution may not be limited. Thus, actors interested in building an accountable financial management system should take the lead in presenting the report in common language for wider usage.

² This is also true for the Comprehensive Council Health Plans (CCHPs) of the councils reviewed below.

4.0 REVIEW OF AUDIT REPORTS FOR TEMEKE MUNICIPAL COUNCIL

4.1 Overview

The internal control set up of Temeke Municipal Council complies with the orders described in section 3.4 above and the Public Procurement Act 2004. Nevertheless, there are weaknesses evident from the review of the internal control system which shows that the council has not fully complied with specific orders in the laws and regulations as provided. The following cases illustrate such instances:

- Evidence of un-produced revenue receipt books and payments without supporting documents: the auditor provided evidence on the general receipt books that have been used by various collectors of revenue but the same could not be produced to audit when called for; some payments that were made without supporting documents; missing payment vouchers; and missing compensation schedules.
- There were transactional audit questions that have not been replied to within the given deadline.
- There was no segregation of duties for custody and issuance of receipt books whereby the revenue accountant is the one who places orders for printing receipt books, receives, and issue receipts. He is also charged with the duties of collecting revenue and distribution of demand notices contrary to good internal control system requirements, and contrary to Order No. 10 (a) of LAFM of 1997 which demand assignment of specific responsibilities to individual officers through issue of detailed job description.
- From the audit findings, irregular use of imprest for construction works was evident whereby the construction activities were not executed by the time of auditing. This is contrary to Order No. 134 of LAFM of 1997 in regard to retirement of special imprests within two weeks after completion of the activity.

Thus, although the internal control system is in place, several orders of the LAFM of 1997 have been contravened. The following sections provide details of specific financial and accounting inadequacies which Temeke Municipal Council should pay attention to.

4.2 Audit opinions

As presented in section 3.3 above, following the completion of auditing exercise, the CAG produces a written report of findings with a conclusion on “auditor’s opinion.” Table 4.1 shows the auditor’s opinion for financial years 2003/04, 2004/05, 2005/06 and 2006/07

Table 4.1 Auditor’s Opinion for FY 2003/04, 2004/05, 2005/06 and 2006/07

	2003/04	2004/05	2005/6	2006/07
Auditor’s Opinion	Present fairly	Present fairly	Present fairly	Present fairly

An important thing to note is that the opinion may mainly reflect how the financial statements were prepared and not the “material matters.” For Temeke Council, financial statement “present fairly except for material matters.”

Despite receiving “present fairly” or “clean report” for the four consecutive financial years, there is more to be desired, that is, one needs to examine the material parts of the report. While the council is issued with the “clean audit report,” there are number of expenditure inquiries or questions to be addressed.

- *Thus, for accountability purposes, the final opinion of the CAG together with detailed “material matters” has to be presented to the stakeholders. This is essential in the examination of the accountability and internal accounting control system of the district. Understanding the CAG’s opinion on the “material matter” is also crucial in understanding resource utilisation and management in the district.*

4.3 Audit questions and queries

Transactional audit queries or questions have implications on the internal control system of an organisation over the resources entrusted to the management. Where a number of transaction audit queries exist it implies unavailable or weak internal control system in the organisation. In the absence of strong internal control system it is difficult to prevent fraud both in terms of misuse of resources as well as inaccurate financial statements reporting. Table 4.2 shows the transactional audit enquiries or questions in the respective years of the audit.

Table 4.2: Transactional audit questions for FY 2003/04, 2004/05 and 2005/06 and 2006/07

	2003/04	2004/05	2005/6	2006/07
1. Total transaction audit questions	38	77	34	None
2. Transaction questions replied and closed	None	61	18	None
3. Transactions questions not replied to	38	16	16	None

- *Table 4.2 shows a number of transactional audit questions posed by CAG. In year 2003/04 there were 38 transaction audit queries and none was replied by management. This indicates weakness in the internal accounting control system.*
- *In financial year 2004/05 audit questions doubled, but most of them received responses.*
- *At the close of the financial statement in 30th June 2006, there were two outstanding queries of 2002 which have not been resolved.*
- *For the financial year 2006/07, the number of queries is not indicated; however this is not to say there was no query for this financial year. This is evidenced by the auditor’s recommendations where only three recommendations out of four were implemented by the management.*

- *Non-reply by the management on the transaction audit inquiries leaves a lot to be desired on the accountability of the management over the resources entrusted to them. Transactional audit questions not replied may represent transactions with irregularities of which no explanations were given for their cause hence not closed.*
- *Non response to the transaction audit questions may also indicate the lack of public integrity by those entrusted for the management of public goods and resources.*
- *In addition, it leaves some questions on the enforcement of the local authority financial memorandum as well as the power of the CAG over the local authority financial matters.*

The following are details of some of not-replied transactional audit questions.

Un-produced revenue receipt books

In the 2005/06 auditing year eight (8) general receipt books were noted to have been used by various collectors of revenue but they were not produced to audit when called for contrary to Order No. 5(c) of LAFM 1997 requiring a sound accounting system and safekeeping of all supporting documents. In the circumstance any revenue collected on these receipt books could not be confirmed to have been properly collected and brought to account.

- *The implication is a possibility of misappropriation of the council’s money as a result of weak internal control over revenue collection books. As required by the LAFM, the council management should produce all receipt books for verification by the auditor.*

Under-banking of revenue collected

Orders No. 117 of the Local Authority Financial Memorandum requires that all the monies collected be deposited in the bank without delay not later than next banking day. However, the CAG’s report shows there have been under-banking of monies collected in Temeke District for the financial years 2003/04 and 2005/06 (Table 4.3). However, no amount was reported to have been under-banked for the financial year 2006/07.

- *Under-banking could be an indication of fraud in terms of cash shortage as it may help the responsible officer to hide the cash collection shortage if any.*

Table 4.3: Under-banking of revenue collected

Year	2003/04	2004/05	2005/06	2006/07
Amount(Shs)	13,905,805	-	482,997,700	-

Payments made without supporting documents

The CAG’s audit report shows instances where payments were made without supporting documents (Table 4.4).

- *With no supporting documents it is difficult to verify if the payment made was genuine. Moreover, it is an indication of weakened internal accounting control*

especially on record keeping. Supporting documents would include things like invoices, receipts and approval for the payments, purchasing orders and receiving reports. This practice is against Order No 5(c) of the Local Authority Financial Memorandum.

Un-vouched expenditures

A voucher is an authorisation sheet that provides space for the initials of the employee performing various authorisation functions. The CAG's report revealed that some payment vouchers for some expenditure were missing (Table 4.4). Therefore, it is not clear if these expenditures were authorised or not by the responsible officers.

Table 4.4: Summary of issues raised by auditor in FY 2005/06

Observation	Amount (Shs)
Payments made without supporting documents	34,790,990
Missing payment vouchers	16,537,275
Statutory deductions not acknowledged	73,846,691
Irregular use of imprest	9,000,000
Irregular payments for removal of waste	53,800,860
Transfer of funds	17,577,152
Missing compensation schedules	72,504,000
Questionable payments of House Rent	14,157,000
Contracts payment lacking contract agreement and bills of quantities	141,101,712
Hospital drugs taken on charge before receipt	8,052,2290
Total	794,763,954

- *While it is contrary to the LAFM Order no. 5(c), it also indicates weakness in the internal control system of the district. Therefore, there are chances of fraud as payments are done without prior authorization and reviews of the responsible officers.*

Table 4.5: Summary of issues raised by auditor in FY 2006/07

Observation	Amount (Shs)
Payments made without supporting documents	2,076,000
Delayed/uncompleted projects	146,676,443
Unspent balance of grants	270,198,691
Stores short delivered	9,466,600
Expired drugs	1,820,394
Purchase of drugs without competitive quotations	2,934,300
Total	433,172,428

Segregation of duties

The internal control over custody and issuance of revenue receipts was also found to be weak. It was noted that there was no segregation of duties for custody and issuance of receipt books

whereby, the revenue accountant is the one who places orders for printing receipt books, he also receive and issue receipts.

- *This is a weakness in accounting for the council's revenue which can encourage fraudulent practices. Management should ensure that the functions involving financial transactions are segregated to comply with the requirements of good internal control system.*

Repetitive audit queries

The presence of repetitive audit queries was also evident. During the audit of the current year's accounts, the auditors reviewed implementation of audit recommendations of the outstanding matters of the 2004 audit report. They noted with satisfaction that the management has implemented most of the audit recommendations except for the following few which were observed to have not been fully implemented (Table 4.6). The queries raised in 2005 audit report have not been satisfactory addressed. By the end of June 2006, there were 18 audit outstanding queries and further 18 revenue un-produced receipt books. These include the existence of long time outstanding debtors.

- *Failure to address auditing query on time is a weakness that need to be corrected.*
- *The implication of the existence of long time outstanding debtors is a clear sign of a weakness on the part of management to effectively manage this important Council asset (debtors).*

Table 4.6: Outstanding auditor queries for 2004

Description	Amount still outstanding Shs
Un-cleared revenue debtors	47,725,840
Outstanding other debtors	128,263,147
Sundry creditors not settled	149,903,943
Total	353,395,984

Moreover the report review by June 2007 shows some improvements in implementation of the auditor's recommendation where three out of four previous audit recommendation were implemented.

Table 4.7: Unimplemented previous year's audit recommendation by 2007

Year	Paragraph	Description	Position to date
2006	3:16:3	Uncleared sundry debtors Shs 131,831,501	Not cleared

4.4 Financial performance

Here we assess the performance of the council in generating revenue and in terms of expenditures made. In 2006/07 the council collected an amount of Shs 5,139,541,243 from own revenue sources against the internal revenue budget of Shs 4,826,572,438 reflecting an over-collection of Shs 312,968,805 or 107%. The difference between the actual collection

and estimates was not explained but would appear to be a result of unrealistic revenue targets. In addition the council received grants amounting to Shs 20,524,379,537 making total revenue of the council Shs 25,663,920,781 during the year. This is an improvement compared to FY 2004/05 where the council collected an amount of Shs 2,957,645,977 from own sources against the internal revenue budget of Shs 3,041,860,000 reflecting a collection shortfall of Shs 84,214,023 or 97% and FY 2005/06 where the council collected an amount of Shs 3,891,025,346 from own sources against the internal revenue budget of Shs 3,642,725,473 reflecting an over-collection of Shs 248,299,873 or 107%. In FY 2004/05 the council received grants amounting to Shs 9,440,077,804 making total revenue of Shs 12,397,723,781 during the year. Table 4.8 presents the trend of revenue collection performance for four consecutive financial years.

Table 4.8: Trend in revenue collection for FY 2004, 2004/05, 2005/06 and 2006/07

Year	Approved Estimates (Shs)	Actual Collection (Shs)	Collection Performance (percent)	Remarks on the performance (Shs)
2004 June	1,577,144,123	1,645,414,092	104	Satisfactory
2004/05	3,041,860,000	2,961,387,872	98	Satisfactory
2005/06	3,642,725,473	3,891,025,346	107	Satisfactory
2006/07	4,826,572,438	5,139,541,243	107	Satisfactory

The council spent Shs 24,035,787,370 (net of depreciation) during the year against total income of Shs 25,663,920,781, thus ending with an unspent balance of Shs 1,628,133,411 which is 6.3% of the council's total income. A comparison of the internal revenue of Shs 5,139,541,243 against expenditure of Shs 24,035,787,370 (net of depreciation) is only 21% implying that the council cannot sustain either its recurrent or development expenditure without depending on grants. This is also an improvement compared to year 2004/05 where overspending is indicated. In 2004/05 the council spent Shs 14,116,746,828 during the year against total income of Shs 12,397,723,781 or 113% of total revenue, reflecting over expenditure amount of Shs 1,719,023,047.

- *What is garnered from Table 4.8 is that Temeke Municipal Council management may have strengthened its internal control system in revenue collection. Although this is a commendable achievement, the management is urged to strengthen its efforts towards reviewing the budgetary estimates criteria.*

4.5 Audit discrepancies

In this section we summaries the discrepancies in several balance sheets, bank statements, use of projects/development funds, and discrepancies noted during the local inspection.

4.5.1 Some balance sheets

The balance sheet as at 30th June 2007 disclosed outstanding sundry creditors amounting to Shs 213,506,063 against Shs 70,426,187 reported in the accounts for the period ended 30 June, 2006. There was still an outstanding balance of Shs 213,506,063 as shown in Table 4.9.

- *Failure to clear outstanding obligations as they come due may result in huge outstanding balances in the council's books of accounts.*

Table 4.9: Outstanding sundry creditors

Item	Balance as at 30/6/2007 (Shs)
Suppliers of goods & services	14,761,894
Miscellaneous deposits	198,744,169
Total	213,506,063

Further, the balance sheet as at 30th June 2007 disclosed outstanding sundry debtors amounting to Shs 144,962,536 as compared to Shs 156, 423,704 for the previous year a decrease of Shs 11,461,168 reflected in the accounts for the period ended 30th June 2006 (Table 4.10).

- *The implication of this finding is that the council exerted much effort in collecting its outstanding debts. This effort is commended but the council management should ensure that all outstanding balances are recovered and control measures taken to ensure that the outstanding debtors do not increase.*

Table 4.10: Outstanding sundry debtors

Description	Balance as at 30/6/2007 (Shs)
Salary advances	7,937,090
Women and youth	135,248,741
Other debtors	1,776,705
Total	144,962,536

4.5.2 Bank statement

The consolidated bank reconciliation statement as at 30th June, 2007 shows some items that were not cleared (deposit in transit amounting to Shs 1,027,601,263 and uncleared cheques amounting to Shs 1,368,178,821). Further, position as at December 31st 2006 could not be submitted on time for comparison.

- *The implication is high risk of loss of funds as well as distorting the financial position upon clearance of the uncleared items.*

Further, omission of comparative figures in cash flow statement for the year ended 30th June, 2006 was observed. The comparative figures for the previous year 2004/2005 were not

incorporated in the above statement. Comparative figures are required for assessing the trend of financial position from one period to another.

- *Inadequate disclosure of information may lead to incompleteness in accounting information in the sense that such information cannot be compared with the previous period.*
- *In order to establish a trend, it is recommended that the council management should ensure inclusion of the omitted comparative figures in the financial statements in order to establish a trend.*

4.5.3 Unspent balance on project funds

A significant amount of project/development funds were unspent as of June 30th 2007. Examination of accounts relating to grants disclosed unspent balances of grants amounting to Shs 270,198,691 relating to road toll account in the 2006/07 financial year.

- *The implication of unspent balances of grants is that the approved development activities were partially or not implemented at all. Efforts have to be made to ensure that development activities are timely implemented as indicated in the work plan.*

4.5.4 Local inspections

In the auditing process, apart from reviewing financial statements, the auditors hold interviews and discussion with some of the staff and other key stakeholders in the implementation of various activities, conducts local inspection to verify physical implementation of planned activities as well as assessing the progress made, and holds entrance and exit meetings with the auditee to discuss the audit objectives and results of the audit, respectively.

The local inspection carried out in November, 2007 revealed that hospital drugs worth Shs 8,160,000 purchased vide LPO 1313 of 16/4/2007. This inspection revealed that only items worth Shs 4,502,400 were supplied leaving items worth Shs 3,657,600 unsupplied.

- *This situation implies lack of control over accounting for purchases which can easily encourage the possibility of ghost purchases.*

4.6 Conclusions and recommendations

This section briefly presents the major audit findings and recommendations.

1. The audit report acknowledged with satisfaction that the municipal management has implemented most of the audit recommendations except a few, such as uncleared revenue debtors and sundry creditors. Thus, the council has been urged to work on the pending audit recommendation for the betterment of the council's financial position.

2. There are several transactional audit queries for the year 2005/06 accounts that have not been settled (16 un-replied queries). As for FY 2006/07 one out of four previous year auditor's recommendation was not implemented. In addition, two audit queries in respect of 2002 accounts have not yet been satisfactorily replied to.
3. Eight general receipt books were noted to have been used by various collectors of revenue but they were not produced to audit when called for. This behaviour can lead to possibility of misappropriation of the council's money. Thus, the management should ensure availability of the missing revenue receipt books for audit purposes and always make the revenue receipts available to audit when called for.
4. It was noted that there was no segregation of duties for custody and issuance of receipt books whereby the revenue accountant is the one who places orders for printing receipt books, receives, and issue receipts. This is a weakness in accounting for council's revenue which can encourage fraudulent practices. Thus, the management should ensure that the functions involving financial transactions are segregated to comply with the requirements of good internal control system.
5. It was also evident that some payments were made without supporting documents and there were missing vouchers and compensation schedules. This kind of laxity over accounting/supporting records could encourage fraudulent behaviour. The council management should trace the missing documents and ensure that all payment vouchers are dully supported by proper documents. Further, the Council Management should trace the missing vouchers and compensation schedules for audit examination.
6. Irregular use of imprest was pointed out whereby an imprest was taken but the work was not done and imprest retired at appropriate time. This implies that the Council Management does not adhere to good financial practices. It is recommended that Management should forward the accountability of the special imprest granted and explain the non-construction of the canteen.
7. Transfer of funds from development account to recurrent activities is another serious issue raised in the audit findings as this has implication on the execution of development activities. The Management should ensure that the amount is refunded to development account to accomplish planned activities and refrain from such behaviour.
8. There were some irregularities observed on the payments of house rent. The landlords were paid the same flat rate as if the houses were of the same design, same size and built in the same location. This implies laxity in award of accommodation contracts. The Council Management is urged to be systematic in awarding contracts.
9. Contracts payments lacking relevant supporting contract agreements and Bills of Quantities were also observed. This limits the scope of audit. The Management should ensure that agreements and Bills of Quantities relating to contracts are made available for audit.

10. Local inspection carried by the auditors' revealed transactions taken on ledger before receipt. Taking goods on ledge before the actual purchase is made implies lack of control over accounting for purchases which can easily encourage the possibility of ghost purchases. It is recommended that management should adhere to good practice in accounting for stores and confirm receipt of the stores.
11. There was a significant amount of unspent balance of development grants. The unspent balances of grants indicate that the approved development activities were partially or not implemented at all. Efforts should be made to ensure that development activities are timely implemented as indicated in the work plan.
12. There were outstanding creditors as at 30th June 2007. Failure to clear outstanding obligations as they come due may result into huge outstanding balances in the council's books of accounts and jeopardize the reputation of the council. The management should ensure that all outstanding creditors are cleared.
13. Some items were not cleared in the consolidated bank reconciliation statement as at 30th June 2007. These include deposits in transit and outstanding cheques. Further, position as at December 31st 2006 could not be submitted on time for comparison. As a consequence, there is high risk of loss of funds as well as distorting the financial position upon clearance of the uncleared items. Immediate action towards their clearance is called for.

5.0 REVIEW OF AUDIT REPORTS FOR KINONDONI MUNICIPAL COUNCIL

5.1 Overview

The internal control set up of Kinondoni Municipal Council complies with the orders described in section 3.4 above and the Public Procurement Act 2004. Nevertheless, there are weaknesses arising from review of internal control system which show that the council has not fully complied with specific Orders in the laws and regulations as provided. The following cases illustrate such instances:

- The LAFM of 1997 requires the Municipal Director to prepare the final accounts and submit them to the CAG through the Finance Committee within three months after the end of the financial year. However, at the time of 2006/07 audit period the summary statement of capital expenditures and their financing and separate statements of income and expenditure and balance sheet for each fund held by the council during the year had not been submitted.
- The Local Government Finances Act Section 45 (5) stipulate that every authority shall permit the auditor to check any cash, investments or other assets in its possession or over which it has control and to have access at all times to all of its accounts and all books, vouchers and papers relating to them. Contrary to this, nineteen used general receipt books which were noted to have been used by various revenue collectors were not produced when called for. However, at a later stage the Council was able to produce only fifteen (15) books for verification leaving four (4) books unverified.
- Payments made without supporting documents, missing payment vouchers, and missing compensation schedules were also evident. This is contrary to Order No. 5(c) of LAFM 1997 requiring a sound accounting system and safekeeping of all supporting documents.
- There were transactional audit questions that have not been replied to.

Thus, although the internal control system is in place, several orders of the LAFM of 1997 have been contravened. The following sections provide details of specific financial and accounting inadequacies which the council should pay attention to.

5.2 Audit opinions

As presented in section 3.3 above, following the completion of auditing exercise, the CAG produces a written report on the findings and produces a conclusion otherwise known as “auditor’s opinion.” Table 5.1 shows the auditor’s opinion for financial years 2004/05 and 2005/06 and 2006/07.

Table 5.1 Auditor’s opinion for FY 2004/05 and 2005/06 and 2006/07

	2004/05	2005/6	2006/07
Auditor’s Opinion	Present fairly	Present fairly	Present fairly

An important thing to note is that the opinion may mainly reflect how the financial statements were prepared and not the “material matters.” For Kinondoni Municipal Council, financial statement “present fairly except for material matters.”

Despite receiving “present fairly” or “clean report” for the two reviewed financial years, there is more to be desired, that is, one need to examine the materials part of the report. While the council is issued with the clean audit report, there are number of expenditure inquiries or questions in the same report.

- *Thus, for accountability purposes, the final opinion of the CAG together with detailed “material matters” has to be presented to the stakeholders. This is essential in the examination of the accountability and internal accounting control of the district. Understanding the CAGs opinion on the “material matter” is also crucial in understanding the resources utilisation and management in the district.*

5.3 Audit questions

Transactional audit queries or questions have implications on the internal control system of an organization over the resources entrusted to the management. Where a number of transaction audit queries exist it implies unavailable internal control system or weak internal control system in the organization. In the absence of strong internal control system it is difficult to prevent fraud both in terms of misuse of resources as well as inaccurate financial statements reporting. Table 5.2 shows the transactional audit enquiries or questions in the respective year of the audit.

Table 5.2: Transactional audit queries for FY 2003/04, 2004/05, 2005/06 and 2006/07

Transactional Audit Questions	2003/04	2004/05	2005/6	2006/07
Total transaction audit queries	30	20	55	35
Transaction queries replied and closed	NONE	14	22	31
Transactions queries not replied	30	6	33	4

- *Table 5.2 shows a number of transactional audit questions posed by CAG. In year 2003/04 there were 30 transaction audit queries and none was replied by the management. This indicates weakness in the internal accounting control system.*
- *The same conclusions can be drawn for financial year 2005/06 where there was a drastic increase in transaction audit questions not replied to and closed by more than 100% compared to financial year 2004/05. This indicates an even higher level of laxity in the internal control system.*
- *In addition, one audit query No.14 relating to the period January-June, 2004 involving an amount of Shs 9,024,384 was still outstanding.*

- *Non-reply by the management on the transaction audit inquiries leaves a lot to be desired on the accountability of the management over the resources entrusted to them. Transactional audit questions not replied to may represent transactions with irregularities of which no explanations were given for their cause hence not closed.*
- *Non-response to the transaction audit questions may also indicate the lack of public integrity by those entrusted for the management of public goods and resources.*
- *In addition, it leaves some questions on the enforcement of the local authority financial memorandum as well as the power of the CAG over the local authority financial matters.*
- *However, the financial year 2006/2007 shows some improvements in responding to audit queries where only four queries were not responded to.*

The following are details of some of the un-replied transactional audit questions;

Un-produced used revenue receipt books

The Local Government Finances Act Section 45 (5) stipulate that every authority shall permit the auditor to check any cash, investments or other assets in its possession or over which it has control and to have access at all times to all of its accounts and all books, vouchers and papers relating to them. Contrary to this Order, the 2006/07 financial year review has shown that a total of Shs 29,717,000 was not properly supported. In this circumstance, any revenue collected could not be confirmed to have been accounted for.

- *This kind of laxity in the control over used receipt books could result in misappropriation of revenue. The Council management should trace and submit the four used receipt books for audit purposes and ensure that all revenue collectors issued with receipt books must render a return of used and unused receipts at the end of each month in a prescribed form.*

Improperly supported expenditure

During the year under review payment vouchers worth Shs 29,717,000 were made without proper supporting documents contrary to the Reg.95(4) of the Public Finance Regulation, 2001 (revised 2004) (Table 5.3).

- *Such laxity in control over accounting records result to failure to ascertain and confirm the authenticity of payments made which may result in double payments.*
- *The Council Management should trace and submit the missing supporting documents for audit purposes. In addition, the Council Management is advised to find proper ways of safeguarding accounting records.*

Table 5.3: Improperly supported expenditure

	Missing Documents	Amount (Shs)
1.	Contract agreement (Dev. A/C) for supply of fill materials	26,642,000
2.	Imprest retirement particulars (i.e. J/Vouchers, payrolls, receipts and other imprest retirement documents Expenditure A/C)	3,075,000
Total		29,717,000

Irregular payment in procurement process

The audit report noted that the council paid extra sum of Shs 100,000,000 which was used to purchase tractors' trailers. The council planned and budgeted to produce 25 tractors' trailers at a price of Shs 8,000,000 per trailer. However it was noted that the price used in the contract was Shs 12, 000,000 per trailer. Reason given to back the decision is non availability of suppliers/bidders who were able to supply at the rate of 8,000,000 per trailer. However, the Finance Committee members proposed to have special committee to investigate the difference of prices between budgeted price and actual price.

- *The Council management should produce the report of the appointed committee and any resolution reached by the Finance Committee in this procurement for audit verification*

5.4 Financial performance

During the year under review the Kinondoni Municipal Council collected an amount of Shs 7,925,456,551 from own revenue sources against the internal revenue budget of Shs 8,000,000,000 reflecting an under collection of Shs 74,543,449. In addition, the Council received Shs 24,287,306,111 as a grant from the government and donor. Therefore the total income in the year under review was Shs 32,212,762,662. The income trend for the three consecutive years is as follows:

Table 5.4: Revenue trend for Kinondoni Municipal Council (Shs)

Source of revenue	2004/05	2005/06	2006/07
Own sources revenue	3,585,900,100	4,477,321,455	6,387,036,551
Revenue compensation	192,920,200	1,164,936,700	1,538,420,000
Capital Development Grant	11,553,443,920	13,961,326,767	24,287,306,111
Total amount	15,332,264,220	19,603,984,922	32,212,762,662

- *What is depicted from Table 5.4 is that the Kinondoni Municipal Council's own sources revenue collection has been improving from one financial year to the next. However, it is noted that Capital Development Grants (which also increase yearly) are a major source of income for Kinondoni Municipal Council. This proves that the future sustainability depends on grants or subvention rather than revenue accruing from own sources, which is only 20% of the total.*

The Council's actual expenditure for the year under review was Shs 31,564,883,652 (net of depreciation of Shs 168, 635,026) against a budget expenditure of Shs 37,854,461,760 thus resulting in a favourable variance of Shs 6,289,578,108. However, a comparison between the internal revenue collection from own source of Shs 7,925,456,551 and an actual expenditure of Shs 31,564,883,652 (net), revealed that the Municipality's dependence of recurrent and development expenditure from her domestic revenue is only 25% as compared to that of last year of 30%. This implies that the Council's dependence of expenditures on grants rather than on internal revenue collections increased as shown in the table below.

Table 5.5: Council's expenditure 2006/07

Total actual expenditure	Income from own sources (Shs)	Variance (Shs)	% of income over total expenditure	% of income over previous year's expenditure
31,564,883,652	7,925,456,551	23,639,427,101	25%	30%

5.5 Audit discrepancies

In this section we summaries the discrepancies in several balance sheets, bank statements, and discrepancies in the use of projects/development funds.

5.5.1 Outstanding debtors

During the year under review (2006/07) the auditor noted outstanding sundry debtors amounting to Shs 584,266,439 which were not collected as at 30th June, 2007 (Table 5.6). However, to the time of writing this report December 2007 the balance was verified to be decreased to Shs 227, 188,436. Further, no analysis was done by ageing to facilitate monitoring of long outstanding debtors. This is summarized in the table below

Table 5.6: Outstanding debtors, 2006/07

Debtor	Total amount (Shs)
Staff imprest	
• Expenditure A/C	11,824,330
• Health A/C	3,354,500
• Works A/C	355,000
• Uchangiaji A/C	1,300,500
• Rural water A/C	328,000
• NEAP A/C	1,226,000
• Education Trust Fund A/C	1,230,000
• Tanzania Multi-sector A/C	300,000
	19, 918,330
Salary advance	282,000
Staff Loans	2,826,132

Revenue debtors		
• Property tax	201,905,974	
• Bill boards	2,256,000	204,161,974
Grand Total		227,188,436

Thus what is drawn from these findings above is that:

- *There is no effort exerted by the Council management to ensure that all outstanding amounts due from sundry debtors are collected on time.*
- *No aging analysis of debtors along with the financial statement was done to show how long debtors have not paid their debts. Thus the Council management should maintain debtors aging analysis to facilitate close monitoring of outstanding debtors*
- *Funds are tied up in the form of outstanding debtors resulting in liquidity problem. The Municipal Council management should exert more effort in collecting amount outstanding from sundry debtors and it should maintain debtors ageing analysis to facilitate close monitoring of long outstanding debtors*
- *Debtor's collection policy should be reviewed for further improvement.*

5.5.2 Bank statements

The bank statements for the Financial Year 2006/07, revealed that, the Council's consolidated bank reconciliation statement for the financial year ended 30th June 2007, disclosed the following items which were not cleared up to the time of audit (October 2007).

Table 5.7: Outstanding items in bank statements, Shs

Description	Position as at 30 th June, 2007	Position as at October 2007	Position as at 18 th January 2008
a) Unpresented cheques	881,810,100	36,360,775	<ul style="list-style-type: none"> • Cancelled cheques 31,760,775 • Stale cheques: <ul style="list-style-type: none"> i) NAEII Shs 180,000 ii) Health 389,690 iii) CIUP 4,255,000 <p>Total. 4,824,690 G/Total 36,585,465</p>
b) Deposit/Receipts not credited in bank	423,551,505	4,684,750	<p>This implies possibility of loss of cash.</p> <ul style="list-style-type: none"> i) General.fund a/c Shs 4,380,000 ii) Upimaji viwanja Shs 304,750 <p>Total Shs 4,684,750</p>

- *The Council management should take action to clear the outstanding items.*

5.5.3 Implementation of projects/development activities

The auditors noted that projects/development activities were approved to be carried out during the year. These activities were to be financed through municipal council own sources of funds and grants. However, a review of physical progress of activities performed by the Municipal Council has revealed that some activities were either partially or not implemented at all (Table 5.9).³

Table 5.8: Incomplete development projects, Shs

Sector	Activities/ Targets	Amount Approved	Achievement Status	Amount Spent	Audit Comment
Education	Construction of 81 teachers houses	306,677,725	Not implemented, tender procedures in progress	50,400,000	No teachers' houses constructed to date.
Education	Compensation of areas of schools constructions	13,980,000	Partially implemented		Compensation not fully paid to owners of areas.
Health	Construction of dispensaries at Ndumbwi, Kisopwa, and Kibwegere	120,000,000	Partially implemented; Kibwegere dispensary has been completed; two others are in progress		Status to date not known
Health	Construction of two staff houses	60,000,000	Not implemented		Two staff houses not constructed to date.
Water	Construction of 5 deep bore holes at Ubungo, Makuburi, Msasani, and Kijitonyama	42,218,002	Partially implemented. Boreholes at Wazo Hill, two at Makuburi, one at Kijitonyama have been completed, leaving one at Msasani.	25,544,492	Status to date not known
Roads works	Contribution to BRT Project	50,000,000	Partially implemented		Amount contributed not shown
Agriculture	Irrigation farming	31,227,900	Not implemented		Irrigation farming not implemented to date.

³ These are just few examples of projects that were partly implemented or not implemented at all. See Auditors Report for FY 2005/06 for more projects.

5.6 Conclusions and recommendations

This section briefly presents the major audit findings and recommendations.

1. An audit review of the implementation of the previous year's audit recommendations has revealed that the Council management has made progress in implementing audit recommendations but some were still pending. The Municipal Management should ensure that all outstanding previous matters are cleared.
2. In the 2006/07 audit process, only 31 audit queries were satisfactorily replied to and closed leaving four not replied. The Municipal Management should ensure that all outstanding previous audit queries are satisfactorily replied and closed.
3. Failure to produce used revenue receipt books was also apparent, and under these circumstances the revenue collected could not be confirmed to have been accounted for. This kind of laxity in the control over used receipt books could result in misappropriation of revenue. The Council management should trace and submit the said receipt books for audit purposes and ensure that all revenue collectors issued with receipt books must render a return of used and unused receipts at the end of each month in a prescribed form.
4. Laxity in control over paid payment vouchers was observed whereby some payment vouchers were noted missing from the respective batches, which indicates laxity in custody of payment vouchers after affecting payments. Under this circumstance the auditor could not ascertain the authenticity as well as nature of the expenditure. The Council management should trace and submit the missing payment vouchers for audit purposes. In addition, the Council management is advised to find proper ways of safeguarding accounting records.
5. In some cases payments were made without proper supporting documents (improperly vouched expenditure). Under this circumstance, the authenticity of payments made could not be ascertained and confirmed, which may result in double payments. The Council Management should trace and submit the missing supporting documents for audit purposes.
6. During the years under review, it was noted that substantial amount of sundry debts have not been collected. This is explained by lack of effort exerted by the Council management to ensure that all outstanding amounts due from sundry debtors are collected on time. Absence of ageing analysis and lack of close monitoring of long outstanding debtors was also noted. As a consequence, funds are tied up in the form of outstanding debtors which could result in liquidity problem. The Municipal Council management should exert more effort in collecting amount outstanding from sundry debtors. Further, the Council management should maintain debtors ageing analysis to facilitate close monitoring of long outstanding debtors. Review and improvement of debtor's collection policy is imperative.
7. Discrepancies were also noted during local inspection of health centres and dispensaries which require Management's attention. These include: short delivery of medical supplies, under banking of cost sharing funds, receipts book not recorded in

counterfoil, refund from national health insurance not credited to account, unvouchered expenditure, and improperly vouchered expenditures.

8. A review of physical progress of development activities performed by the Municipal Council has revealed that some activities were either partially or not implemented despite the fact that funds have been allocated. Efforts should be made to implement development activities as defined in the Council plans and budget.

6.0 REVIEW OF AUDIT REPORTS FOR ILALA MUNICIPAL COUNCIL

6.1 Overview

The internal control set up of Ilala Municipal Council complies with the orders described in section 3.4 above and the Public Procurement Act 2004. Nevertheless, there are weaknesses arising from review of internal control system which show that the council has not fully complied with specific orders in the laws and regulations as provided. The following cases illustrate such instances:

- It was observed that the Ilala Municipal Council invested a sum of Shs 221,046,258 without having a clear investment policy and following the requirements of Order No. 199 of LAFM of 1997.
- The auditor provided evidence on property tax collected not supported by reference receipt number, payments done without supporting documents, missing payment vouchers, and missing item clearance schedules. This is contrary to Order No. 5(c) of LAFM 1997 requiring a sound accounting system and safekeeping of all supporting documents.
- There were transactional audit questions that have not been replied. Failure to reply to transactional audit questions is against the provision of LAFM Order No.4 which require responding to transactional audit questions from CAG within the given deadline.

Thus, although the internal control system is in place, several Orders of the LAFM of 1997 have been contravened. The following sections provide details of specific financial and accounting inadequacies which the Council should put attention to.

6.2 Audit opinions

As presented in section 3.3 above, following the completion of auditing exercise, the CAG produce a written report with a conclusion on “auditor’s opinion.” Table 6.1 shows the auditor’s opinion for financial years 2003/04, 2004/05, 2005/06 and 2006/07

Table 6.1 Auditor’s opinion for FY 2003/04, 2004/05, 2005/06 and 2006/07

	2003/04	2004/05	2005/06	2006/07
Auditor’s Opinion	Present fairly	Present fairly	Present fairly	Present fairly

An important thing to note is that the opinion may mainly reflect how the financial statements were prepared and not the “material matters.” For Ilala Municipal Council, financial statements “present fairly except for material matters.”

Despite receiving “present fairly” or “clean report” for the four consecutive financial years, there is more to be desired, that is, one needs to examine the materials part of the report. While the Council is issued with the clean audit report, there are number of expenditure inquiries or questions in the same report.

- *Thus, for accountability purposes, the final opinion of the CAG together with detailed “material matters” has to be presented to the stakeholders. This is essential in the examination of the accountability and internal accounting control of the district. Understanding the CAGs opinion on the “material matter” is also crucial in understanding the resources utilization and management in the district.*

6.3 Audit queries

Transactional audit queries or questions have implications on the internal control system of an organization over the resources entrusted to the management. Where a number of transaction audit queries exist it implies unavailable internal control system or weak internal control system in the organization. In the absence of strong internal control system it is difficult to prevent fraud both in terms of misuse of resources as well as inaccurate financial statements reporting. Table 6.2 shows the transactional audit enquiries or questions in the respective year of the audit.

Table 6.2: Transactional Audit Questions for FY 2003/04, 2004/05, 2005/06 and 2006/07

Transactional Audit Questions	Jan-June 2004	2004/05	2005/06	2006/07
Total transaction audit questions	47	59	100	74
Transaction questions replied and closed	42	29	99	63
Transactions questions not replied	5	30	1	11

- *Table 6.2 shows a number of transactional audit questions posed by CAG. In January-June 2004 there were 47 transaction audit queries and 42 were replied by management and closed. Only five (5) were not replied.*
- *As Table 6.2 indicates, there were 30 not replied queries in 2004/05 but at the time of writing the 2005/06 report (December 2006), there were no outstanding audit queries relating to the previous year. The Council Management is commended for this.*
- *In 2005/06 there were drastic increase in the number of audit queries but most of them were replied and closed.*
- *Table 6.2 shows that the number of queries decreased in 2006/07 though the number of the queries that were not replied increased.*
- *Transactional audit questions not replied represent transactions with irregularities of which no explanations were given for their cause hence not closed. Non response to the transaction audit questions may also indicate the lack of public integrity by those entrusted for the management of public goods and resources.*

- *In addition, it leaves some questions on the enforcement of the local authority financial memorandum as well as the power of the CAG over the local authority financial matters.*

The following are details of some of not replied transactional audit questions:

Missing revenue receipts and improperly vouched expenditure

Supporting reference numbers of revenue receipt used to collect property tax totalling Shs 834,608,897 were not shown in the Ilala Municipal Data Base. Under the circumstance, the auditors could not guarantee actual property tax aggregating to Shs 834,608,897. Also a check on payment vouchers and related records of the Municipal Council revealed that payment vouchers worth the same amount as above were paid without proper supporting document with made the accuracy and authenticity of payments made not to be ascertained and confirmed.

- *The Municipal Council should ensure that revenue registers containing reference numbers of receipts used for property collection of Shs 834,608,897 are available to audit verification.*
- *The Council Management should trace and submit the missing supporting documents for audit purposes. In addition, the Council Management is advised to find proper ways of safeguarding accounting records.*

Irregular payments

This review shows that an amount of Shs 71,689,600 was paid to Techno Net Scientific in respect of procurement of reagents and sensitive discs for laboratory use. Thus the council should comply with the procurement legislations.

Council's investments

The audit examination of 18 demand notes in respect of advertisement billboard fees revealed that fees totalling Shs 221,046,258 demanded during the year under review were still outstanding. However, as at the time of writing, Shs 93,096,800 was outstanding. It was further observed that there were no written agreements between the Municipal Council and bill board owners specifying terms and conditions in respect of the payment of bill board fees.

- *Thus, while we commend the council for diversifying revenue sources through investment, lack of proper and defined investment policy impairs control over the strategy of management of investments and poses a high risk of losses.*
- *The council should implement a clear and well defined investment policy which will identify all the risks which the council's investments can be subjected to and the ways to manage them.*

Provision for bad and doubtful debts

During the financial year 2006/07, it was observed that provision for bad and doubtful debts amounting to Shs 507,401,504 was made in the financial statements as follows:

Table 6.3: Provision for bad and doubtful debts

Details	Amounts
CSL (misappropriation funds)	31,757,700
Advertising (misappropriation funds)	3,826,000
T/License (misappropriation funds)	156,215,290
W/Youths	266,244,126
TZ Promotion	49,358,388
Total	507,401,504

The review shows that, an amount of Shs 191,798,990 out of the amount of Shs 507,401,504 was in respect of funds misappropriated (case No. 219 of 2002 Kisumu R/M); however, up to the time of writing the 2006/07 financial report, the matter was still outstanding.

- *The Municipal Council management should put extra effort to clear the outstanding debts and ensure that losses are reported as required under Order No. 173 of LAFM, 1997.*

6.4 Financial performance

During year under review, Ilala Municipal Council collected an amount of Shs 8,014,194,430.45 from own sources against the internal revenue budget target of Shs 8,000,000,000 reflecting over collection of Shs 14,194,430.

The total income received by the council was Shs 24,687,730,487.40 made up of Shs 8,014,194,430.45 from own source, Shs 15,288,745,550.20 from Government grant and Shs 1,384,790,506.75 from other grants.

The council spent Shs 24,008,939,011 during the year under review against total income of Shs 24,687,730,487.40 or 97% of total revenue, resulting to unspent amount of Shs 678,791,476.

A comparison of the internal revenue of Shs 8,014,194,430 against expenditure of Shs 24,008,939,011 is only 33% implying that the Municipal Council cannot sustain its recurrent or development expenditure without spending on grants by 67%.

Table 6.4: Revenue trend for 2004/05, 2005/06 and 2006/07

Source of funds	2004/05	2005/06	2006/07
Own source	7,736,773,619	6,916,130,756	8,014,194,430

Government grants	8,083,091,684	12,838,290,696	16,673,536,056
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The table above shows that while the collection of revenue from own sources increased in the year 2006/07, the council very much depended on grants from the central government and donors in running of its operations.

6.5 Audit discrepancies

In this section we summaries the discrepancies in several balance sheets, bank statements, and discrepancies in the use of projects/development funds, and those observed during local inspection.

6.5.1 Some balance sheets

During the 2006/07 audit year, the auditors noted sundry debtors amounting to Shs 201,397,270.65 which were not collected as at 30th June, 2007 (Table 6.5).

- *These findings show lack of exerted efforts by the management to ensure that all outstanding amounts due from sundry debtors are collected on time. As a consequence funds are tied up in the form of outstanding debtors resulting in the council experiencing liquidity problems.*
- *The management should exert more efforts in collecting the outstanding amounts from sundry debtors.*

Table 6.5: Outstanding sundry debtors

Description	Amount (Shs)
Imprests outstanding	14,688,068.00
Salary Advances	12,581,570.00
Staff loan	520,000.00
Sign board	1,526,000.00
Property tax	8,663,134.00
City Service levy	163,418,498.61
Total	201,397,270.61

- *Thus, the council's creditworthiness is questionable for failure to settle its liabilities on time. This implies that if the council did not settle debts when due, this might attract litigation cases and affect the municipality reputation.*
- *The council should ensure that liabilities are settled within specified periods.*

6.5.2 Outstanding sundry creditors

The financial statements as at 30th June 2007 reflected outstanding sundry creditors amounting to Shs 2, 082,126,443.24 which comprised the following:

Table 6.6: Outstanding sundry creditors

Details	Amount (Shs)
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Unpaid suppliers contractors & employees	989,427,616.50
Unclaimed salaries	30,855,032.13
Compensations	873,851,320.00
Salary deduction	27,754,498.61
Land rent and stamp duty	62,959,380.00
Revolving funds	?
Plot generation	3,763,493.00
Mifugo	560,000.00
MV revolving funds	93,025,103.00
Total	2,082,096,443.24

This review noted that at the time of writing the 2006/07 financial report in January, 2008, a total amount of Shs 1,925,061,995 was cleared, leaving a balance of Shs 157,064,448.

- *Thus the Council should ensure that the outstanding creditors are paid to avoid unnecessary penalties/interest charges.*

6.5.3 Incomplete development projects

The Ilala Municipal Council budgeted total amount of Shs 9, 031,570,923 for implementation of development projects for the year 2006/07. However the funds received was Shs 7,154,697,311 against the approved budget of Shs 9,031,570,923 resulting in a variance of Shs 1,876,873,612. Despite this observation over expenditure, assessment of the statement of performance for 2006/2007 development projects submitted along with Management responses showed some of the projects to have not been carried out at 100% level. Many of them were carried out from 0% to 50% level. The management should explain the reasons for the delay in implementing projects and the status of the projects.

6.5.4 Local inspections

In the auditing process, apart from reviewing financial statements, the auditors conduct interviews and discussions with some of the Council staff and other key stakeholders in the implementation of various activities; conducts local inspection to verify physical implementation of planned activities as well as assessing the progress made; and holds entrance and exit meetings with the auditee to discuss the audit objectives and results of the audit, respectively.

- *Thus, although it is stipulated so in the objectives of the audit, there is no evidence to suggest that the local inspection was conducted in 2006/07 audit process. It is imperative that local inspection is done to support the evidence obtained from the review of financial statements and interviews with Municipal staff.*

6.6 Conclusions and recommendations

1. A test check of the accounts and related records for the year under review resulted in 74 audit queries being issued to the Municipal Director of which 63 were cleared and

closed leaving 11 outstanding queries. With regard to the previous year's audit queries there were no outstanding audit queries at the time of writing.

2. Property tax collected but not supported by reference receipt number was evident. Under this circumstance, the auditor could not guarantee actual property tax collected. This means that the total revenue accruing from property tax as shown in the financial statement does not reflect the true value of property tax collected during the year under review. Ilala Municipal Council should ensure that revenue registers containing reference numbers of receipts used for property collection are available to audit verification.
3. A test check on payment vouchers and related records of the Municipal Council revealed that some payment vouchers were paid without proper supporting documents (improperly vouched expenditure). This implies that there is laxity in control over accounting records. As a result the accuracy and authenticity of payments made could not be ascertained and confirmed. The Council Management should trace and submit the missing supporting documents for audit purposes. In addition, the Council management is advised to find proper ways of safeguarding accounting records.
4. In assessing statement of performance for 2006/2007, development projects submitted along with Management responses showed some of the projects to have not been carried out at 100% level. Many of them were carried out from 0% to 50% level. The Management should explain the reasons for the delay in implementing development projects and the status of the projects.
5. The Council has significant debts which were not collected by the time of auditing process. This is a sign of lack of exerted efforts by the Municipal Council Management to ensure that all outstanding amounts due from sundry debtors are collected on time. As a consequence funds are tied up in the form of outstanding debtors resulting in the Municipal Council experiencing liquidity problems. The Municipal Council Management should exert more efforts in collecting the outstanding amounts from sundry debtors.
6. The Council has significant outstanding creditors which makes its creditworthiness questionable for failure to settle its liabilities on time. This implies that if the Council did not settle debts when due, this might attract litigation cases and affect the municipality reputation. The Council should ensure that liabilities are settled within specified periods.
7. While the Council is commended for diversifying sources of fund through investment, the Council has no clear investment policy or portfolio rules defining types of investments the Council can undertake, setting limits the Council can tie its funds in each particular investment portfolio, spelling types of insurance cover required for different levels of investments and setting risk evaluation criteria and guidelines for managing various types of risks associated with the funds invested. Lack of proper and defined investment policy impairs control over the strategy of management of investments and poses a high risk of losses. The Council should implement a clear

and well defined investment policy which will identify all the risks which the Council's investments can be subjected to and the ways to manage them.

8. Unpaid salaries not surrendered to the Treasury being unpaid salaries for the period between July-2006 and June 2007 were not yet remitted to the Treasury. Delay in deleting names of staff that are no longer in service can result in misappropriation of funds. The Municipal Council Management should ensure that pay roll is up dated regularly and that unpaid salaries are promptly remitted to the Treasury.

7.0 REVIEW OF AUDIT REPORTS FOR KIBAHA DISTRICT COUNCIL

7.1 Overview

The Internal Control set up of Kibaha District Council complies with the orders described in section 3.4 above but only complies partially with the Public Procurement Act 2004. Further, there are weaknesses arising from review of internal control system which show that the Council has not fully complied with specific Orders in the laws and regulations as provided. The following cases illustrate such instances:

- *Maintenance of the fixed assets register: It has been noted that the Council Management does not maintain a Fixed Assets Register contrary to Order No. 60(d) of the Local Authority Financial Memorandum 1997. As a result, the financial statements did not include a schedule of Council's assets to support the submitted schedule of depreciation.*
- *Stores not supported by issue vouchers: Stores worth Shs 5,849,267.28 were issued to various officers without being supported by relevant issue vouchers. Issuing stores without supporting documents is in violation of Orders Nos.231-235 of the LAFM (1997).*

Thus, although the internal control system is in place, several Orders of the LAFM of 1997 have been contravened. The following sections provide details of specific financial and accounting inadequacies which the Council should put attention to.

7.2 Audit opinions

The Council received a clean audit report for two consecutive years (2004/05 and 2005/06); all matters raised in the previous year's management letter were dealt with satisfactorily and have been closed. The opinion of the auditor on the financial statements is that the financial statements fairly reflect, in all material respects, the financial position of Kibaha District Council as at 30th June 2005 and the results of its operations and cash-flows for the year then ended, in accordance with Part IV of the Local Government Finances Act No. 9 of 1982. Further to this opinion, the procurement of works, goods, and consultancy and non-consultancy services was generally done in accordance with the Public Procurement Act. No 21 of 2004. In 2005/06 the same opinion was expressed except that there was non-compliance with the requirements of the Procurement Law, that is, the procurement process did not follow the guidelines as stipulated in the Public Procurement Act. No 21 of 2004. In 2006/07 the auditor's opinion on financial statements present fairly, in all material respects, the financial position of Kibaha District Council as of June 30th June 2007 and of the results of its operations and its cash flows for the year then ended, in accordance with Part IV of the Local Government Finances Act No.9 of 1982 and general accepted accounting principles. The following are audit findings arising from the audit of the procurement activities for the year ended 30th June 2007:

- (i) The Council has not established a Procurement Management Unit (PMU) during the year under review contrary to Section 34 of the Public Procurement Act No. 21 of 2004.
- (ii) The Council made some cash transit that are not reflected in the bank statement Shs 1,214,669.66.

➤ *Thus, the Council Management is required to establish a Procurement Management Unit as per Section 34(1) of the Public Procurement Act 2004 and comply with Section 44 of the Public Procurement Act No.21 of 2004 which states that: Notwithstanding instructions given under any law, it is the responsibility of every accounting officer to ensure that the procurement of goods, works or services is done in accordance with the procedures prescribed by under the said or related regulations.*

7.3 Audit questions

As pointed out in section 3.3 above, transactional audit queries or questions have implications on the internal control system of an organization over the resources entrusted to the management. Where a number of transaction audit queries exist it implies unavailable internal control system or weak internal control system in the organization. In the absence of strong internal control system it is difficult to prevent fraud both in terms of misuse of resources as well as inaccurate financial statements reporting.

➤ *The audit report of June 2007 shows that all matters raised in the previous year's management letter were dealt with satisfactorily and cleared. This is a commendable move and the council is encouraged to maintain the same accountability status.*

The following are details of some of not replied transactional audit questions;

Fixed assets register

It was noted that the council management does not maintain a Fixed Assets Register contrary to Order No. 60(d) of the LAFM of 1997. As a result, the financial statements did not include a schedule of council's assets to support the submitted schedule of depreciation. In the circumstances, it was not possible to verify the accuracy of the figure of Fixed Assets stated in the balance sheet.

- *This implies that the control over assets management is weak in that the assets of the council are not adequately safeguarded against losses from unauthorized use or disposition.*
- *The Council Management should introduce a permanent Fixed Assets Register that will indicate location of each asset, value, date of acquisition, disposal etc. The registers should be kept up-to-date and inspected by the council's internal auditor on a regular basis.*

Improperly vouched expenditure

Payments amounting to Shs 5,849,267 were made without necessary supporting documents such as original pay-lists, acknowledgement receipts, invoices, receipted pay rolls, expenditure particulars, air tickets etc. Under these circumstances, the authenticity and regularity of the expenditure incurred could not be ascertained.

- *This implies existence of weak internal control over council payments and custody of accounting records. The council management is advised to improve its internal controls over payments and custody of accounting records. In addition, the questioned expenditure of Shs 5,849,267 should be regularized by submitting the missing supporting documents.*

Irregular and questionable payment

Several irregularities relating to the payments made during the year were made. The irregularities involved questionable seminar expenses, questionable retirement particulars of imprests and, missing distribution analysis of school equipments.

- *These irregularities may imply that the internal control system over payments is weak. The internal check system should be improved to avoid reoccurrence of the irregularities. In addition, the questioned expenditure should be regularized by submitting the missing information.*

Table 7.1: Issues raised by auditor in 2006/07

Observation	Amount (Shs)
Under banked Revenue	3,840,987.01
Unreceipted allowance	1,837,000
Salaries wrongly paid to non employees	1,478,300
Unclaimed salaries	17,386,117.95
Outstanding imprest and advances	9,340,419
Cash in transit not reflected in bank statements	1,214,669.66
Inadequately supported expenditure	4,012,267.28
Non utilization of grants	635,682,068.14
Over expenditure	35,145,348

Repetitive audit queries

One thing that is notable for Kibaha District Council Audit reports of the two reviewed years is the ability to clear all the audit queries before subsequent year's audit. This is commendable and Kibaha Council stands as an example of best practice for other councils working with YAV on financial management and accountability issues. However there are

areas that need strengthening due to the fact that weaknesses in these areas are reported in both 2004/05, 2005/06 and 2006/07 financial years. These include:

1. Voucher management; improperly vouched expenditures were reported for both years under review.
2. Maintenance of fixed assets registers as required by the Order No. 60(d) of the Local Authority Financial Memorandum 1997.
3. Management of debtors and creditors as noted in the Consolidated Balance Sheets.
4. Clearance of outstanding items of Bank Reconciliation Statements as noted in both years.

7.4 Financial performance

Kibaha District Council collected a total of Shs 155,831,262 from own sources and received an amount of Shs 3,690,702,577 from the Central Government in lieu of the abolished tax sources hence making a total income of Shs 3,846,533,839.

On the other hand, the council had budgeted to collect Shs 149, 070,070 from own source resulting in an over collection of sum of Shs 6,761,192 or 4.5% of the budgeted amount. However the council spent an amount of Shs 3,210,851,770.84 (excluding depreciation) against total income of Shs 3,846,533,839 or 83.5% of the total income, resulting in unspent balance of Shs 635,682,068.16 or 16.5% of total income.

- *A comparison of the internal revenue source of Shs 155,831,262 against total expenditure of Shs 3,210,851,770.84 implies that the council cannot sustain either its recurrent or development expenditure without depending on government grants*

7.5 Audit discrepancies

In this section we summaries the discrepancies in several balance sheets, bank statements, and discrepancies in the use of projects/development funds.

7.5.1 Some balance sheets

The consolidated balance sheet as at 30th June, 2007, disclosed outstanding balance of debtors totalling Shs 13, 061,919 as indicated below:

Table 7.2: Outstanding debtors as at June 2007

Imprest Shs	3,790,219
Salary Advance Shs	9,271,700
Total Shs	13,061,919

- *The council management should indicate appropriate action being taken to ensure that the outstanding imprests and advances are timely recovered.*

7.5.2 Bank statement

The Bank reconciliation statements submitted together with the final accounts for the year under review disclosed uncleared items as follows:

Table 7.3: Bank reconciliation statements

Account	Amount (Shs)
General Fund	258,555.00
Deposit	594,614.66
Ujenzi	10,000.00
Afya	351,500.00
Total	1,214,669.66

- *The implication is high risk of loss of funds as well as possibility of overstating receipts. Thus Immediate follow up is necessary to ensure the cash in transit is banked intact*

7.6 Conclusions and recommendations

This section briefly presents the major audit findings and recommendations.

1. A follow up made on the previous audit findings revealed that all matters raised in the previous year's management letter were dealt with satisfactorily and cleared. The council is commended for that.
2. The council has generally not complied with the requirements of the PPA No.21 of 2004 together with its related Regulations of 2005. The council management is required to establish a Procurement Management Unit as per Section 34(1) of the Public Procurement Act 2004 and comply with Section 44 of the Public Procurement Act No.21 of 2004.
3. It was noted further that the council management does not maintain a Fixed Assets Register. The implication is that control over assets management is weak in that the assets of the council are not adequately safeguarded against losses from unauthorized use or disposition. The council management should introduce a permanent Fixed Assets Register that will indicate location of each asset, value, date of acquisition, disposal etc. The registers should be kept up-to-date and inspected by the council's internal auditor on a regular basis.
4. An examination of stores records revealed that some goods worth ordered and paid for during the year under review were not taken on ledger charge. It was further noted that the council had no utilisation particulars to confirm actual delivery and disposal of these items. There is a possibility of misuse or non-delivery of the goods paid for without management detection. The council management should streamline the stores management and improve its internal controls over stores to avoid possible stores losses.

5. On further examination of the stores, it was noted that there were stores issued to various officers without being supported by relevant issue vouchers which made it difficult to confirm as whether the stores were actually issued and received by the users/departments of the council or not. Further, some expenditure was improperly vouched, that is, payments were made without necessary supporting documents. Under these circumstances, the authenticity and regularity of the expenditure incurred could not be ascertained. The council management is advised to improve its internal controls over payments and custody of accounting records.
6. Irregular and questionable payments were also evident. The irregularities involved salaries wrongly paid to non employees of the Council, questionable retirement particulars of imprests and, payments made without supporting documents and unclaimed salaries spent on other activities. The internal check system should be improved to avoid reoccurrence of the irregularities. In addition, the questioned expenditure should be regularized by submitting the missing information.
7. The consolidated balance sheet reflected some outstanding debtors comprising of advances and imprests. Moreover, the Council did not state its policy on debtors. Management is advised to come up with a debts collection policy and ensure that the outstanding amounts are cleared.

8.0 GENERAL CONCLUSIONS AND RECOMMENDATIONS

Comparative analysis of the findings from the review of audit reports for the four councils reveals that majority of issues raised in the audit reports are the same (Table 8.1).

Table 8.1: Comparative summary of audit issues

Audit Issue	Temeke	Kinondoni	Ilala	Kibaha
Present fairly opinion/clean report	√	√	√	√
Presence of outstanding audit queries for the current year (2005/06)	√	√	√	√
Un-vouchered expenditures/ missing vouchers/improper vouchered expenditure	√	√	√	√
Repetitive audit queries	√	√	√	√
Over dependency on grants versus own generated revenue	√	√	√	√
Payment done without supporting documents	√	√	√	√
Outstanding sundry creditors and debtors	√	√	√	√
Bank statements showing uncleared items	√	√	X	√
Incomplete development activities/projects	√	√	√	X
Payment done in advance of delivery of goods	√	√	√	X
Presence of outstanding audit queries (past years)	√	√	X	X
Un-produced used revenue books	√	√	X	X
Under banking of revenue collected	√	X	X	√
Non segregation of duties	√	X	X	X
Investment as one means of diversifying Council's revenue base	X	X	√	X
Significant amount of stale cheques	X	√	X	X
Entities failing to pay service levy	X	X	√	X
Unpaid salaries not surrendered to the Treasury	X	X	√	X
Unavailability of Fixed Assets Register	X	X	X	√
Council has not established Procurement Management Unit	X	X	X	√
Mechanism to oversee the use of public resources	X	X	X	X
Capacity to respond to cases of misuse and/or abuse of public resources	X	X	X	X

Notable differences are noted in the following areas:

- Only Kibaha District Council has been reported not to have established a Procurement Management Unit and not having a Fixed Assets Registry at the time of the 2006/07 auditing period.
- Under-banking of collected revenues is a serious issue for Temeke Municipal Council and Kibaha District Council.
- Unpaid salaries not surrendered to the Treasury were observed in Ilala MC.
- Presence of outstanding previous years audit query. Ilala MC and Kibaha DC have no outstanding previous years audit queries.

- While Ilala has been reported to have made some investment as a new source of income, no other reviewed council has done so or they have done so but not reported to the auditor. This is a promising opportunity that other councils should learn from. However, before doing this development of investment policy or portfolio stipulating rules and defining types of investments the council can undertake, setting limits the council can tie its funds in each particular investment portfolio, spelling types of insurance cover required for different levels of investments and setting risk evaluation criteria and guidelines for managing various types of risks associated with the funds invested has to be in place.
- Major issues in district specific public integrity processes are the existence of mechanisms to prevent the misuse/abuse of public resources, and the capacity to respond to cases of misuse and/or abuse of public resources. It is worth noting that neither the Comprehensive Council Health Plans nor the audit reports reflect the mechanisms to oversee the use of resources and capacity to respond to cases of misuse and/or abuse of public resources.
- The following general recommendations cut across all the reviewed councils:
 - *The CAG report on financial statement can shed some light on public integrity processes as it points out the case of misuse of misappropriation of funds but does not say anything on actions taken. It is upon the council to provide guidelines on measures to be taken when there are case of misuse and abuse of council funds.*
 - *Although audit report is intended to be used by government authorities, its distribution to the public is also imperative (although due to the technical language used common people may not be able to understand it). Upon receipt of the report of the CAG by the Speaker and once tabled in Parliament, the report becomes a matter of public record and its distribution may not be limited. Thus, actors interested in building an accountable financial management system should take the lead in presenting the report in common language for wider usage.*
 - *Although all the reviewed councils receive “fairly presented opinion” or “clean report” for all the financial years, there is more to be desired, that is, one needs to examine the materials part of the report.*
 - *Thus, for accountability purposes, the final opinion of the CAG together with detailed “material matters” has to be presented to the stakeholders. This is essential in the examination of the accountability and internal accounting control system of the district. Understanding the CAGs opinion on the “material matter” is also crucial in understanding the resources utilization and management in the district.*