

If findings are ignored, why audit?

Lessons from five years of local government audits



1. Introduction

Over the last five years (2005/6-2009/10) the office of the Controller and Auditor General (CAG) has audited the accounts of Local Government Authorities (LGAs) and tabled the findings to Parliament promptly. There are several reasons to carry out such audits. One is to verify whether the financial statements of LGAs reflect what actually happened, and whether relevant procedures are being followed. When errors or omissions are found, the expectation is that they are being corrected. Hence another important function of financial audits is to ensure that the quality of financial management improves over time. But is this really happening?

This brief uses LGA audit reports to assess how the quality of financial management in LGAs evolved over the last five years. It shows that audit opinions did not improve and that after five years of auditing, financial management in a majority of LGAs is still intractably weak. Recommendations from the CAG are for the most part ignored, and audit queries remain unresolved to a degree that it raises questions about the use of doing financial audits. Why audit when its findings are not used to rectify unacceptable financial management practises?

The best way forward is obviously not to stop having financial audit but to make sure that audit challenges are effectively addressed. This brief suggests that Tanzania needs to establish incentives to make sure that audit recommendations are implemented. The Authority appointing LGAs management teams, LGAs Management teams, Members of Parliament, Parliamentary Accountability Committees, and Council Members have important roles to play to make this happen.

2. Audit opinions

Once the CAG has audited the accounts of a council he issues a professional opinion. This opinion reflects whether the financial statements of the council portray properly the results of its operations, cash flow and financial position. The CAG may issue one of 3 types of opinions:



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Released May, 2011



unqualified (which is also referred to as a clean audit opinion); qualified (or unclear); and an adverse opinion. The latter reflects badly on a council.

Clean opinions come in two forms, clean without emphasis on matters and clean with emphasis on matters. A clean audit opinion without emphasis on matters is the best. In some instances the CAG may refuse to issue a professional opinion in which case he will provide a disclaimer opinion. This is the worst possible opinion. It is issued when the financial statements are so badly prepared that it is impossible for the CAG to assess their reliability.

- **A Clean audit opinion** without emphasis on matters means that the CAG is satisfied that the council's financial statements present fairly the financial situation of the council. They meet the relevant reporting requirements.¹
- **A clean audit opinion with emphasis on matters** implies that the CAG is not entirely satisfied with the financial statements presented to him. The emphasis on matters is added to draw the attention of the accounting officer, i.e. the council director, to issues requiring his/her urgent attention.
- **An unclear (qualified) opinion** is issued when the CAG concludes that although the financial statements follow the applicable reporting requirements there are issues that make the accounts questionable. For this reason a clean opinion cannot be issued.
- If a council receives an **adverse opinion**, it means that financial statements of the council have been found to be incorrect, unreliable, or too inaccurate to properly assess its financial position and transactions.
- **A disclaimer opinion** means that the CAG is refusing to present an opinion because he is unable to obtain sufficient and appropriate evidence in the financial statements to form a professional opinion about the credibility of financial situation of the council.

3. What lessons do we take from five years of Local Government audits

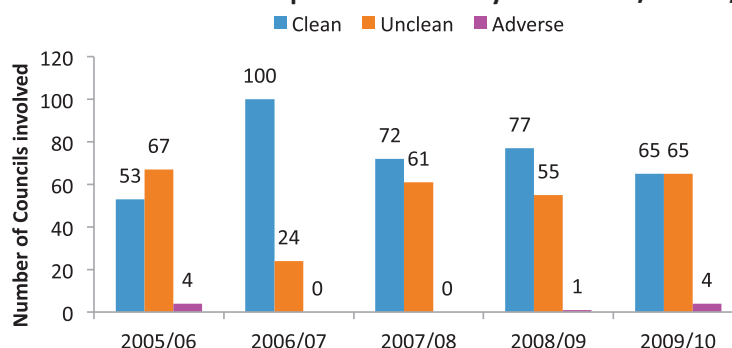
Lessons 1: Financial management situation in LGAs is deteriorating

The number of clean (unqualified) audit opinions issued to LGAs fluctuates yearly. Comparing the results for 2009/10 with those for 2005/6 there is no evidence of an overall improvement in the last five years. In fact, after an improvement between 2005/6 and 2006/7 the quality of financial management appears to be declining –at least when measured against the yardstick of audit opinions (Figure 1).

A clear indication of the deterioration in financial management is that in 2009/10 as many LGAs received an unclear audit opinion (65) as received a clean one. Moreover, the number of adverse audits is rising (from 0 in 2006/7 to 4 in 2009/10). And while in 2005/06 the CAG issued three clean audit opinions without emphasis on matters, this kind of opinion has not been issued to LGAs since then. In other words in the past four years all LGAs have had such serious issues with their financial management that the CAG considered it pertinent to raise them with both Council management and the public.

¹ Absence of emphasis on matters does not mean that a council has no issues at all and so the CAG will issue alongside the clean opinion a management letter explaining which issues have come to his attention.

Figure 1: Trend in the audit opinion received by LGAs: 2005/6-2009/10



Source of data: CAG's General Reports on Local Government Authorities

Lesson 2: The number of LGAs with financial irregularities doubled

Every time the CAG audits LGAs, he suggests remedial measures to ensure that similar irregularities do not occur again in the future. Accounting officers, who in the case of councils are Council Directors, are expected to implement these recommendations. In practise this seems not to be happening and similar irregularities continue to crop up and seem to affect more LGAs every year. It demonstrates that audit recommendations are not taken seriously.

The list of most common irregularities and the frequency with which they occurred between 2005/06 and 2009/10 are listed below. Outstanding unresolved amounts from previous audits, failure to fully spend development grants, and entering commitments beyond available means involved more than 100 councils during 2009/10, twice as many as in 2005/6.

Table 1: Most frequently occurring irregularities in LGAs and number of councils involved

Irregularity	Number of Councils involved				
	2005/06	2006/07	2007/08	2008/09	2009/10
Audit query amounts from previous audits that are not resolved	65	52	112	126	129
Outstanding debtors	45	76	115	113	109
Outstanding creditors(liabilities)	47	68	101	113	113
Unretired/outstanding/questionably paid imprest (advances)	16	17	17	n.a	n.a
Revenue not remitted to councils by collecting agents	14	12	22	43	43
Missing revenue collection books	35	8	43	50	48
Improperly vouched expenditures	46	32	69	63	71
Missing payment vouchers	27	12	45	33	34
Unspent development grants	5	14	111	118	127
Unclaimed salaries not remitted to treasury	26	28	71	58	55
Salaries paid to retired, absconded, terminated employees	n.a	n.a	19	40	38

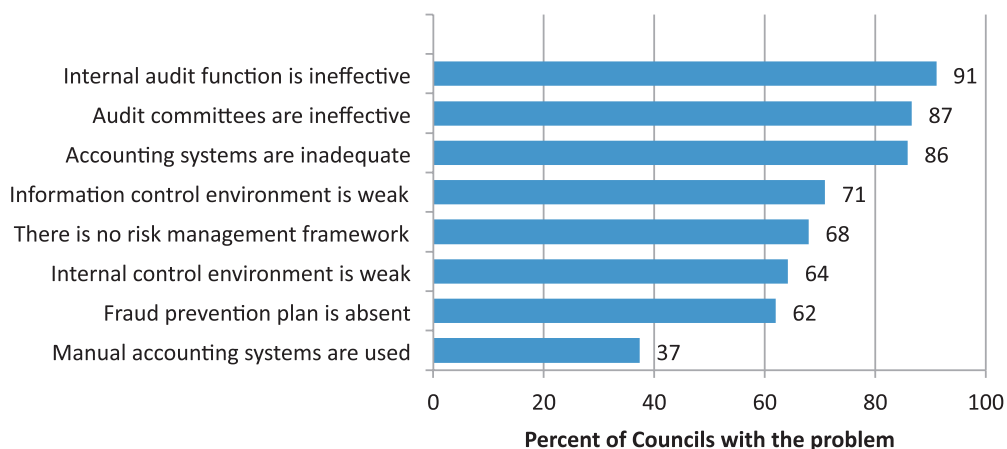
n.a: Issue not explicitly reported in the year

Source of data: CAG's General Reports on Local Government Authorities

Lesson 3: Councils have weak internal financial controls

The most recent audit considered the quality of internal controls in council financial management systems countrywide. It unveiled a sobering situation. In 2009/10, out of a total of 134 councils, 115 were found to have inadequate accounting systems. In (86 councils) 64 percent of the councils the internal control environment was found to be 'practically weak'. And despite the advent of information technology and the Government embracing e-governance, more than one third of the Councils were compiling their accounts manually which makes them prone to making and accumulating errors.

Figure 2: Internal Control weaknesses and percent of Councils involved 2009/10



Source of data: CAG's General Reports on Local Government Authorities for 2009/10

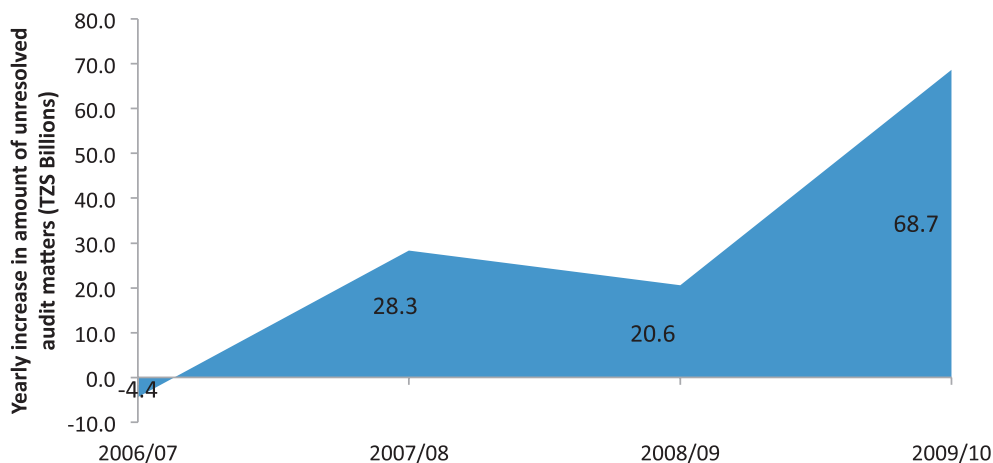
Lesson 4: LGAs consistently fail to resolve audit queries

When the CAG raises questions about information in LGAs' financial statements or about the quality of the internal control environment, he also gives recommendations to address them. Councils' management teams are then expected to address these before the next audit and accounting officers are expected to inform the CAG how audit queries will be addressed.

In practise the CAGs queries are not addressed. The number of LGAs with unattended audit queries has increased considerably. While there were only 65 councils with unresolved audit queries in 2005/06, in 2009/10 almost all LGAs were implicated: only 5 LGAs (Iringa Municipal Council, Njombe Town Council, Kilolo District Council, Chato District Council and Songea Municipal Council) did not have unresolved matters from previous audits.

Because outstanding matters from previous audits are typically not addressed, the amount of money implied has kept growing (Figure 3). Starting from TZS 9 billion in 2005/06 outstanding audit queries increased to TZS 122 billion in 2009/10, fourteen fold what was outstanding in 2005/6.

Figure 3: How LGAs contribute to increase in audit queries that are not resolved



Source of data: CAG's General Reports on Local Government Authorities

Lesson 5: There are a few councils that show encouraging trend

As figure 1 and 3 have shown, the number of councils with a clean audit has steadily declined from 100 in 2006/07 to 65 in 2009/10, while the amount of audit queries that are not addressed has increased tremendously.

Using a scoring scheme ranging from 0-3 where 0 represents 'adverse' opinion and 3 represents a 'clean opinion without emphasis on matters', we are able to show how audit opinions have evolved, as well as the best and poor performers over a five year period in terms of score on audit opinion. The analysis shows that the overall score on councils in 2009/10 is 1.4, the same as it was in 2005/06² (See Annex for full council rankings). The overall average over a five year period is 1.5, with very few councils (14 out of 133) getting a score of 2 points. These include the only 10 councils that had clean audits throughout the last five years (Karatu DC, Mufindi DC, Kilolo DC, Kiteto DC, Mbulu DC, Kwimba DC, Tunduru DC, Manyoni DC, Morogoro MC, and Shinyanga MC); three young councils formed in 2007 (Arusha DC, Misenyi DC, and Siha DC) which managed to get a clean audit consistently in the last three years; and Hai DC, one of the few that managed a clean audit without emphasis on matters in 2005/6.

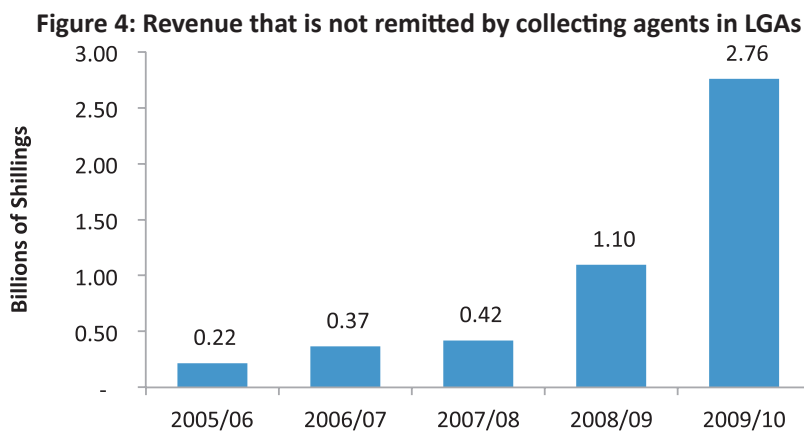
In terms of how diligently councils address audit opinions, we find that in the last three years, Njombe Town Council is the only one that did not have outstanding matters in any single year. The existence of Njombe as a best performer in addressing audit queries suggests that other councils have no compelling reasons to not address such queries comprehensively.

Lesson 6: Oversight over revenue collection is weak

LGAs have a mandate to collect own revenues to complement transfers received from the Central Government and are authorised to use agents to do so. When agents are used, LGAs need to provide oversight. The audit reveals that LGAs often fail to do so. For instance, LGAs fail

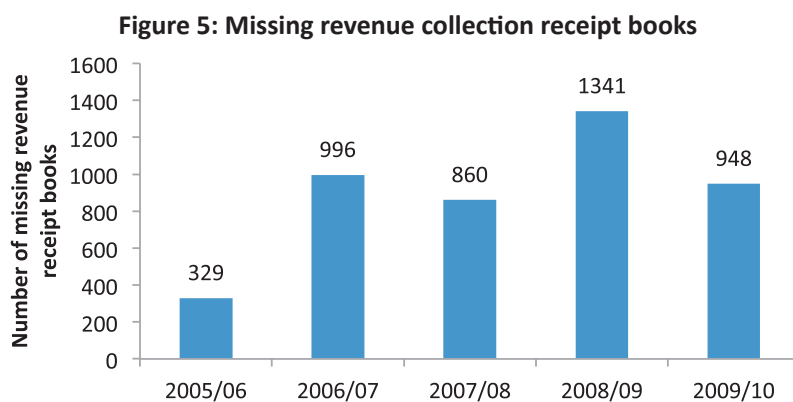
² About 14 out of 133 Councils are young; they were formed after 2006. For such councils, the average audit score for 3 year is assumed to be the best they could have attained in five years had they been audited in 2005/06 and 2006/7. Kondo Township authority is not included in the overall score.

to ensure that collecting agents remit all revenues they collected. In 2009/10 the amount of unremitted revenue was TZS 2.76 billion, about twelve times more than in 2005/06 (Figure 4).



Source of data: CAG's General Reports on Local Government Authorities

In addition large numbers of revenue collection books go missing each year (Figure 5). Of course, occasionally a revenue book can get lost. If this happens the law requires accounting officers to immediately report the loss of the book to appropriate authorities. But contrary to what the law requires, a significant number of revenue receipt books go missing without being reported. It is impossible to tell whether the books identified as missing were used to collect money, and if so whether this was done in a legitimate manner (i.e. whether or not the money was remitted to the LGA).



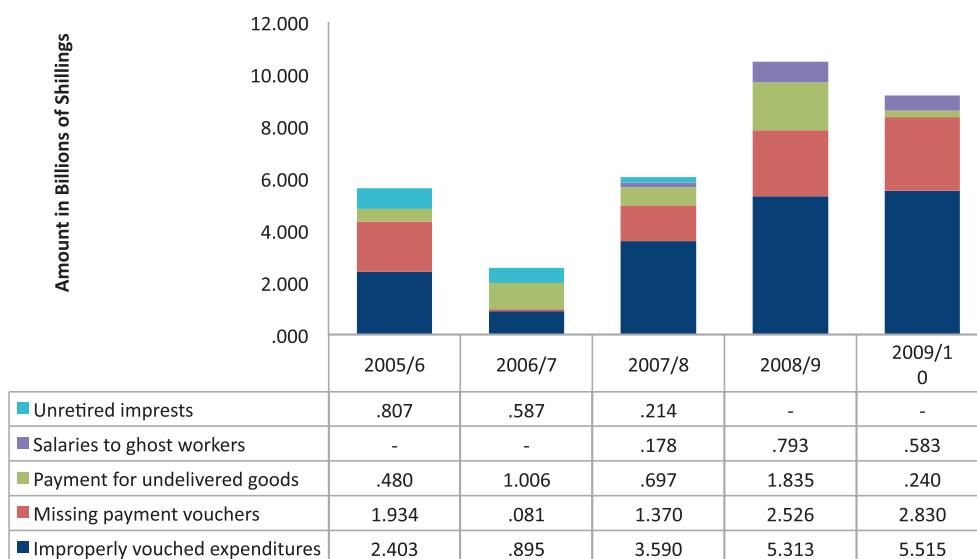
Source of data: CAG's General Reports on Local Government Authorities

Lesson 7: More money going to LGAs is spent questionably

Questionable payments refer to transactions made without appropriate supporting documents such as transactions for which payment vouchers are missing, goods that are paid for but that are not delivered, salaries that are paid to ghost workers (retired, absconded and/or terminated employees), and advances (imprests) that are either paid out contrary to how the law requires or are not fully accounted for by the end of the financial year.

In 2006/07 questionable payments were reduced significantly, demonstrating that it is possible for LGAs to adequately implement financial procedures. Since that time, however, much ground has been lost, and in 2009/10 questionable payments amounted to TZS 9.2 billion. The amount accumulated over five years is about TZS 33.4 billion. Such an amount is more than enough to provide adequate sanitation facilities for public secondary schools; to establish facilities for extracurricular activities and to provide scholarships for up to 80,000 students from poor families for five years.

Figure 6: More money is spent questionably by LGAs



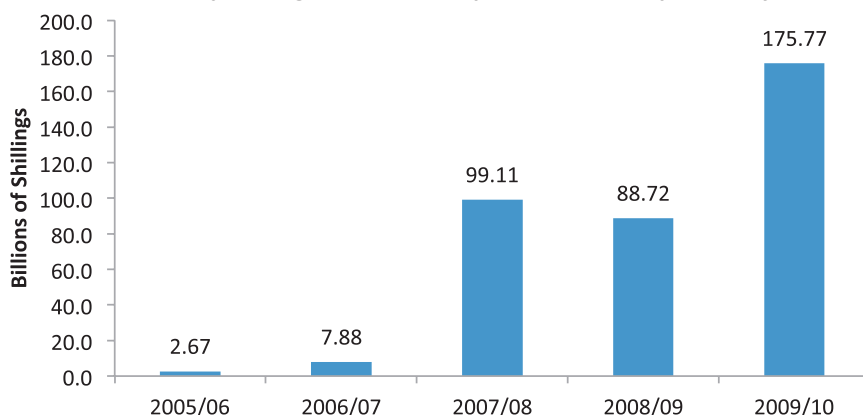
"-" Item is not explicitly reported in CAG report for that year

Source of data: CAG's General Reports on Local Government Authorities

Lesson 8: More money for development projects is underutilised

When councils fail to spend the money allocated to them for development projects two things happen. First, services and benefits due to communities are delayed. And second, because costs are rising and the allotted budget is eaten away by inflation, fewer services can eventually be delivered than was originally planned. Notwithstanding these well known ramifications, underutilisation of development grants has grown tremendously in recent years. In 2009/10 alone, an estimated 35% of the allocated development grants to LGAs were not utilised. In absolute terms, the unspent development grants in 2009/10 were almost 65 times the amount of unspent funds in 2005/06.

Figure 7: More Development grants are not spent within the planned year of activity



Source of data: CAG's General Reports on Local Government Authorities

4. Conclusion

This brief has shown that despite five years of Local Government Authorities' audits, internal financial controls in LGAs are still astonishingly weak and irregularities identified by the CAG are ignored. The trend of audit opinions in the last few years has, as a consequence, been deteriorating and financial management seems to have gotten worse. However, the existence of councils that perform well, though few, suggests that with appropriate level of commitment others too can improve.

These are compelling reasons to take audit recommendations more seriously. And as data for 2006/7 demonstrate, shortfalls need not be permanent. The CAG himself has consistently suggested a number of measures, some of which we repeat here:

- Local Authorities Accounts Committee (LAAC) of the Parliament need to take a more active role by taking to task irresponsible accounting officers who fail to effectively manage resources. The LAAC could organise public hearings where citizens can participate and call accounting officers to testify on financial management shortfalls in their Councils.
- Councils should become more transparent about resources they collect and/or receive and what they are intended to finance. Only under a transparent environment can Citizens meaningfully enforce accountability from the demand side.
- The authority appointing the accounting officers need to exercise employment sanctions as recommended by the CAG and LAAC on managers who fail to safeguard public resources.
- The Appointing Authority should consider establishing an employment framework that compels management teams in the public sector to be more accountable. CAG has recommended hiring managers on contractual terms renewable on successful performance.
- Members of Parliament and Councillors should take a more active role in inquiring whether council directors manage public resources in the best interest of communities as part of their contribution in council meetings.

You can learn more about audit situation in individual councils by reading the full audit report from the national audit office's website www.nao.go.tz. For other analyses on audits and public resources visit www.uwazi.org

Annex: LGAs ranking by quality of audit opinion received in 5 years

RANK	COUNCIL	REGION	2005/6	2006/7	2007/8	2008/9	2009/10	SCORE
1	Mufindi DC	IRINGA	2	2	2	2	2	2.0
2	Karatu DC	ARUSHA	2	2	2	2	2	2.0
3	Kilolo DC	IRINGA	2	2	2	2	2	2.0
4	Kiteto DC	MANYARA	2	2	2	2	2	2.0
5	Mbulu DC	MANYARA	2	2	2	2	2	2.0
6	Morogoro MC	MOROGORO	2	2	2	2	2	2.0
7	Kwimba DC	MWANZA	2	2	2	2	2	2.0
8	Tunduru DC	SONGEA	2	2	2	2	2	2.0
9	Shinyanga MC	SHINYANGA	2	2	2	2	2	2.0
10	Manyoni DC	SINGIDA	2	2	2	2	2	2.0
11	Arusha DC	ARUSHA	N/A	N/A	2	2	2	2.0
12	Missenyi DC	KAGERA	N/A	N/A	2	2	2	2.0
13	Siha DC	KILIMANJARO	N/A	N/A	2	2	2	2.0
14	Hai DC	KILIMANJARO	3	2	1	2	2	2.0
15	Kisarawe DC	COAST	1	2	2	2	2	1.8
16	Mafia DC	COAST	2	2	2	2	1	1.8
17	Biharamulo DC	KAGERA	1	2	2	2	2	1.8
18	Bukoba DC	KAGERA	2	2	1	2	2	1.8
19	Muleba DC	KAGERA	2	2	1	2	2	1.8
20	Kasulu DC	KIGOMA	2	2	1	2	2	1.8
21	Kibondo DC	KIGOMA	2	2	2	1	2	1.8
22	Same DC	KILIMANJARO	2	2	2	1	2	1.8
23	Nachingwea DC	LINDI	2	1	2	2	2	1.8
24	Hanang' DC	MANYARA	2	2	2	2	1	1.8
25	Serengeti DC	MARA	1	2	2	2	2	1.8
26	Chunya DC	MBEYA	2	1	2	2	2	1.8
27	Kyela DC	MBEYA	1	2	2	2	2	1.8
28	Ulanga DC	MOROGORO	2	2	2	1	2	1.8
29	Newala DC	MTWARA	2	2	2	1	2	1.8
30	Sengerema DC	MWANZA	2	2	2	2	1	1.8
31	Nkasi DC	RUKWA	2	2	2	2	1	1.8
32	Sumbawanga DC	RUKWA	2	2	2	2	1	1.8
33	Songea DC	SONGEA	2	2	2	1	2	1.8
34	Bariadi DC	SHINYANGA	2	2	1	2	2	1.8
35	Meatu DC	SHINYANGA	2	2	2	2	1	1.8
36	Iramba DC	SINGIDA	2	2	1	2	2	1.8
37	Muheza DC	TANGA	2	2	1	2	2	1.8
38	Tabora MC	TABORA	1	2	2	2	2	1.8
39	Mpanda TC	RUKWA	N/A	N/A	2	2	1	1.7

RANK	COUNCIL	REGION	2005/6	2006/7	2007/8	2008/9	2009/10	SCORE
40	Njombe TC	IRINGA	N/A	N/A	2	2	1	1.7
41	Kibaha TC	COAST	2	2	2	1	1	1.6
42	Rufiji/Utete DC	COAST	1	2	1	2	2	1.6
43	Kinondoni MC	DSM	1	2	2	1	2	1.6
44	Kondoa DC	DODOMA	1	2	2	1	2	1.6
45	Kongwa DC	DODOMA	1	2	2	1	2	1.6
46	Mpwapwa DC	DODOMA	1	2	2	1	2	1.6
47	Bukoba MC	KAGERA	1	2	1	2	2	1.6
48	Karagwe DC	KAGERA	1	2	2	1	2	1.6
49	Ngara DC	KAGERA	2	2	1	1	2	1.6
50	Lindi DC	LINDI	2	1	1	2	2	1.6
51	Lindi TC	LINDI	1	2	2	2	1	1.6
52	Babati TC	MANYARA	2	2	1	2	1	1.6
53	Musoma DC	MARA	1	2	2	2	1	1.6
54	Bunda DC	MARA	1	2	2	2	1	1.6
55	Musoma MC	MARA	1	2	2	2	1	1.6
56	Tarime DC	MARA	1	2	2	2	1	1.6
57	Mbozi DC	MBEYA	1	1	2	2	2	1.6
58	Rungwe DC	MBEYA	2	2	1	1	2	1.6
59	Kilombero DC	MOROGORO	2	2	1	1	2	1.6
60	Masasi DC	MTWARA	1	2	1	2	2	1.6
61	Mtwara DC	MTWARA	1	2	2	2	1	1.6
62	Tandahimba DC	MTWARA	2	1	1	2	2	1.6
63	Geita DC	MWANZA	1	2	2	2	1	1.6
64	Misungwi DC	MWANZA	1	2	2	2	1	1.6
65	Mpanda DC	RUKWA	1	2	2	2	1	1.6
66	Mbinga DC	SONGEA	2	2	2	1	1	1.6
67	Songea MC	SONGEA	2	2	1	2	1	1.6
68	Bukombe DC	SHINYANGA	1	2	1	2	2	1.6
69	Shinyanga DC	SHINYANGA	2	1	1	2	2	1.6
70	Maswa DC	SHINYANGA	1	1	2	2	2	1.6
71	Singida DC	SINGIDA	1	2	2	2	1	1.6
72	Handeni DC	TANGA	2	2	2	1	1	1.6
73	Pangani DC	TANGA	2	2	2	1	1	1.6
74	Tanga CC	TANGA	2	2	2	1	1	1.6
75	Kilindi DC	TANGA	3	1	1	2	1	1.6
76	Tabora DC	TABORA	1	2	1	2	2	1.6
77	Urambo DC	TABORA	1	1	2	2	2	1.6
78	Bagamoyo DC	COAST	1	2	2	1	1	1.4
79	Kibaha DC	COAST	1	2	1	1	2	1.4

RANK	COUNCIL	REGION	2005/6	2006/7	2007/8	2008/9	2009/10	SCORE
80	Dar es Salaam CC	DSM	1	2	2	1	1	1.4
81	Ilala MC	DSM	2	1	1	1	2	1.4
82	Temeke MC	DSM	1	2	1	2	1	1.4
83	Dodoma MC	DODOMA	1	2	1	2	1	1.4
84	Iringa DC	IRINGA	1	2	1	1	2	1.4
85	Iringa MC	IRINGA	1	2	1	2	1	1.4
86	Ludewa DC	IRINGA	1	1	1	2	2	1.4
87	Kigoma DC	KIGOMA	0	2	2	1	2	1.4
88	Moshi MC	KILIMANJARO	1	2	2	1	1	1.4
89	Rombo DC	KILIMANJARO	2	2	2	1	0	1.4
90	Kilwa DC	LINDI	1	2	2	2	0	1.4
91	Ruangwa DC	LINDI	1	2	1	2	1	1.4
92	Simanjiro DC	MANYARA	1	1	1	2	2	1.4
93	Ileje DC	MBEYA	1	1	1	2	2	1.4
94	Mbarali DC	MBEYA	1	1	2	2	1	1.4
95	Mbeya DC	MBEYA	1	1	2	2	1	1.4
96	Morogoro DC	MOROGORO	2	2	1	1	1	1.4
97	Mvomero DC	MOROGORO	2	2	1	1	1	1.4
98	Mtwara Mikindani MC	MTWARA	2	1	1	1	2	1.4
99	Magu DC	MWANZA	1	2	1	2	1	1.4
100	Kahama DC	SHINYANGA	1	1	2	2	1	1.4
101	Singida MC	SINGIDA	1	2	1	2	1	1.4
102	Korogwe DC	TANGA	2	2	1	1	1	1.4
103	Meru DC	ARUSHA	N/A	N/A	1	1	2	1.3
104	Bahi DC	DODOMA	N/A	N/A	1	1	2	1.3
105	Chato DC	KAGERA	N/A	N/A	2	1	1	1.3
106	Rorya DC	MARA	N/A	N/A	2	1	1	1.3
107	Nanyumbu DC	MTWARA	N/A	N/A	1	1	2	1.3
108	Mkinga DC	TANGA	N/A	N/A	2	1	1	1.3
109	Arusha MC	ARUSHA	1	2	1	1	1	1.2
110	Monduli DC	ARUSHA	1	2	1	1	1	1.2
111	Ngorongoro DC	ARUSHA	1	2	1	1	1	1.2
112	Mkuranga DC	COAST	1	1	1	2	1	1.2
113	Makete DC	IRINGA	1	2	1	1	1	1.2
114	Njombe DC	IRINGA	1	2	1	1	1	1.2
115	Kigoma/Ujiji MC	KIGOMA	1	1	1	1	2	1.2
116	Moshi DC	KILIMANJARO	1	2	1	1	1	1.2
117	Liwale DC	LINDI	1	1	1	2	1	1.2
118	Babati DC	MANYARA	1	1	1	2	1	1.2

RANK	COUNCIL	REGION	2005/6	2006/7	2007/8	2008/9	2009/10	SCORE
119	Mbeya CC	MBEYA	0	2	2	1	1	1.2
120	Kilosa DC	MOROGORO	2	2	1	0	1	1.2
121	Mwanza CC	MWANZA	1	2	1	1	1	1.2
122	Ukerewe DC	MWANZA	1	2	1	1	1	1.2
123	Sumbawanga MC	RUKWA	0	2	2	1	1	1.2
124	Namtumbo DC	SONGEA	1	2	1	1	1	1.2
125	Kishapu DC	SHINYANGA	1	1	2	2	0	1.2
126	Korogwe TC	TANGA	1	2	1	1	1	1.2
127	Lushoto DC	TANGA	1	2	1	1	1	1.2
128	Nzega DC	TABORA	1	1	1	2	1	1.2
129	Sikonge DC	TABORA	1	1	2	1	1	1.2
130	Longido DC	ARUSHA	N/A	N/A	1	1	1	1.0
131	Chamwino DC	DODOMA	N/A	N/A	1	1	1	1.0
132	Mwanga DC	KILIMANJARO	1	2	1	1	0	1.0
133	Masasi TC+	MTWARA	1	1	N/A	N/A	1	1.0
134	Igunga DC	TABORA	0	2	1	1	1	1.0
135	Kondoa TA	DODOMA	3	2	N/A	N/A	N/A	2.5*
	Overall Average Score		1.4	1.8	1.5	1.6	1.4	1.5
	Total Number of Councils Audited		124	124	133	133	134	

Colour Scheme and score definition

3	Clean (Unqualified) without emphasis on matters
2	Clean (Unqualified) with emphasis on matters
1	Unclean (Qualified)
0	Adverse

N/A: LGA did not exist/does not exist by that name in the year of audit. For councils that have been audited for less than 5 years, the average score for 3 year is assumed to be the best they could have attained.

*Kondoa Township Authority is disregarded in computing the overall score.

+ Existed as a township authority prior to 2009/10

Source of data: CAG's General Reports on Local Government Authorities