Accounting and Administrative Controls

Participants’ Handbook
April 2014
The United Republic of Tanzania

Support to Local Governance Processes (SULGO) in Tanzania
Project: Strengthening internal controls at sub-national level

Summary Guide
Part B

Accounting and Administrative Controls

Participants' Handbook
April 2014
Foreword

Tanzania’s local government budgets account for over 25 per cent of the total national budget – and the proportion is increasing. This trend mirrors the responsibilities that have so far been transferred to LGAs over the past decade under the national decentralisation by devolution policy. At the same time, LGAs are facing ever-increasing demands for quality services and for strict adherence to regulations and transparency, pushed by, amongst others, the National Audit Office as seen in the critical audit opinions it issued to various LGAs.

The effectiveness of LGAs’ internal control systems determines not only how public funds are used but also the extent to which local governments are becoming the drivers for development as they are expected to be. Further advancements in the national decentralisation process depend heavily on the way LGAs control the resources they are entrusted with. LGAs’ internal control systems also play a key role with respect to the legitimacy of the state because local governments are the institutions closest to the ordinary citizens. Hence, the way the LGAs actually use their resources has a big impact on the public’s opinion and perception of the performance of the government as a whole. In the context of rising tensions within a transforming society, the importance of strong LGA internal control systems cannot be overemphasized.

Several government bodies such as the Prime Minister’s Office for Regional Administration and Local Government (PMO-RALG), Regional Secretariats (RSs), and the Office of the Internal Auditor General are required to capacitate LGAs in the area of internal controls. Yet, developing capacities for nearly 170 LGAs constitutes an enormous task in addition to the challenges already being encountered as the LGAs attempt to cope with recently introduced higher national standards, such as those relating to risk management or to accrual accounting.

PMO-RALG and GIZ, in close collaboration with the Office of the Internal Auditor General, launched an initiative to assist selected district, municipal and city councils and corresponding Regional Secretariats (RS) in the application of and adherence to internal controls standards and regulations. The focus of this initiative was on learning-by-doing, capacitating public servants through coaching on-the-job, and on formulating respective methods of capacity development at sub-national level.

The present book is a direct outcome of the coaching and forms part of a series that covers the four thematic areas of Accounting & Administrative Controls, Risk Management, Internal Audit and Audit Committees in the councils, as well as the backstopping role of Regional Secretariat in monitoring and evaluation of LGAs’ internal controls. Each of the areas comprises two books: a participants’ handbook for the public servant for reference, and a handbook for facilitators tasked with capacitating staff from LGAs or RSs.

We wish the users of the present book interesting and stimulating reading and hope that it helps to perform better their tasks.

Achim Blume
Head of GIZ Governance Programmes Tanzania
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<th>Description</th>
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</thead>
<tbody>
<tr>
<td>AIS</td>
<td>Accounting Information System</td>
</tr>
<tr>
<td>BMTL</td>
<td>Business Machines Tanzania Limited</td>
</tr>
<tr>
<td>CAG</td>
<td>Controller and Auditor General</td>
</tr>
<tr>
<td>CAPAM</td>
<td>Commonwealth Association for Public Administration &amp; Management</td>
</tr>
<tr>
<td>COA</td>
<td>Chart of accounts</td>
</tr>
<tr>
<td>COFOG</td>
<td>Classification of Functions of Government</td>
</tr>
<tr>
<td>COSO</td>
<td>Committee of Sponsoring Organizations</td>
</tr>
<tr>
<td>CSPD</td>
<td>Child Survival, Protection and Development Programme</td>
</tr>
<tr>
<td>DC</td>
<td>District Council</td>
</tr>
<tr>
<td>DED</td>
<td>District Executive Director</td>
</tr>
<tr>
<td>DT</td>
<td>District Treasurer</td>
</tr>
<tr>
<td>DP</td>
<td>Development Process</td>
</tr>
<tr>
<td>ED</td>
<td>Exposure Drafts</td>
</tr>
<tr>
<td>FIFO</td>
<td>First-in, first-out</td>
</tr>
<tr>
<td>FS</td>
<td>Financial Statement</td>
</tr>
<tr>
<td>FV</td>
<td>Fair value</td>
</tr>
<tr>
<td>GFE</td>
<td>Government-based entities</td>
</tr>
<tr>
<td>GFS</td>
<td>Government Financial Statistics</td>
</tr>
<tr>
<td>GJ</td>
<td>General Journal</td>
</tr>
<tr>
<td>GIZ</td>
<td>Gesellschaft für Internationale Zusammenarbeit</td>
</tr>
<tr>
<td>GRN</td>
<td>Goods Received Note</td>
</tr>
<tr>
<td>GPFR</td>
<td>General Purpose Financial Report</td>
</tr>
<tr>
<td>HBF</td>
<td>Health Basket Fund</td>
</tr>
<tr>
<td>HR</td>
<td>Human Resources</td>
</tr>
<tr>
<td>IAS(B)</td>
<td>International Accounting Standards (Board)</td>
</tr>
<tr>
<td>IFAC</td>
<td>International Federation of Accountants</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>INTOSAI</td>
<td>International Organization of Supreme Audit Institutions</td>
</tr>
<tr>
<td>IPSAS</td>
<td>International Public Sector Accounting Standard</td>
</tr>
<tr>
<td>IPSASB</td>
<td>International Public Sector Accounting Standard Board</td>
</tr>
<tr>
<td>LAAM</td>
<td>Local Authorities Accounting Manual</td>
</tr>
<tr>
<td>LAPF</td>
<td>Local Authorities Provident Fund</td>
</tr>
<tr>
<td>LGA</td>
<td>Local Government Authority</td>
</tr>
<tr>
<td>LPO</td>
<td>Local Purchase Order</td>
</tr>
<tr>
<td>MDC</td>
<td>Makumbusho District Council</td>
</tr>
<tr>
<td>MTEF</td>
<td>Mid-Term Evaluation Framework</td>
</tr>
<tr>
<td>NBAA</td>
<td>National Board of Accountants and Auditors</td>
</tr>
<tr>
<td>PMO-RALG</td>
<td>Prime Minister’s Office – Regional Administration and Local Government</td>
</tr>
<tr>
<td>PPE</td>
<td>Property, plant and equipment</td>
</tr>
<tr>
<td>RS</td>
<td>Regional Secretariats</td>
</tr>
<tr>
<td>SULGO</td>
<td>Support of Local Governance Processes</td>
</tr>
<tr>
<td>TZS</td>
<td>Tanzanian Shilling</td>
</tr>
<tr>
<td>VFM</td>
<td>Value for money</td>
</tr>
<tr>
<td>WAM</td>
<td>Weighted average cost</td>
</tr>
<tr>
<td>WSDP</td>
<td>Water Sector Development Programme</td>
</tr>
</tbody>
</table>
Introduction to the Handbook

Background Information

This Participant's Handbook on Accounting and Administrative Controls has been developed as part of the Project "Strengthening internal controls at sub-national level" under the GIZ Programme "Support to Local Governance Processes" (SULGO). The project's objective is: "The internal control mechanisms at selected LGA level in the two partner regions of the programme, Mtwara and Tanga, are reinforced". The project supports the Tanzanian Local Government Reform Programme as one of the major national strategies promoting the decentralization process.

The project covers four (4) key thematic areas; (1) risk management; (2) accounting and administrative controls; (3) internal audit techniques and (4) functioning of the audit committees. Each thematic area has its own coaching materials in form of one participants’ and one facilitators’ handbook. The coaching curriculum for each of the thematic area was developed based on the coaching needs assessment of beneficiaries, documentary review on CAG audit reports, management letters and on the study "Priority Entry Points to Strengthen Accountability and Internal Auditing at District level" from 2012.

Use of the Participants’ Handbook

This handbook was first used as a coaching aid when coaching sessions were conducted to officials in the four pilot LGAs, i.e. in Handeni District, Tanga City, Mtwara District and Mtwara Municipal Council.

After the coaching has ended, the handbook can be further used as reference and guidance document, e.g. for clear definitions of technical terms, for step-by-step explanations of processes, for checklists or for the correct use of templates and reporting formats.

In addition to the coaching participants, the handbook was also developed for officials of other LGAs as a self-learning kit.

Overview of Session Layout and Design

The Participants’ Handbook covers 18 main coaching sessions. The layout of the session is composed of an introduction, learning objectives, definitions if appropriate, the session content, some hints and review questions. On successful completion of the 18 sessions, participants will be able to perform their roles and responsibilities.

The coaching sessions have a duration ranging from thirty minutes up to two hours, with the average being one hour. The sessions to be delivered at a particular LGA in form of one-on-one sessions, focus group discussion and peer-to-peer learning sessions.
1 Introduction to Internal Controls

1.1 Introduction

More than ever, citizens are demanding for better accountability from LGA officials for their stewardship of public resources.

To be truly accountable, LGA managers must use the resources committed to their care as effectively and efficiently as possible, in full accordance with applicable legal requirements and regulations. At the same time, they must ensure that reliable financial information is provided on a timely basis to decision makers both inside and outside the LGA. These objectives can only be achieved within the framework of a sound and comprehensive system of internal controls.

1.2 Learning Objectives

It is expected that at the end of this session the participants will be able to:

- Define internal control systems;
- Understand the objectives and application of internal control systems in LGAs;
- Appreciate the importance of internal control;
- Understand the link between internal control and risk management.

1.3 Definitions

What is internal control?

Internal control is an integral process that is effected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the following general objectives are being achieved:

- Executing orderly, ethical, economical, efficient and effective operations;
- Fulfilling accountability obligations through reports;
- Complying with applicable laws and regulations;
- Safeguarding resources against loss, misuse and damage.

[INTOSAI, 2004]

1.4 Internal control as a system

A system is a set of things working together as parts of a mechanism. In this case, an internal control system is a set of related control elements working together to control all of the LGAs functions. Internal controls include both accounting and administration that is applicable within the LGA.
Examples of such control elements are:

- Policies, guidelines, and laws applicable to LGAs;
- Procedures for carrying out different processes and tasks in the LGA;
- Expected behaviours by code of conduct and other aspects that are applicable within the LGA.

1.5 Why is there a need for internal control in LGAs?

Controls are needed in order to prevent, detect or correct errors and mistakes that may happen in LGA activities. With the best of intentions, most people make mistakes. Therefore, any LGA wishing to conduct its business in an orderly and efficient manner and to produce reliable financial accounting information, both for its own and for others’ use, need control measures to minimize the effects of these endemic human failings.

When such controls are implemented within the organization’s systems they are described as internal controls.

Therefore, internal controls, taken together, facilitates the effectiveness and efficiency in operations by enabling the LGA to respond appropriately to significant business, operational, compliance and other risks to achieving its objectives, and to ensure the quality of internal and external reporting.

1.6 Legal requirement for establishing internal controls

The Local Authority Finance Memorandum (2009) places the responsibility for approving internal control to the Finance Committee of the Council.

Section 11 (1) of the Memorandum terms the system of internal control as – “written procedures necessary for proper control of finances”.

In this section the Director is charged with the responsibility for distribution of the procedures to responsible Officers with the Council.

1.7 Objectives and application of internal control systems in LGAs

The overall objective of internal control is to provide assurance that LGA’s will achieve its objectives.

Internal controls have the following objectives:

- To ensure ethical, economical, efficient and effective execution of operations:
  - The entity’s operations should be orderly, ethical, economical, efficient and effective;
  - The terms economical, efficient and effective are also known as the 3Es, the necessary components in achieving value for money (or VFM);
  - This objective is mainly to ensure that there is value for money in LGA’s operations.
- To ensure the production of reliable reports so as to fulfilling accountability obligations:
  - Accountability is the process whereby LGAs officials are held responsible for their decisions and actions, including their stewardship of public funds, fairness, and all aspects of performance;
  - This will be realized by developing, maintaining and making available reliable and relevant financial and non-financial reports to stakeholders (e.g. Councillors, Accounting Officer, Heads of Departments, internal and external auditors, audit committees and parliamentary committees etc.).
To ensure there is compliance with applicable laws and regulations;

Resources and assets are safeguarded against loss, misuse and damage. The significance of safeguarding resources in LGAs needs to be stressed. This is because resources in LGAs generally embody public money and their use in the public interest generally requires special care. Therefore, controls should be embedded in each of the activities related to managing the entity’s resources from acquisition to disposal. Safeguards are usually against loss, misuse and damage due to waste, abuse, mismanagement, errors, fraud and irregularities.

Internal controls are designed to ensure that:

- There is value for money in operations (i.e. economy, efficiency, and effectiveness);
- Reports produced and financial records are reliable;
- Laws and regulations are complied with;
- Assets and resources are safeguarded.

1.8 Link between internal control and risk management

Risk management is defined as a process of identifying and assessing risks and planning and implementing mitigation controls against those risks.

This concept follows the realization that whatever the LGA's mission may be, its achievement will face all kinds of risks (i.e. events or situations that are likely to hinder LGAs from achieving its objectives).

The task of management is to identify and respond to these risks in order to maximize the likelihood of achieving the LGA’s mission.

Most of the responses to risks are by putting up specific internal control that addresses these risks in question.

1.9 Review questions

- What is internal control and what is an internal control system?
- Mention the four objectives of internal control in LGAs.
- Give an example of internal procedures and regulations in your LGA that amounts to controls.
Session 2

2 The Control Environment and the IGA Operations

2.1 Introduction

An organisation’s internal control has five (5) essential components, namely: control environment, risk assessment, control activities, information and communication, and monitoring activities. As it is explained in the next sections, control environment is the most essential element of an internal control system.

2.2 Learning Objectives

This session is aimed at giving the participants an understanding of the components of internal controls and different factors that may limit the effectiveness of internal control in LGAs.

At the end of this session, the participants will be able to:

- Understand the components of internal control;
- Explain the importance of “tone at the top” in the LGA’s control environment;
- Understand the different roles and responsibilities of LGA management council in setting conducive control environment;
- Understand the limitations of internal controls.

2.3 Definitions

What is a control environment?

**Definition 1:**
The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization.

*COSO (2013)*

**Definition 2:**
The control environment sets the tone of an organisation, influencing the control consciousness of its staff. It is the foundation for all other components of internal control, providing discipline and structure.

*INTOSAI (2004)*
2.4 Components of internal control

To achieve internal control, five essential components of internal control that must be in place and must function together are:

i. Control environment
ii. Risk assessment
iii. Control activities
iv. Information and communication
v. Monitoring activities

The five components are illustrated by the COSO (i.e. Committee of Sponsoring Organizations of the Tread way Commission) internal control cube above. They have to be reflected in each of the entity’s level, division, operational unit and function and be mainstreamed across the entity’s main processes, i.e. (i) operations, (ii) reporting and (iii) compliance.

2.4.1 Control environment

This is the internal environment of the entire LGA. It is the most important aspect of LGA’s internal control system. It includes the values, ethics, culture and commitment of the LGA and its members. It influences the control consciousness of LGAs staff.

It is composed of the following elements:

- Personal and professional integrity and ethical values of the LGA’s management and staff;
- Tone at the top (or management philosophy and operating style);
- Commitment of top management on control, ethics and quality;
- The organizational structure and related human resource policies and practices.

The control environment is the foundation for the entire internal control system in the LGA.

2.4.2 Risk assessment

Risk management is the identification of threat to the organisation (LGA), the assessment or measurement and deciding how they should be responded to by setting relevant controls.

2.4.3 Control activities

Control activities refer to all policies and procedures that help ensure management’s directives are carried out.

Control activities fall into four categories:
Performance reviews;
  - Example: Independent checks on performance by a third party, or verifications, comparing actual vs. budgets, bank reconciliations etc.);

Information processing;
  - Example: Control of quality of input of data, processing and output;

Physical controls;
  - Example: Storage of assets or information under lock and key against theft, fences etc.;

Segregation of duties;
  - Duties are divided among people to prevent error or inappropriate action;
  - Example: Responsibility of authorizing transactions, recording them, and handling related assets are divided to different LGA officials.

2.4.4 Information and communication

Effective information and communication is vital for the LGA to run and control its operations. LGA management needs access to relevant, complete, reliable, correct and timely communication related to internal as well as external events.

2.4.5 Monitoring

Monitoring of the internal control system is necessary to help ensure that internal control remains tuned to the changed objectives, environment, resources and risks.

2.4.6 Importance of 'tone at the top' in the LGA's internal control environment

'Tone at the top' means management philosophy and operating style exhibited by LGA's top management. If LGA Top Management in the LGA believes internal control is important others will sense that and will respond by observing the controls established.

2.4.7 Management responsibilities for internal control in LGAs

Internal control is the management’s techniques to achieve objectives, therefore LGA’s management is primary responsible for:

- Establishing and maintain internal control in the LGA and
- Proper functioning and effectiveness of internal control

However, management performance is subject to oversight by Council, which in respect to internal control has the ultimate responsibility for ensuring that:

- Management fulfils its internal control duty;
- Management does not override established internal controls.

The LGA Financial Memorandum (2010) specifies that, in relation to LGA internal control system, the Finance Committee of the Council approves all written procedures for proper control of finances.

The LGA Director and the Treasurer shall support the system of internal control through:

- Assignment of specific responsibilities to individual officers;
- Production of organisation chart showing lines of reporting and supervision;
- Division of responsibilities of related operation between several offers;
Introduction and implementation of appropriate computerized accounting system;
Periodic rotation of staff;
Institute a system that provides internal check.

2.5 Limitations of internal control effectiveness

The following factors limit the effectiveness of internal controls:
- Staff carelessness, poor judgment or lack of knowledge
- Staff taking short-cuts instead of following procedures
- Staff failing to recognize or act on unusual transactions
- Collusion by staff for personal gain or other motives
- Controls and processes being overridden by LGA management
- The cost of control where management may perceive it to be expensive to institute a control (as compared to benefit of controlling)
- Staff incompetence leading to errors and unintentional mistakes

2.6 Review Questions

- Mention the components of internal control
- Discuss the importance of ‘tone at the top’ in creating conducive control environment in LGAs
- What are the practical challenges in achieving effective internal control at your LGA?
3 Accounting Systems

3.1 Introduction

The accounting system is an integral part of the internal control structure of an LGA. Without the information generated by the accounting system, management would lack the ability to plan and direct operations in achieving LGA’s objectives as well as report to other oversight organs.

3.2 Session Objectives

At the end of this session, the participants will be able to:

- Define an accounting system;
- Understand and describe the components of the accounting system;
- Explain the attributes of a good accounting system;
- Explain the link between accounting system, organisation structure and internal controls.

3.3 Definitions

What is an accounting system?

Organized set of manual or computerized accounting methods, procedures, and controls established to gather, record, classify, analyse, summarize, interpret, and present accurate and timely financial data for management decisions.

(Source: Business Dictionary)

3.4 Objective of the accounting system

The main goal of the accounting system is to ensure that financial data and economic transactions are properly entered into the accounting records and that financial reports necessary for management are prepared accurately and in a timely fashion.

3.5 Components of an accounting system

In simple terms, the accounting system, which if computerised is also termed as accounting information system, has the following essential elements:

- People – these are the accounting system users, which include the accountants working with the system and other LGA staff using accounting information.
- Internal controls – Security measures aimed at protecting sensitive accounting data, these may range from electronic and physical restrictions, and other procedure and Instructions instructing on methods for retrieving and processing data from the accounting system.
- Data – accounting information that is pertinent to the LGA’s practices.
Software – where the accounting system is computerised this includes computer programmes used to process data (e.g. Epicor).

Information Technology Infrastructure – this structure and network of the hardware used to accounting operate the system.

Documentation – written records of the system’s instructions or output of the accounting system e.g. vouchers, and other reports.

3.6 Chart of Accounts

The chart of accounts (COA) is an organized and coded listing of all the individual accounts that are used to record transactions and make up the ledger system.

It lists each item of which the accounting system tracks, where each account is assigned an identifying number for use within the accounting system.

All LGAs in Tanzania have a uniform COA issued by the Treasury in collaboration with PMO-RALG (see Table 1 below for an example).

Table 1: Example of Chart of Accounts

<table>
<thead>
<tr>
<th>Account Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>86-2018-512A-0-1-0000-000000-110801</td>
<td>Public Buildings – Property rates</td>
</tr>
<tr>
<td>86-2018-512A-0-1-0000-000000-110802</td>
<td>Land Rent</td>
</tr>
<tr>
<td>86-2018-503C-0-1-0000-000000-110803</td>
<td>Beans Crop Cess</td>
</tr>
<tr>
<td>86-2018-503C-0-1-0000-000000-110804</td>
<td>Cloves Crop Cess</td>
</tr>
<tr>
<td>86-2018-503C-0-1-0000-000000-110805</td>
<td>Coffee Crop Cess</td>
</tr>
<tr>
<td>86-2018-503C-0-1-0000-000000-110806</td>
<td>Cotton Crop Cess</td>
</tr>
</tbody>
</table>

The account numbers shown in the table above are displayed in what is known as GFS code (i.e. Government Financial Statistics).

The GFS classification attempts to put in place an economic classification that will facilitate not only control and accountability but also impact analysis of the budget in the economy and different social groups.

The following is an explanation of what each group of numbers represents in the codes:

- Take an example of the following code: 79-2008-500A-2-4-6277-H01D01-230210;
- The code is broken down in the table below to explain each group/categories of numbers:
<table>
<thead>
<tr>
<th>Group</th>
<th>Meaning/representation</th>
</tr>
</thead>
<tbody>
<tr>
<td>79-</td>
<td>A region in which the LGA is located (for instance this is Morogoro Region)</td>
</tr>
<tr>
<td>2008-</td>
<td>The LGA (in this 2008 is code for Morogoro Municipal Council)</td>
</tr>
<tr>
<td>500A-</td>
<td>This is a cost centre</td>
</tr>
<tr>
<td>2-4-</td>
<td>Source of fund (could be internal or external)</td>
</tr>
<tr>
<td>6277-</td>
<td>Project code</td>
</tr>
</tbody>
</table>
| H01D01- | This relates to the LGA plan/MTEF where:  
1st letter = applicable LGA’s objective (could be A, B, or C etc.).  
01 = target number related to the objective above  
2nd letter type of activity (could be D = development, Consultancy, or as in this case S = service).  
01 = number of the activity above. |
| 230210 | This is the detailed GFS code for the revenue or expense in question. For this group of numbers the first number is tells whether the item is an expense or revenue etc., as follows:  
If first number is 1 = revenue.  
If first number is 2 = expenses (as in this example).  
If first number is 3 = transactions in nonfinancial assets, financial assets, and liabilities.  
If first number is 4 = refers to holding gains.  
If first number is 5 = other changes in the volume of assets and liabilities.  
If first number is 6 = represents a stock of a type of asset or liability.  
If first number is 7 = this represents expense transactions and transaction in nonfinancial assets which can also be classified using the Classification of Functions of Government (COFOG). |

### 3.7 Journals and ledgers

#### 3.7.1 Journals

Journals are also called books of original entry, are used to systematically record all accounting transactions before they are entered into the general ledger.

Journals organize information chronologically and by transaction type (receipts, disbursements, other).

There are two primary journals:

- The cash disbursement and receipts journal that chronologically record all cash/cheque payments and receipts using the chart of accounts;
- The General Journal is a record of all transactions, which do not pass through the cashbook, including non-cash transactions (such as accrual entries and depreciation) and corrections to previous journal entries.

In LGA, where there are usually greater numbers of financial transactions, there are subsidiary journals that break out certain kinds of activity from the primary journals noted above.
The most common examples of subsidiary journals include:

- The Payroll Journal, that records all payroll-related transactions. This may be useful as the number of payroll transactions grows and becomes too large to handle reasonably within the cash disbursements journal;
- The Accounts Payable Journal and Accounts Receivable Journal:
  - These are useful for grouping income and/or expense accruals which are too numerous to track effectively through the general journal;
  - For accounts payable and receivable, the subsidiary journals hold balances for each individual supplier/creditor or client/debtor.

3.7.2 General ledger

The general ledger organizes information by account as listed in the chart of accounts. A summary totals from all of the journals are entered into the general which maintains a year-to-date balance for each account. This is the key ledger because it provides the accounts from which financial statements are prepared.

3.7.3 Cashbook

The cashbook is the book in which movement of money (cash, cheques, money orders etc.) is recorded. Most financial transactions will pass through the cashbook, where cash or bank receipts are deposited and from which disbursements are made.

3.8 Attributes of a good and efficient accounting system

A good accounting system is designed and maintained in consideration of the following principles:

- Cost-effectiveness balance:
  - Accounting systems are designed to produce information to users, however, the cost of developing and maintaining the system and producing the reports should not exceed the benefits received by those who use the report.
- Flexibility to meet future needs:
  - LGA environment are characterized with change (e.g. new accounting standards, government laws and regulations, environment, technology, politics etc.);
  - The accounting system must be flexible enough to meet the changing demands (e.g. of accounting standards like IPSAS require a new format of financial reporting).
- Effective reporting:
  - Users of information provided by the LGA accounting system rely on various reports from the accounting system;
  - The requirement and knowledge of users should be recognized.
- Internal controls:
  - Internal control with an accounting system may be achieved through having competent personnel, rotating duties, assigning responsibility, separating responsibilities for related Operations, separating accounting and asset custody, proofs and security Measures.
3.9 Organizational structure and internal controls

The accounting system must be tailored to the LGA structure because the lines of authority and responsibilities in the LGA affect the information requirements.

Due to the same reason, an accounting system must provide reasonable assurance to the achievement of objective, and effectiveness and efficiency in operations (i.e. value for money) this is achieved by having appropriate controls.

The first step in developing an effective internal accounting control system is to identify those areas where abuses or errors are likely to occur (this is called risk assessment part of the elements of internal control).

Specific job descriptions should be developed to match with roles and responsibilities of each individual/officers hold a position in the LGA structure. Job descriptions work as a control tool that shows activities boundaries which facilitate segregation of duties and internal check.

3.10 Information flow within the accounting system

The flow of information within the accounting system is directed by source documents, journals and the ledger accounts. This flow of information is illustrated in the flowchart in figure 2 below:

Figure 2: Flow of information within the accounting system (Source: Fess and Warren, 1990)
The term accounting information system (AIS) is used when the “accounting system” as defined above is generally computer-based for tracking accounting activity in conjunction with information technology resources.

3.11 Review Questions

- What is an accounting system? How does it differ from accounting information system?
- Explain in the chronological order, how the following items fit within accounting systems:
  - The source documents;
  - The journals;
  - The cashbook;
  - General ledgers and subsidiary ledgers;
  - The trial balance and bank reconciliation;
  - The financial statements.
4 Accounting Controls

4.1 Introduction

In this session, internal control systems are define and discussed. However, the definition of internal control extends to cover matters which relate both to accounting and administrative process (i.e. accounting controls and administrative controls).

4.2 Learning Objectives

At the end of this session, the participants are expected to be able to:

› Define accounting controls;
› Understand the objective for accounting controls;
› Differentiate between preventive, detective and corrective accounting controls;
› Mention key feature for good accounting controls;
› Understand different practical ways of enhancing accounting controls in LGAs.

4.3 Definitions

What are accounting controls?

Accounting controls comprise of methods and procedures which the LGA’s management institute to (1) authorize transactions, (2) safeguard assets, (3) monitor disbursements/payments, and (4) ensure the accuracy and validity of accounting records.

4.4 What are the objectives of accounting controls?

The specific objectives with regard to accounting controls are:

› Transactions are recorded accurately;
› Transactions are recorded at the appropriate value;
› Only properly authorized transactions are input and accepted;
› Transactions are recorded in the appropriate period (i.e. financial years, month, or quarter);
› All valid transactions are recorded;
› Sufficient documentation is retained to substantiate recorded transaction and are verifiable for audit;
› The components of transaction are appropriately allocated and classified to the proper financial statement items (i.e. assets, liabilities, revenues, expenses etc.).
The general objectives of accounting control are within the definition of internal control (i.e. to ensure that transactions are authorised, assets are safeguarded, reports are reliable, and laws and regulations are complied with).

4.5 Types of accounting controls

There are three types of accounting controls namely; preventive controls, detective controls, and corrective controls:

Table 3: Types of Accounting Controls

<table>
<thead>
<tr>
<th>Type of control</th>
<th>Purpose of the control</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preventive controls</td>
<td>To prevent potential problems when an activity is performed</td>
<td>The segregation of accounting duties; Regulations requiring proper authorization or documentation; Physical control over LGA's assets.</td>
</tr>
<tr>
<td>Detective controls</td>
<td>To discover the occurrence of adverse events such as operational inefficiency, they act as enforcement, to identify existing undesirable activities, as well as simply to test whether the preventive controls are being effective</td>
<td>Reviews, analyses, audits, and other investigative procedures; Physical inventory checks of LGA's assets and financial resources; Bank reconciliations etc.</td>
</tr>
<tr>
<td>Corrective controls</td>
<td>To remedy problems (i.e. error and irregularities) discovered through detective controls.</td>
<td>Error detection and resubmission; Discrepancy reports; Error statistics; Backup and recovery.</td>
</tr>
</tbody>
</table>

4.6 Features of a good accounting control system

Within the LGA accounting controls the following features need to be present:

- Good audit trail of transactions;
- Sound personnel policies and competent employees;
- Separation of duties (or segregation of duties where more than one person is required to complete the task);
- Physical protection of assets and financial resources;
- Internal reviews of controls by internal audit;
- Timely performance reports.

These features are also the basis for the LGA's control policies and guidelines as discussed in the next section.

4.7 Practical accounting control-related policies and procedures in LGAs

To ensure that all transactions in the accounting system are complete, properly allocated, assets are secured and within the proper accounting period, the following policies and procedures should be put in place:
Authorization of transaction, i.e. only specific individuals should be able to initiate a transaction, for example: Through purchase requisition, or cheque request;

Proper designed records and documents, for example: Sequential numbering of documents, duplicates (e.g. purchase orders. Prohibit destruction of unusable forms;

Security of assets and records (e.g. cash, inventories, and equipment), such as:
- Use of controlled access to records (e.g. payable clerk does not need to have access to receivable records, limited access to tax or payroll records) or;
- Protection of assets using locked store rooms, or cash and cheques to be deposited promptly.

Segregation of incompatible duties, for example in the purchase of supplies, the following need segregation:
- Purchase department will issue orders to supplier;
- Receiving department will verify the receipt;
- The accounting department will prepare payment and record the transaction.

Periodic reconciliations: related accounting records must be compared periodically, for example:
- Amount of cash reported in the accounting records should be reconciled to the cash balances recorded on the bank statement.
- Balances recorded in the general ledger control accounts (e.g. accounts payable-control) should be reconciled to related amounts recorded in subsidiary ledgers (e.g. total balances in individual payable accounts).

Periodic verifications: Management should periodically compare data contained in the accounting records to what those data purport to represent, for example:
- Taking physical inventory of Non-Current Assets, comparing the results of that inventory to the accounting records, and then making appropriate adjustments.

Analytical review: This is to determine the reasonableness of financial data by comparing their behaviour with other financial and non-financial data, for example:
- If on a bus stand it is reported an increase in number of buses, how much revenue might reasonably be expected from tax collectors? Or why our bus stand collections are lower than those of other LGAs within the same route?
- Or why motor vehicle repair costs remained stable even though the LGA has bought/replaced its fleet with new models?

Timely preparation of financial reports: Management should have in place a system that ensures the collection and compilation of the data needed for timely preparation of financial statements.

4.8 Review Questions

- Define accounting controls.
- How do accounting controls relate to the overall LGA's internal control system?
- What key features need to be present in accounting control system? Give examples.
5 Administrative Controls

5.1 Introduction

The definition of internal control covers matters which relate both to the function of the accounting department (i.e. accounting controls) and those that cover functions beyond accounting (i.e. administrative controls).

This session discusses administrative controls.

5.2 Learning Objectives

At the end of this session, the participants will be able to:

- Define administrative controls;
- Differentiate administrative control from accounting controls;
- Explain the importance of administrative controls in LGAs;
- Understand the types of administrative controls;
- Understand the main features of a good administrative control system.

5.3 Definition

What are administrative controls?

Administrative controls are defined as those measures that control operations and transactions up to the point of authorization and that promote operational efficiency.

Examples of administrative controls include:

- Documenting an entity’s organizational structure;
- Developing personnel recruiting and hiring policies;
- Compulsory leave or rotation of accounting staff;
- Establishing written codes of conduct for employees.

5.4 Why are administrative controls important?

Administrative controls are part of the LGA’s internal control system. They are therefore very much inter-related with accounting controls as they form a basis for authorizing financial transactions that are posted into the accounting records.

Administrative controls:

- Establish the lines of authority and responsibility, segregation of operating and recording functions, and provide for hiring of qualified employees;
- Give a sound practice to be followed in performance of duties and functions of each of the LGA’s departments (i.e. segregation of functional responsibilities);
Primarily designed to promote operational efficiency throughout the LGA;
Encourage adherence to prescribed managerial policies and regulations.

5.5 Main features of a good administrative control system

An effective plan for administrative control should contain the following minimum features (note that some features were also mentioned under accounting controls):

- An organizational structure:
  - Administrative controls include determining the segregation of duties among departments and employees;
  - This means deciding which departments are authorized to conduct particular activities and developing independent verification systems;
  - The organizational structure defines the lines of authority and responsibility between different functional departments (e.g. for planning, procurement, accounting, human resource and administration etc.).

- Written policy and procedures:
  - Policies and procedures, allow everyone to know what is expected of them, how they should perform their job duties, and what are the consequences if they do not perform them as required;
  - While policies are established by the Council to direct operations and establish clear limits and authority, procedures are developed by the LGA management; they describe how to do a job.

- System of authorization:
  - This is to ensure that transactions such as payments and asset acquisition are properly authorized;
  - This also gives a proper design for the flow of information and will provide an accurate audit trail through the accounting process.

- Reporting:
  - The reports of LGA's activities (financial and others) should be reported to the persons in charge of the LGA's various functions as provided in the LGA's organizational chart;
  - Each head of department receives reports that fully cover controllable expenses of all operations for which he/she is responsible;
  - The reporting process goes upward – summarization through the LGA lines until full scope of operations is compiled in a single report at the highest level.

5.6 Types of administrative controls

Administrative controls are categorized into Preventive and detective controls.

Table 3 below gives an example of the controls:
Table 4: Types of Administrative Controls

<table>
<thead>
<tr>
<th>Type of Administrative Control</th>
<th>Purpose</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preventive Administrative Controls</td>
<td>These are designed for controlling employees' behaviour and to ensure the confidentiality and integrity.</td>
<td>Procedural awareness and technical training to employees</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Separation of duties</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Procedures for recruiting and terminating employees</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Security policies and procedures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Supervision</td>
</tr>
<tr>
<td>Detective Administrative Controls</td>
<td>They are used to determine how well LGA's policies and procedures are complied with, to detect fraud, and to avoid employing persons that represent an unacceptable risk to the LGA.</td>
<td>Reviews and audits</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Performance evaluations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Required vacations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Background investigations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rotation of duties.</td>
</tr>
</tbody>
</table>

5.7 Review Questions

- What are administrative controls, how do administrative controls differ from accounting controls?
- Give examples of administrative control procedures in authorizing payments at your LGA.
- What do you think are the signs for weak administrative controls in a LGA?
6 Application of Controls in the Accounting Processes

6.1 Introduction

An important aspect in developing and maintaining an effective LGA accounting control system is to identify risky areas (or areas that are likely to face abuses or errors), and to develop control activities/procedures that will address risks in each of specialized accounting process.

6.2 Learning Objectives

This session serves as an introduction to sessions that will discuss key issues to consider in designing and implementing internal controls over specialized accounting processes (or sub-systems).

The session is divided into 8 related sessions of which each covers a specific accounting sub-system.

At the end of this session, the participants are able to:

- Define accounting processes;
- Understand key issues to consider in establishing controls in each accounting process;
- Understand the risk in achieving the objective of specific accounting processes;
- Explain the meaning and difference of control objectives, and control activities/procedures;
- Understand the key consideration in designing control procedures.

6.3 Definitions

The accounting system of the LGA may be viewed in terms of individual processes or sub-systems which are also known as “business cycles”. Business cycles relate to economic events that occur within the LGA and generate transactions and interactions with the accounting system.

**Accounting Process (or Accounting cycle):**

- The accounting process is a series of activities that begins with a transaction and ends with a closing of the book. The accounting process is sometimes known as the accounting cycle. This is because the accounting process is repeated in each reporting period.

**Accounting Sub-systems (or Business Processes):**

- The accounting system as a whole is composed of sub-systems i.e. specialized systems/processes that relate to specialised economic events that generate transactions and interactions with the overall LGA accounting system (e.g. the revenue collection process, the expenditure process, etc.).
6.4 Steps in the accounting process or cycle

In summary, the accounting process or cycle involves steps include the following:

i. Analysis and recording of transactions from source documents,
ii. Posting to the ledger,
iii. Preparing un-adjusted trial balance,
iv. Preparing adjusting entries,
v. Preparing financial statements, and
vi. Closing the books.

Figure 3: The Accounting Cycle (Source: Glencoe Online)

6.5 Accounting processes (or sub-systems)

The accounting sub-systems, as defined above, form the components of the overall accounting system. These are sometimes referred to as “business processes or business circles due to the fact that they originate from the business transactions that the LGA is conducting on daily basis and later captured in the accounting system.

Examples for accounting processes in an LGA are:

- Revenue collection process;
- Payment process;
- Cash management;
- Payroll process;
Bank account management;
Contract management;
Stores management;
Debts/liabilities management.

Each of the above accounting sub-systems will be dealt with in detail in the following sessions.

6.6 Key issues to consider in establishing control over a specific accounting sub-systems

In controlling any of the accounting sub-systems, one needs to consider the risks involved in the activity, the control objective and the control procedures.

- Risks involved in the activity (i.e. considering what can go wrong to prevent the activity from achieving its intended objectives) are for example:
  - In a payroll there are a number of events that can happen, e.g. paying salaries to ghost workers, paying the wrong amounts, posting wrong payroll records, and non-adherence to payroll tax rates and other legal deductions.

- The control objectives (i.e. a desired result or purpose to be achieved in addressing risks by implanting control procedures in a particular activity/system) are for example:
  - One of the control objectives for payroll will be: to ensure that payroll disbursements are made only to bona fide employees. This is because there is a risk of paying salaries to ghost workers;
  - Another way of looking at control objectives is to start from the objectives of internal controls (refer to previous sessions) i.e. how each of the accounting sub-systems ensures that: (i) the activity works efficiently and effectively; (ii) assets/resources resulting from the transactions are secured; (iii) applicable laws and regulations are complied with;
  - Records, documentations and reports from the activity are accurate and reliable.

- The control activities/procedures (i.e. policies and procedures established to address risks in that accounting activity and to achieve the objectives for internal control) are for example:
  - Approval;
  - Authorization;
  - Verification;
  - Reconciliation;
  - Performance review;
  - Production of records and documentation.

Most of these control procedures and activities of LGAs are given in the Local Authorities Financial Memorandum 2009.
6.7 Is there a special pattern for developing control activities?

Control procedures should be designed to adhere to the following main features of an effective internal control system:

- There should be separation of duties;
- There should be authorization of transactions;
- There should be restrictions to access to records and assets resulting from transactions;
- There should be adequate documentation and records;
- There should be independent checks on performance.

When designing or assessing controls for any specific accounting process/sub-system (e.g. receipt, payment etc.) consider the following:

- No one person is able to complete a transaction from initiation to recording (i.e. separation/segregation of duties),
- There is an authorisation mechanism before a transaction is implemented,
- Each transaction should result in documentary evidence (e.g. receipts for cash received or vouchers for payment transactions),
- Assets and records (e.g. cash or documents like vouchers or receipts) that result from the transaction are safely kept to avoid theft or amendments,
- From time to time, and during the transaction they should be an independent check on the validity and accuracy of transaction (e.g. pre-audit and internal audit).

In designing internal controls for an accounting process, the following questions/pattern should be considered:

- What is the objective of the sub-system (e.g. objective for a payment system)?
- What are risks with the activity (i.e. what can go wrong in the payment system)?
- What procedures/activities should be put in place or followed to ensure that the problems/risks are prevented from happening?

6.8 Review questions

- What is an accounting sub-system? How does it relate with the accounting system?
- What do you understand by the terms risk, control objective, control activities?
- Explain the key consideration in developing control activities in accounting systems/processes.
7 Application of Controls in the Revenue Collection Process

7.1 Introduction

The revenue collection process usually consists of activities, which generate income to the LGAs. LGA revenues usually consist of government grants, donor funds, local taxes, licenses, permits, user fees, fines and others.

7.2 Learning Objectives

This session discussed internal controls in the revenue collection process.

At the end of this session, the participants will be able to:
- Define the revenue collection circle;
- List the activities involved in the revenue collection accounting circle;
- Understand the risks involved in the revenue collection process;
- Discuss the various control activities/procedures in revenue collection process.

7.3 Definitions

What is revenue?

A revenue is defined as something that is generated by engaging in some types of activity, such as selling good or providing services (e.g. medical, educational, counselling, etc), or from levies that the LGA charges (e.g. parking, market charges, bus stand fee etc.). It can also be generated by receiving a return on some types of investment (e.g. investment income or interest earned), or from gains created from incidental transactions or activities such as gain on the sales of equipment or investment.


7.4 What activities are included in the revenue collection process?

The revenue collection process may consist of the following elements:
- Revenue/Tax assessment;
- Recording revenue/tax registers;
- Billing the customers;
- Maintaining accurate and reliable records;
- Activities involved with accounts receivables;
- Bad debts (including pursuing debtors and writing off balances);
- Reflecting the related transactions correctly in the accounting systems.
7.5 What are the risks involved in revenue collection process?

The following are the possible risks within the revenue collection process:

- Amounts due to the LGA are not properly identified/assessed and billed;
- All amounts owing to the LGA may not be collected;
- All amounts collected may not be banked in the appropriate account;
- All amounts billed and collected may not be properly recorded in the LGA’s books and in the financial statements;
- LGA’s staff may commit fraud in billing and collecting LGA’s revenues (e.g. use of fake receipt books and swindling the revenue money).

The following are the most noted risks/problems in LGAs (source: CAG Report 2011)

- Missing revenue earnings receipts book (totalled 682 receipts books in 36 LGAs);
- Revenue collected but not remitted to LGA by collecting agents (total Tshs. 4,360,299,618/= in 48 LGAs);
- Own source revenue not collected by LGA (total Tshs. 8,332,986,175).

7.6 What are the control objectives in revenue collection process?

The control objectives of LGA’s revenue collection process are to ensure that the above risks are addressed i.e.:

- That all amounts due to the LGA are properly identified, billed and collected;
- All collected amounts are banked promptly and in the proper accounts;
- All amounts collected and banked are properly recorded in the LGA’s books of accounts;
- There are proper controls against fraudulent activities (e.g. using fake receipt books, theft of revenue money etc.).

7.7 What are the control procedures for the revenue collection process?

Control procedures for the revenue collection process may be dependent on the type and nature of the collection procedures (e.g. LGA collecting directly or use of agents.).

However, consideration should be paid to make sure that the main features of an effective control system (see section 6.7) are present in the revenue collection.

Controls activities within revenue should adhere to the following principles:

- Segregation of duties:
  - Separate functions for recording, authorization, custody of assets/records;
  - There should be specific vetted officers appointed for the collection of revenue.
- Physical restriction/safe custody:
  - All monies collected must be remitted to the LGA cashier for safe custody each day before closure of office;
  - In the cash office all revenue collected must be kept under lock box account (see cash management).
- Adequate documents and records:
  - There should be pre-numbered invoices and receipts;
  - LGA cashier must issue receipt for the money deposited by revenue collectors, and to
ensure prompt banking of the amounts deposited.

- Each revenue collector must keep an updated cash book to record individual receipts showing serial number, date, amount received and name of payer;
- For each cheque that is received, its serial number must be recorded on the receipt, and the name of the payer and receipt number be recorded in the cash book;

› Independent checks on revenue records

› There should be frequent checks on receipt books issued to revenue collectors;
› Regular reconciliation of subsidiary ledger and general ledger;

The above control activities are not exhaustive and controls need to be adoptive to situations prevailing at the LGA.

7.8 Review questions

› What are the main sources of you LGA’s revenue income? Which of the sources contribute to the biggest proportion of total revenue?
› Mention some of the common risks/threats that your LGA is facing in collecting and recording revenue from own sources.
› Explain the current control activities/procedures that your LGA is implementing in controlling the revenue collection process. Do you see any need for more controls? Suggest ways to improve controls in the revenue collection process.
8 Application of Controls in Payment Process

8.1 Introduction

The payment process is an important accounting sub-system, which needs effective controls. This is because it contains activities that are prone many risks, which may result into loss of LGA funds.

8.2 Learning Objectives

At the end of this session, the participants will be able to:

- Understand the significance of the payment process in the LGA accounting system;
- List the key sub-processes within the payment process/circle;
- Discuss the key risks/problems in the payment process, with special emphasis on the CAG’s report;
- Develop both control objectives and control activities for the payment process.

8.3 Definitions

What is a payment process?

- A payment process is defined as a system or arrangement that facilitates the transfer of funds from supplier to users or from payers to payees, usually through exchange of cash or cheques etc.
- Payment processes in LGA can be viewed in terms of paying within the LGA (to staff – salaries and allowance etc.) or for goods/services procured outside the LGAs.

This session deals mainly with paying for purchasing and to external parties (there is a specific session for payroll and staff allowance).

8.4 What are the key processes in purchasing circle?

The following are some of the processes in the normal purchasing circle:

i. Order initiation/approval (e.g. through completing a Requisition Form);
ii. Purchase order issues (e.g. using an LPO);
iii. Arrival of goods/services (and completing a Goods Received Report or GRN);
iv. Invoicing by the suppliers;
vi. Approval of the claim;
vii. Payment of the claim;
viii. Recording of the transaction in the books of account;
ix. Reconciliations of cash.

A Flowchart in Figure 3 below gives an overview of how purchasing activities are linked to complete the purchase circle.

**Figure 4: Flowchart Showing Links Between of Different Activities in the Purchasing Process**

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8.5 What are the key risks involved in the payment for purchases process?

Some of the most common risks/problems with the payment process include:

- Violation of the requirement of the Public Procurement Act and Tax regulations in purchasing process;
- Unauthorized payments for goods/services which have not been received by the LGA;
- Payments may not be correctly and accurately reflected in the accounting system;
- Possibility of supplier and staff malpractice/fraud;
- Late payments to creditors hence spoiling relationship with key suppliers.

However, the most visible problem with the LGA payment purchase process is the insufficient evidence/supporting documents to prove the genuineness, validity and accuracy of payments. This is common in most of the CAG’s report for example in the 2011 Report:

- The CAG’s Management letter to one LGA (name withheld) indicated the following anomalies in the payment process:
  - Expenditure relating to CSPD without sufficient supporting documents (Tshs. 78,130,000/=);
- Payment amounting Tshs. 92,952,053/= in respect to WSDP had not supporting documents;
- Expenditure amounting to Tshs. 11,820,000/= in respect to HBF had no supporting document.

» From the CAG Report of 2011, payments amounting to Tshs. 5,692,624, 802/= in 63 LGA were not sufficiently supported. The table below shows an extract from CAG Reports on payments without supporting documents;

Table 5: Extract from CAG Reports on payment without supporting documents

<table>
<thead>
<tr>
<th>Financial year</th>
<th>Amount (TShs.)</th>
<th>No. of Councils involved</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>3,590,228,595</td>
<td>69</td>
</tr>
<tr>
<td>2008/09</td>
<td>2,526,117,587</td>
<td>33</td>
</tr>
<tr>
<td>2009/10</td>
<td>2,830,338,208</td>
<td>34</td>
</tr>
<tr>
<td>2010/11</td>
<td>5,692,624,802</td>
<td>63</td>
</tr>
</tbody>
</table>

» Again, from the CAG report the trend for unsupported payments in LGAs has risen sharply in the past four years, especially from financial year 2009/2010. (see figure 4 below);

Figure 5: Extract of CAG Report on unsupported payments, 2011

» Other risks/problems in the payment process were stated in the CAG Report:
- Outright missing vouchers/records or documents;
- Missing acknowledgement receipts from recipients;
- Charging expenditures to wrong accounts;
- Expenditure not budgeted for.
8.6 What are the control objectives in the payment process?

The objective for payment process controls is to address the possible problems/risks within the payment process, especially those commonly cited by the CAG reports in LGAs. In summary, the system of internal controls for the payment process should ensure that:

- All payments are to approved/authorised supplier/vendor accounts;
- Payments are made for goods and services actually received by the LGA;
- All payments are correct and accurately reflected in the accounting system;
- All prevailing laws and regulations are correctly complied with;

8.7 What control procedures should be applied in the payment process?

Most of the control procedures relating to payment are given in the Local Authority Financial Memorandum (2010).

In designing the controls for payment process make sure that the main features of an effective control system (as presented in section 6.7) are present.

In summary, control activities should be designed to make sure that there is:

- Separation of duties:
  - No one individual should be responsible for all facets of the payment circle;
  - The more separation of duties in the payment process, the more difficult it is for someone to commit fraud or error in the process;
  - The following activities should be kept separately: Authorization of the transaction and payments; The preparation of Purchase Orders and approval; Claim preparation through invoice and payment vouchers; Authorization of payment vouchers; Writing of payment cheques or cash payment, signatures on cheques to suppliers; Recording of the payment in the ledgers; Bank reconciliation relating to cheques paid to suppliers.

- Authorization process:
  - All purchases should take place within the Procurement Act (e.g. competitive purchasing if within the amounts);
  - Only expenditure within the LGA budget should be authorized;
  - All payments should be approved by the appropriate authority;
  - Responsibilities for expenditure approval function should be segregated from those who prepare purchase orders and purchasing function;
  - Approvals and authorization should be at all stages of payment (e.g. at the Requisition, LPO, Voucher, and cheque/cash payment);
  - Payments for staff travel/safari should be authorized at the appropriate LGA level.

- Restriction to access assets:
  - Staff receiving goods should check them against the purchase order to see if they match the quality and quantity required by the LGA;
  - Stores clerks should sign for the good received;
  - All goods received reports should be sent to accounts payable accountant for processing;
  - Payment records should be filed and stored in safe environments.
Adequate documentation:
- Internal documents like purchase order, vouchers should be pre-numbered;
- All disbursement/payments should be required to be supported by invoices, local purchase orders or other forms of documentation;
- Invoices must be matched with requisitions, receiving report (GRN), and purchase order copy;
- Invoices must be checked for mathematical accuracy and applicable discounts.

Independent checks:
- Internal audit should evaluate the controls and appropriateness of payment process;
- There should be independent checks for amounts recorded in purchase journal;
- Amounts posted to general ledgers should be reconciled to the purchase ledger.

8.8 Review questions
- List all the stages that the payment process passes through in your LGA.
- What are the possible problems in each of the stages?
- Why do you think the problem of unsupported payments is increasing in LGAs? Suggest ways to curb the problem.
9 Application of Controls in Cash Management

9.1 Introduction

The cash management process covers the collection and receiving of public funds and the management of official cash accounts with the primary objective of maintaining adequate monies to meet the daily cash requirements of the LGA.

9.2 Learning Objectives

It is expected that at the end of the session the participants will be able to:

- Define cash and cash management;
- Outline the main sub-processes within the cash management system;
- Discuss the main risks and problems involved in cash management;
- Explain the control objectives and control procedures in cash management.

9.3 Definition

What is cash?

Cash is the basic unit of economic exchange; it may be a currency or the right to withdraw currency.

9.4 What are the major sub-systems for cash management?

Cash management involves three sub-systems/sub-processes:

- Collection of cash;
- Disbursement of cash;
- Investment of cash.

9.5 What are the key risks involved in cash management?

Cash is the item with the biggest inherent risk due to its liquidity nature. Examples of risks are:

- Uncertainty of clients to settle their cash obligations to the LGA hence depriving the LGA the expected funds;
- Possibility of fraudulent transactions that attempt to misdirect or misappropriate LGA funds;
- External or internal attacks (e.g. electronically or physically by robberies);
- Shortage of funds to meet daily obligations (i.e. liquidity problems).

Some of the most common problems in LGA cash management as cited from the CAG
Report, 2011 include the following:

- Loss of cash for various reasons;
- Receipt of cash collection not being banked hence not appearing in the bank statements;
- Cash reported on transit for a long period of time (without being deposited to the bank).

### 9.6 What are control objectives in cash management?

The cash management system has five main control objectives:

- To safeguard cash assets of the LGA;
- To support LGA's operations;
- To meet legal obligation and constraints upon the LGA;
- To provide adequate liquidity;
- To maximize cash availability.

### 9.7 What control procedures should be applied in cash management?

Like in the payment process, controls over cash should be categorized in the five main areas of control (i.e. segregation of duties, authorization of transactions, access control, documentation and independent checks—see section 6.7).

- **Segregation of duties:** An adequate segregation of duties should exist between: cash receipts, disbursement, deposit, recording, and reconciliation, for example:
  - The person who deposits the receipts should not be the one who records the transactions;
  - Timely cash/bank reconciliations should be performed by employees not responsible for issuing cheques or handling cash;
  - Approval for payment should be separate from voucher preparation and purchasing functions.

- **Authorization of transactions:**
  - Cash handling and recording responsibilities from the initial receipt to deposit should be assigned to specific employees to ensure continuous accountability;
  - Invoice and supporting documents payment should be provided to the signer prior to signing the payment.

- **Access to cash and records:**
  - Adequate safeguards over access to cash by establishing facilities for protecting undeposited cash;
  - Adequate safeguards over access to cheques and payment documents.

- **Adequate documentation:**
  - There should be pre-numbered receipts and payment vouchers in LGA name;
  - All cash balances should be properly recorded and classified, and any restriction on the availability of funds should be properly disclosed.

- **Independent check on performance:**
  - Deposit slips should be reconciled to the bank statement, mainly using monthly bank reconciliations.
9.8 Review questions

› What are the objectives for cash management?
› Outline the major categories of cash management process. What is the most risky part of cash management? And why?
› Discuss the major challenges that your LGA is facing in keeping adequate cash flows to meet its daily payment obligations.
› What are the risks in handling cash at your LGA? Propose ways of addressing the risks.
10 Application of Controls of Bank Accounts Management

10.1 Introduction

Bank account management is an extension of the previous session on cash management. This session is therefore dedicated to controls over transactions that involve a banking arrangement.

10.2 Learning Objectives

It is expected that at the end of this session, the participants will be able to:

- Differentiate between cash management and bank account management;
- Outline the most common problems and risks with bank account management, especially those that frequently appear in the CAG reports;
- Discuss the various control activities to address risks involved with bank account management.

10.3 What are the key risks involved in bank account management?

Bank account management is exposed to the following generic risks:

- The LGA may have inadequate banking facilities hence hinder its operations;
- There is a possibility of unauthorized bank transactions;
- Noncompliance to the Financial Memorandum requirements in relation to overdrafts;
- Unauthorised fund transfers from the Councils accounts;
- Potential of staff malpractice and fraud.

The main concern with LGA banking arrangements, as noted by the CAG Report of 2012, includes:

- Bank reconciliations are not being reviewed by LGA senior officials;
- Untimely bank reconciliations that may leave opportunity for errors, misappropriation and fraud to go undetected, for example:
- The CAG Report for the financial years 2010/2011 had the following outstanding issues:
  - Cash is recorded in the LGA cash book but not reflected in bank accounts;
  - Cheques were drawn to various payees but were not presented to banks;
  - Debits in LGA banks accounts but not credited in cashbooks;
  - Collections by banks on behalf of LGAs but not in LGA cashbooks.
- The table below shows outstanding issues of the LGA bank reconciliation from 2007/08 to 2011/12.
### Financial Year Receipt in cash books not in bank statements (Shs.) Un presented cheques (Shs.) Debit in bank statements not in cash books (Shs.) Receipt in Bank not in cash books (Shs.)

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Receipt in cash books not in bank statements (Shs.)</th>
<th>Un presented cheques (Shs.)</th>
<th>Debit in bank statements not in cash books (Shs.)</th>
<th>Receipt in Bank not in cash books (Shs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>474,402,925</td>
<td>2,969,830,892</td>
<td>535,856,223</td>
<td>319,550,613</td>
</tr>
<tr>
<td>2008/09</td>
<td>3,511,801,077</td>
<td>10,895,917,505</td>
<td>838,210,104</td>
<td>1,634,905,409</td>
</tr>
<tr>
<td>2009/10</td>
<td>10,418,079,556</td>
<td>28,792,732,991</td>
<td>2,586,210,104</td>
<td>1,257,775,757</td>
</tr>
<tr>
<td>2010/11</td>
<td>5,088,963,792</td>
<td>10,897,078,986</td>
<td>1,002,195,882</td>
<td>401,528,675</td>
</tr>
<tr>
<td>2011/12</td>
<td>3,872,146,712</td>
<td>18,368,780,081</td>
<td>842,758,166</td>
<td>136,065,798</td>
</tr>
</tbody>
</table>

### 10.4 What are control objectives in bank account management?

Controlling the bank accounting management has a number of intended objectives which are all aiming at protecting the LGA against a number of financial risks. The desired result of implementing control procedures in a bank account management process are to ensure that:

- Banking arrangements and facilities are appropriate and adequate for the LGA;
- All banking transactions are bona fide, accurate and authorized whenever necessary;
- Overdraft facilities are authorized and correctly operated within the limits define by the management/or the Local Authority Financial Memorandum;
- Funds transfer affecting banking transactions are valid, in the best interest of the LGA, and authorized;
- To ensure that potential staff malpractice and fraud are minimized;
- All income cash is banked without delay;
- Banking charges are effectively monitored and minimized.

### 10.5 What control procedures should be applied in bank account management?

According to the Local Authorities Financial Memorandum (2010), LGAs should observe the following banking arrangements (Part VII 49 and 50):

- **Authorisation of transactions:**
  - No bank account should be opened in the name of the LGA without the specific resolution of the Council.
  - Cheques drawn shall bear not less than two signatures, one of the Director or Treasurer, and any other authorized officer.
  - Bank account should not be overdrawn without prior express approval of the Minister.
- **Segregation of duties:**
  - All arrangements with the LGA’s bankers concerning Council’s bank accounts, including opening and closing and the ordering of cheques shall be made by the Treasurer;
Independent checks and reconciliations:
- All identified bank errors must be adjusted as soon as possible, legal actions should be taken when losses are discovered, and action shall be taken to recover the loss.

Adequate documentations:
- Officer paying money into the LGA's bank account shall enter on the pay-in-slip and on the duplicate such payment.
- LGA officer receiving money on behalf of the LGA for payment into the bank account shall be provided with a pay-in-slip book.

Physical custody/access restriction:
- All monies received shall be paid into the LGA's bank accounts daily or next working day.
- All cheques, money orders and postal orders received shall be crossed immediately as “A/C... Council, Not Negotiable”.
- Only LGA's and Government money shall be lodged in the accounts, unless the account is opened specifically to receive money from third parties;
- Only cheques from bona fide payers should be accepted;
- The LGA should not cash any personal cheque;
- LGA bank account shall be used only for official transactions;
- LGA cheques to creditors shall not be cashed by Council.

10.6 Review questions
- Mention different types of bank accounts that your LGA is operating.
- What is the difference between cash management and bank account management?
- Explain the possible ways that banking frauds may be a risk to your LGA?
- Propose control procedures to address the above.
11 Application of Controls in Contract Management

11.1 Introduction

Controls of contract management are generic hence can be applicable from a simple purchase order to complex construction or service contracts.

11.2 Learning Objectives

It is expected that at the end of this session, the participants will be able to:

- Define contract management;
- Understand the key issues to consider when managing contracts;
- Discuss the risk involved at different stages of contract management;
- Discuss a number of control procedures to address different risks involved with contract management.

11.3 Definitions

What is contract management?

- A contract is a written or spoken agreement, especially one concerning construction, consultancy, employment, sales, or tenancy that is intended to be enforceable by law.
- Contract management is the process of systematically and efficiently managing contract creation, execution and analysis for maximizing operational and financial performance and minimizing risks.

11.4 What are the critical factors for a successful contract management?

According to Walton (2009), there are a number of factors that are essential for good contract management. Table 6 below presents a summary of those factors:
Table 6: Critical Factors for Successful Contract Management

<table>
<thead>
<tr>
<th>Critical factor</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good preparation</td>
<td>An accurate assessment of needs helps create a clear output-based specification and lead to good selection of provider.</td>
</tr>
<tr>
<td>The right contract</td>
<td>The contract should include aspects such as allocation of risk, the quality of service required, and value for money mechanisms, as well as procedures for communication and dispute resolution.</td>
</tr>
<tr>
<td>Single business focus</td>
<td>The LGA (as a customer) must have clear objectives, coupled with a clear understanding of why the contract will contribute to them; the service provider must also be able to achieve its objectives, including making a reasonable margin.</td>
</tr>
<tr>
<td>Relationship management</td>
<td>Mutual trust and understanding, openness, and excellent communications are as important to the success of an arrangement as the fulfilment of the formal contract terms and conditions</td>
</tr>
<tr>
<td>Continuous improvement</td>
<td>Improvements in price, quality or service should be sought and, where possible, built into the contract terms.</td>
</tr>
<tr>
<td>People, skills and continuity</td>
<td>There must be people with the right interpersonal and management skills to manage these relationships on a peer-to-peer basis and at multiple levels in the LGA. Clear roles and responsibilities should be defined, and continuity of key staff should be ensured as far as possible. A contract manager (or contract management team) should be designated early on in the procurement process.</td>
</tr>
<tr>
<td>Knowledge</td>
<td>Those involved in managing the contract must understand the activity/service under the contract fully and know the contract documentation inside out.</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Need to be willing to adapt the terms of the contract to reflect a rapidly changing world. Problems are bound to arise that could not be foreseen when the contract was awarded.</td>
</tr>
<tr>
<td>Change management</td>
<td>Contracts should be capable of change (to terms, requirements and perhaps scope) and the relationship between the LGA and contractor should be strong and flexible enough to facilitate it.</td>
</tr>
<tr>
<td>Pro-activity</td>
<td>Good contract management is not reactive, but aims to anticipate and respond to needs of the future.</td>
</tr>
</tbody>
</table>

11.5 What are the key risks involved in contract management?

There are a number of risks involved in contract management. Table 7 below presents types and examples of risks relating to each stage of contract management:
Table 7: Key Risks at Each Stage of Contract Management

<table>
<thead>
<tr>
<th>General risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>- The LGA is not complying with applicable laws and regulations (e.g. the Public Procurement Act on tendering, architectural, safety, fire, or others depending on type of project);</td>
</tr>
<tr>
<td>- Bidding, vendor selection or contract amendments may not comply with the best practice or the Public Procurement Act and the Financial Memorandum;</td>
</tr>
<tr>
<td>- LGA stakeholders do not want the project/activity to take place;</td>
</tr>
<tr>
<td>- There is a possibility that LGA employees or contractors intentionally misrepresent, conceal, omit information, or commit a crime/fraud to deceive or manipulate the LGA;</td>
</tr>
<tr>
<td>- Materials and tools (for a construction project) stored on site are not monitored resulting in theft;</td>
</tr>
<tr>
<td>- The project may not be completed on time.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contract specification risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>- The project design (for construction or engineering works) uses new technology that is not tried or tested;</td>
</tr>
<tr>
<td>- The activity performed may lack quality and thus compromises integrity (or safety in case of construction).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Billing and payment risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>- There is a possibility that the budget is not sufficient to meet the needs of the project;</td>
</tr>
<tr>
<td>- There is a possibility that the work may be behind schedule in accordance to contract agreement;</td>
</tr>
<tr>
<td>- There is a possibility that payment made is not in accordance with the level of work completed;</td>
</tr>
<tr>
<td>- Financial reporting guidelines may not be adhered to;</td>
</tr>
<tr>
<td>- There is a possibility that the invoice balances and project stages are not accurately stated and appropriately reconciled;</td>
</tr>
<tr>
<td>- Critical information necessary to adequately manage the project (e.g. change orders, billing adjustments, and cost overrun) are not being sufficiently reported to the appropriate level of the LGA management;</td>
</tr>
<tr>
<td>- Sub-contractors may submit payments under different name or bill for services already charged by the main contractor.</td>
</tr>
</tbody>
</table>

11.6 What are control procedures in contract management?

Controls within contract management need to be designed so that they address the above risks at each stage of the contract.

Table 8 below gives examples of such control procedures in contract management (note that most of the controls are most suited for construction projects):
Table 8: Control Procedures at Each Stage of Contract Management

| Pre-contract | Ensure that a project charter or clear objectives of the project are defined;  
|             | Run background checks on vendors prior being asked to bid;  
|             | Require that vendor selection be documented;  
|             | Include a right to audit provision in vendor contract specifying reimbursement for audit costs if the audit results in the discovery of overpayment in excess of five percent of the total contract amount;  
|             | Require vendors to maintain insurance and provide proof of the same. |
| Contract execution | Perform periodic walkthrough and issue follow-up reports accordingly;  
|                  | Require budgets be updated monthly to show expected costs and costs occurred to date;  
|                  | Require status update or minutes of meetings be kept and maintained as part of project documentation;  
|                  | Request for reimbursable expenses be back with receipts and proof that payment for expenses has already been made. |
| Post contract  | Ensure that final lien waivers are secured;  
|               | Run a proof of expenses occurred against expenses accrued to ensure consistency;  
|               | Secure and file documents according to required retention rules. |

11.7 Review questions

- Define contract management.
- Mention 5 contracts that your LGA has entered into covering areas of consultancy and non-consultancy.
- Discuss the procedures used to obtain a contractor for a school construction project;
- What are the key risks in managing a construction contract? What controls are should be applied?
12 Application of Controls in Stores Management

12.1 Introduction

Controls within stores management involve the setting of procedures that will provide reasonable assurance that the risks involved with LGA inventory of consumable goods and non-assets (e.g. theft, misappropriation, missing records etc.) are effectively controlled.

12.2 Learning Objectives

It is expected that at the end of this session, the participants will be able to:

- Define stores management;
- Identify some of the significant risks in store management system;
- Discuss different control procedures to institute in mitigating risks relating to stores management system.

12.3 Definitions

What is a store?

- A store is a place where excess material is kept which will be used as and when required.
- Stores are defined as supply of goods.

What is stores management?

- Stores management is to receive materials, to protect them from damaged and authorised removal while in storage, to issue the materials in the right quantities, at the right time, to the right place and to provide these services promptly and at least cost.

12.4 What are the key risks involved in stores management?

The following are possible risks within stores management systems:

- Probability of theft or misappropriation by LGA staff;
- Suppliers may deliver sub-standard goods different from specifications;
- Un authorized movements of stores;
- The LGA may run out of necessary stock of consumables.
12.5 What are control objectives in stores management?

An effective control system in store and inventory management should be designed to provide reasonable assurance that:

- Goods received from supplier match with the ordered specification, quantity and qualities;
- All movements of stores are authorized;
- Stores are safeguarded against theft, damage and misappropriation;
- All inventory and assets have been recorded in the LGA’s store ledgers.

12.6 What control procedures should be applied in stores management?

Control procedures in store management depend on the level and type of stores and inventories kept by the LGA. Table 9 below presents a checklist of common control procedures in stores management.

Table 9: Checklist of Common Control Procedures for Stores Management

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Description</th>
</tr>
</thead>
</table>
| 1. Receiving stores (before stores are accepted) | All the incoming stores counted and checked to verify the quantity.  
Incoming stores are inspected to ensure conformity with agreed standards and specifications.  
Expert advice is sought when receiving goods/services of highly technical nature.  
The supplier is immediately notified when deliveries do not conform to the standards, specifications or samples. |
| 2. Accepting Stores | Delivery Note is signed and Certificate of Examination and testing.  
The GRN (Goods Received Note) or goods received report is issued when goods are accepted.  
Goods received are recorded in the relevant stores ledger. |
| 3. Custody of Stores | Each of Head of Department is given the responsibility for care, custody and maintenance of stock levels for his/her department.  
Stores are adequately stacked and arranged in order of receipt.  
Stores are allocated numbers based on location and items.  
Bin Cards are placed next to stores stacks for ease of identification.  
Small items of high value are kept in a secure place.  
Inflammable items are placed in a separate building from the general stores building, with adequate fire prevention and fighting measures. |
4. Issue of Stores

Authorised Stores requisition forms are used when issuing stores.

For each issue the following are quoted: the requisition number, the expenditure head and sub-head and/or item to which account is to be debited, and purpose to which the goods or material are to be used.

Stores are issues only for the use of the LGA activities.

5. Inventories

A list is kept that indicates inventories/registers for all departments which must contain adequate description of the assets (e.g. residential and office furniture, equipment, machinery, plant etc.).

Inventories are checked at least once annually and to certify the correctness of records.

No property of the LGA is removed from the LGA premises other than on ordinary course of LGA business.

Code marks are maintained on all LGA’s non-current assets which are also being recorded in the Fixed Asset Register.

6. Annual Stocktaking

At each end of the financial year an annual stock-taking is arranged.

The annual stock taking covers all stock, inventories, and properties of the LGA.

On annual basis, each head of department reports to the appropriate Spending Committee, and Finance Committee, on the status of stock and inventories.

Most of the controls outlined above are also reflected in Part IX of the Local Authorities Financial Memorandum (2009) – i.e. from Section 53 to 67.

12.7 Boards of survey as part of stores control

At any time during or at the end of a financial year, the Accounting Officer is required to appoint a board of survey which will have to take physical count of all stores owned by the LGA.

This requirement is stipulated in Section 65 of the Local Authorities Financial Memorandum (2010) and section 16.11 of the LAAM (see Session 18 which is dedicated to the conduct of boards of survey).

12.8 Review questions

- Which items of store are commonly found in your LGA’s stores?
- Discuss the possible risks facing different items stocks and inventories in your LGA.
- Propose 5 controls against the stores management system (the control activities should be different from ones mentioned above).
13 13 Application of Controls in Payroll Administration

13.1 Introduction

The payroll function has a strong link with the Human Resources and Administration Department because the Human Resource Department maintains the list of all employees which is needed for the payroll administration.

Payroll administration covers activities like:
- Initial authorized set-up of new employees;
- The processing of suitably authorized amendments (e.g. salary increases, holiday payments, bonuses etc.);
- Periodic payroll runs;
- Payment arrangements;
- The correct accounting for taxation and LAPF deductions;
- Reconciliation of payroll;
- Removal of employees from payroll.

13.2 Session Objectives

It is expected that at the end of the session, the participants will be able to:
- List the main activities in payroll administration;
- Understand the main risks in payroll administration, including concerns from the CAG payroll audits in LGAs;
- Discuss different control activities relating to payroll administration.

13.3 Definitions

What is a payroll?

A payroll is defined as a list of organization’s employees and their remuneration details.


13.4 What are the key risks involved in payroll administration?

The following are the risks within the payroll system:
- Employees may not be paid on a timely basis;
- Employees may be overpaid or underpaid;
- Unauthorized access and changes to confidential payroll information;
Former employee still on payroll and having access to records;
Transaction not properly posted to the general ledger;
Violation of taxation and employment laws and regulations;
Theft or fraudulent payments of salaries, including creation of ghost workers.

The CAG Report (2011/12) shows payroll administration as one among the areas with significant problems/queries in LGAs, such as:

- Non-maintenance and update of employees’ registers (and unclaimed salary registers);
- Unclaimed salary not remitted to Treasury (Tshs 1,599,387,243/= in 43 LGAs);
- Payment of salaries to absconded, retired or deceased employees (Table 10 below shows years/amounts and number of LGAs involved in paying salaries to absconded, retired or deceased employees):

Table 10: Payment of salaries (Source: CAG Report 2011/12)

<table>
<thead>
<tr>
<th>Year</th>
<th>Salaries paid (Shs.)</th>
<th>No. of Councils involved</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009/10</td>
<td>583,221,297</td>
<td>38</td>
</tr>
<tr>
<td>2010/11</td>
<td>961,394,959</td>
<td>36</td>
</tr>
<tr>
<td>2011/12</td>
<td>693,132,772</td>
<td>43</td>
</tr>
</tbody>
</table>

- Uncontrolled employees’ excessive borrowing (in 87 LGA a total of 17,710 employees were receiving 1/3 of their salaries);
- Employees not contributing to Pension Funds and National Health Insurance;
- Deductions not remitted to respective Institutions;
- Employees’ names appearing more than once in the payroll;
- Salary advances extended to employees not recovered by LGAs;
- Retired employees not deleted from the Treasury Master Payroll.

13.5 What are control objectives in payroll administration?

Controls within the payroll circle are to ensure that the above risks are mitigated, especially those that lead to the major audit concerns.

Controls over payroll administration are aimed at providing a reasonable assurance that:

- All payroll transactions are properly authorized;
- Recorded payroll transactions are valid;
- Only valid employees are paid and at the correct and authorized rate;
- The calculation of all payments and deductions are correct and in accord with relevant taxation and other regulations and requirements;
- All deductions are correctly disbursed;
- Assets both cash and data are safeguarded from loss or theft;
- Unauthorized access to the payroll system and data is prevented;
- All payroll transactions are accurately reflected in the accounting system;
- Regular and accurate management and statutory information is produced.
13.6 What control procedures should be applied in payroll administration?

The setting of control activities in payroll administration should make sure all feature of an effective internal control system are present i.e. segregation of duties, authorization of transactions, access control, documentation and independent checks (see section 6.7).

The following are among the control activities applicable in payroll administration:

- **Segregation of duties:**
  - There should be a separation of duties between the HR and the payroll function.

- **Adequate documentation:**
  - All employees should have personal files.

- **Authorisation of transactions:**
  - Authorization procedures should be followed during hiring, termination, overtime, benefits etc.;
  - Any changes in employment status of employees should be communicated to the HR department;
  - Preparation and authorization of salary cheques and bank transfers list.

- **Physical/Access restrictions:**
  - Security and prompt banking of unclaimed salaries.

- **Independent checks and reconciliations:**
  - Comparison of cheques and bank transfer with payroll;
  - Agreement of gross earnings and total tax deducted with tax returns;
  - All starters, leavers, changes to salaries and deductions are reported promptly to payroll department and changes are updated to the payroll master file promptly;
  - Chart of accounts and independent review of accounts charged to payroll;
  - Payroll budget in place and reviewed by management.

13.7 Review questions

- Outline the main activities involved in payroll administration.
- What laws and regulations apply within payroll administration in LGAs?
- Using the CAG report (2011/12), list all the payroll-related audit queries that were issued to your LGA. What needs to be done to prevent such observations from happening in the future?
14 Application of Controls in Debt Management

14.1 Introduction

Debt management is an important aspect of financial control and management in LGAs. Control over debt/liability management ensures that there are sufficient funds held to meet commitments as required and at a reasonable cost.

14.2 Session Objectives

This session extends the topic of internal controls systems in LGAs. The session discusses controls over debt/liabilities management.

It is expected that at the end of the session, the participants will be able to:

- Define debt/liabilities in the context of public debt;
- List possible types of debts or financial instruments that may be used by public organizations;
- Discuss possible risks involving debt management and their respective control activities.

14.3 Definitions

What is debt?

Debt is an amount of money or an asset owed to an individual or organization; it includes short-term trading debts with customers as well as long-term items like bank loans and corporate bonds. In all these cases debt arise from enforceable contracts. O'Regan (2004) Auditor’s Dictionary

Debts to the LGA are liabilities and financial commitments incurred by the LGA to finance its activities.

Such debts/liabilities may include items like marketable securities, bank loans, long-term leases, loan guarantees, borrowing from government controlled entities with cash surpluses, issuance of national currencies, proceeds from public savings plans, loans from foreign governments and international organizations, pension and health care liabilities of public employees, and accounts payable.

14.4 What are the key risks involved in debt/liabilities management?

Debt and liabilities management may expose a LGA to a number of financial and legal risks. The following are the possible risks:

- No appropriate procedures for major debt management cycle (e.g. on negotiation, contracting, analytical, accounting and servicing the debt);
- Lack of qualified staff with skills in conducting risk analysis on debt and related programmes that affect the LGA, including contingent liabilities and fiscal risks;
Lack of debt reports that provide timely, comprehensive, useful and reliable information to the LGA management;

- Act of non-compliance to LGA Financial Memorandum relating to Debt management.
- Fraud and corruption within debt management;
- Borrowing arrangements and debt instruments with significant risks which have not been disclosed to the public;
- No transparency in lenders selection and methods to raise funds for the LGA;
- The LGAs not meeting its commitment as they fall due, or delay in service and repayment that deal to penalties and other legal problems to the LGA.

### 14.5 What are control objectives in debt/liabilities management?

The following are control objective in debt/liability management:

- The LGA can meet its commitments as they fall due, in both long and short term through active cash flow;
- Effective management of the Council’s exposure to interest rate risks on borrowing;
- Selection of the most appropriate borrowing methods and financing alternatives that involve low cost for the LGA;
- Ensuring that all restrictions, laws and regulations are met and followed;
- Mitigating potential cases of fraud and corruption in selecting lenders.

### 14.6 What control procedures should be applied in debt/liabilities management?

Controls in debt management have to be focused in all the components of internal controls and by ensuring that the control system for debt management has all the features for an effective internal control system as mentioned in section 6.7 (i.e. segregation of duties, authorization of transactions, access control, documentation and independent checks)

The following are some of the control procedures applied in debt management:

- **Segregation of duties:**
  - Staff responsible for debt accounting should be separated and denied access from activities involving cash, debt instruments, and bank accounts;
  - Separation of responsibilities and duties involving debt authorization and custody of the related assets;
  - Complete separation of duties such that no single staff member should be able to records a debt transaction from its origin to its ultimate posting in the subsidiary and general ledger;

- **Authorisation of transactions:**
  - Debts and liabilities transactions should be authorized and executed in accordance with the senior management directives as stipulated in the Local Authority Financial Memorandum.
Adequate documentation:

- There must be a written policy to regulate LGA’s management in dealing with lenders and creditors.
- Debt transactions should be properly covered by well-designed contract agreement and supported by appropriate documentation in a timely manner.
- LGA management should obtain timely information on the debt’s position for liquidity information.

14.7 Review questions

- Define debt/liabilities management.
- List types of debts that your LGA has from various lenders.
- Mention five possible risks that a Council may face in debt management. What are the possible control procedures against the mentioned risks?
- What are the specific stipulations in the Local Authorities Financial Memorandum relating to LGA’s borrowing?
15 Management Accounts

15.1 Introduction

Accounting falls into two categories: financial and management accounting. While financial accounting deals with external reporting, management accounting focuses mainly on information for internal decision making, which is termed as “management accounts”.

15.2 Learning Objectives

This session aims at introducing the participants to management accounts and its role in controls. It is expected that, at the end of the session, the participants will be able to:

- Define management accounts;
- Explain the purpose of management account in controlling the performance of an LGA;
- Understand the role of budget monitoring and interim/quarterly financial reports in management accounts;
- Outline specific processes both in budget monitoring and preparation of interim reports.

15.3 Definitions

What are management accounts?

- Set of summarized accounting data (balance sheet, cash flow, and income statement) prepared and presented (usually every month or year) specifically for the LGA’s management. The objective of management accounts is to provide timely and key financial and statistical information required by managers to make day to day and short-term decisions.

- Management accounting is defined as the maintenance of management accounts i.e. maintenance, analysis and reporting of accounting information related to an organisation’s costs, revenues, and activities for internal use.


Financial accounts are regulated and audited reports of financial transactions and processes.

15.4 Importance of management reports

Management accounts are reports designed to help LGA management understand the overall performance of the LGA.

The management account serves the following purposes:

- To provide timely and key financial and statistical information required by manager to make day to day short-term decisions;
To make best possible strategic and tactical decisions using up-to-date and frequently report (e.g. monthly, quarterly) that provide a more accurate assessment of what is really going on.

15.5 Budget monitoring

A budget is a numerical representation of an action plan for a specific time period, which details planned expenditure and income.

The budget is an essential control devise and part of the management accounts where frequent financial reports are analysed using both actual and budgeted amounts.

15.5.1 What is budget monitoring?

Budget monitoring is the continuous process to ensure that the action plan is achieved in terms of expenditure and income.

Budget monitoring ensures that resources are used for their planned purposes and are properly accounted for to internal or to external bodies.

The objective of budget monitoring is to ensure the economic, effective and efficient use of resources and the identification of potential opportunities and/or problems and the taking of corrective action.

15.5.2 What does the Financial Memorandum (2010) require about budget monitoring?

The Local Authorities Finance Memorandum (2010) requires the following:

- The Council management should provide monthly budgetary control statements on recurrent and development budgets;
- The Accounting Officer to prepare quarterly reports for the Finance Committee, which shall be submitted to the Full Council, Minister of Local Government, and other stakeholders.

For each main Income and Expenditure, the quarterly reports should include:

- The annual budget;
- The profile budget to date;
- The actual for the month and year to date;
- The variance from profile;
- The projected outturn for the year;
- The reasons for the variance.

15.5.3 What are the main budget monitoring processes?

Budget monitoring is a continuous process which ensures that the LGA achieves its financial objectives. The following are the possible procedures in monitoring the LGA budget:

- Identify the current position by:
  - Producing reports at the appropriate level to identify current income, expenditure and commitments;
  - Ensuring that all transactions are in the correct cost centre/analysis code/detail code and there are no erroneous entries, thereby ensuring that the current position is correct.
Compare the current position with the planned position:
- The reports produced above will allow you to compare current position to planned position;
- The reports will allow the budget holder to identify areas of under or overspend and also areas of over or under recovery of income where appropriate;
- The reports can be used to drill down to individual transaction level to identify the sources of spend/income.

Identify any actions required:
- After comparing the current and planned position, the next step is to identify whether or not there is a requirement to take action;
- If you are spending and receiving income in line with your original plan, then no further action may be required at this stage;
- However, you may have received more income than anticipated and there may be an opportunity to do something in the budget period which was not originally planned;
- If, at this stage, more has been spent than anticipated, the budget holder will need to address this and identify areas where expenditure could be reduced, e.g. reduce the amount of travel or postpone the replacement of small items of equipment;
- If you have identified new, unbudgeted opportunities, liaise with the Treasurer, who can advise on possible courses of action.

Report to the budget holder:
- Where a budget holder has delegated authority, that delegate must inform the budget holder of progress toward the planned position, as the budget holder is ultimately responsible for budget implementation.

Agree on actions required:
- At this stage agreement must be reached as to how the current position can be brought in line with the planned position;
- It would be advisable to engage with the Treasurer at this stage, who can offer advice and guidance;
- Actions may include: re-allocation of local budgets, agreeing areas where costs need to be reduced, agreeing where additional money is to be spent, and allocating an appropriate budget;
- If at this stage, no future cost savings can be identified and/or additional income generated, then the departure from the original plan must be communicated to the Treasurer.

Take action:
- The budget holder is required to take action necessary to ensure alignment to planned position;
- It must be emphasized that this is a continuous cycle.
15.6 Quarterly/Interim financial reporting

Interim reporting is the reporting of the financial results of any period that is shorter than a fiscal year (e.g. monthly, quarterly).

Interim reporting is usually required in LGAs and involves the issuance of quarterly financial statements.

According to the PMO-RALG instructions for completing quarterly financial reports, issued in year 2008, interim/quarterly financial reports should include the following:

- The report of income should include: (i) opening and closing balances; (ii) from own sources; (iii) from transfers (e.g. recurrent government grants, sector basket funds, development grants/funds, and local borrowings).
- The report on expenditure should include: (i) recurrent expenditure; (ii) development expenditure; (iii) surplus/deficit.
- The report on transfers should include: (i) recurrent block grants; (ii) sector basket and other funds; (iii) development grants/funds; local borrowings.

The PMO-RALG from time to time issues guidance on the format to use. This facilitates uniformity across the country. For example, from year 2008 the reports were to be prepared in Excel, and were to include four sheets namely: letter; own source revenue; transfers; expenditures.

The quarterly reports are to include the following information:

- The Local Authority Quarterly Financial Report should be based on two sources of information: (i) the annual estimates as per the council’s approved budget; (ii) the quarter’s income and expenditure statements.

- The columns in each of the forms should show:
  - Annual estimates as per the approved budget;
  - Actual revenue collection/receipts/or expenditures;
  - Performance ratios;
  - Outstanding commitments (for expenditure report);
  - Cumulative expenditure and commitment to date (for expenditure)

Below is an extract of the quarterly report template issued by PMO-RALG:
Figure 7: Extracts of the quarterly report template (Source: PMO-RALG, 2008)
15.7 Relationship of the interim reports and controls

The primary purpose of the LGA interim/quarterly report is to monitor and track the LGA’s finances. The monthly or quarterly financial reports act as control tools by altering the LGA management the current expenditure as compared to budget levels, hence leading to identification of areas for cost saving and remaining on the right track.

15.8 Review Questions

- What are management accounts? How do they differ from financial accounts?
- List the process in budget monitoring.
- What challenges is your LGA facing in spending according to the budget?
- Discuss the role of quarterly reports in controlling the LGA performance.
- List the relevant reporting lines according to which your LGA files its quarterly reports.
16 Preparation of Final Accounts (Opening Council’s Books of Accounts)

16.1 Introduction

The preparation of final accounts and closing the books of accounts mark the completion of the accounting cycle.

16.2 Learning Objectives

This session aims at introducing the participants to the first steps in the accounting cycles, which includes recording transactions in journals and posting the same to ledger accounts. After this session, it is expected that the participants should be able to:

- Define the accounting cycle and review the basic steps of the accounting cycle.
- Record transactions from source documents to journals.
- Open new ledger accounts in the general ledger.
- Post journal entries to ledgers accounts.

16.3 Definitions

The following terms will be used frequently in this session: accounting cycle, a journal, ledger, trial balance.

What is the accounting cycle?

The name is given to the collective process of recording and processing the accounting events of an organisation (LGA). The series of steps begin when a transaction occurs and end with its inclusion in the financial statements (Also known as “bookkeeping cycle”).

What is a journal?

A journal is a manual or computerised register that records accounting transactions prior to their posting into general ledger accounts.

What is a general ledger?

A ledger is a register of accounting transaction, and a general ledger is a series of accounts as a foundation for preparation of financial statements. The general ledger contains assets, liabilities, equity, revenue, and expenditure. The accounts are traditionally analysed in a trial balance en route to the preparation of financial statements.


16.4 What are the activities in the accounting cycle?

There is a number of accounting basis that organisations use in recognising transaction in the accounting cycle, which include cash basis, modified cash or accrual basis. LGAs in Tanzania are required to use the accrual accounting basis by which income or expenses are recognised in the accounting period in which they are due (even if cash is not received or paid).

In accrual basis, the accounting cycle involves steps as shown in the figure below:

Figure 8: The Accounting Cycle (Source: Glencoe Online)
The steps include:

i. Analysis and recording of transactions from source documents,

ii. Posting to the ledger,

iii. Preparing un-adjusted trial balance,

iv. Preparing adjusting entries,

v. Preparing financial statements, and

vi. Closing the books.

16.5 Journalizing transactions

Journalizing transactions have the following characteristics:

- Transactions recorded in the journal originate from source documents;
- Source documents provide the initial data about business transactions. They are used as evidence that a particular business transaction occurred, for example: Source documents could be cash receipt, invoice from suppliers, deposit slips, etc.);
- The transactions from source documents are entered in the general journal in the chronological order—the order in which they happen day by day;
- Journalising follows the double entry system where each debit entry in one account has a corresponding credit entry in another account;
- Debit and credit entries depend on the nature of the transactions as follows:
  - Debit entry – goes for assets and expenses accounts.
  - Credit entry – goes for liability and revenue accounts.
- Since the journal is the first accounting record where transactions are entered, it is sometimes referred to as a record of original entry;

Table 11: Format of a general journal

| GENERAL JOURNAL |
|-----------------|-----------------|---------|-------|-------|
| DATE            | Account Name/Description | Post Ref. | Debit | Credit |
| 1.              |                  |          |       |       |
| 2.              |                  |          |       |       |
| 3.              |                  |          |       |       |
| 4.              |                  |          |       |       |
| 5.              |                  |          |       |       |
| 6.              |                  |          |       |       |
| 7.              |                  |          |       |       |
Note that this sample is based on the GENERAL JOURNAL; there are other specialised journals which can be made based on specific nature transactions known as SUBSIDIARY JOURNALS.

The one that will be discussed in this session is the general journal;

Example: (of journalizing cash receipts, prepaid rent and purchase of equipment):

- November 7: paid rent on invoice from the Landlord for its office in town for the coming year Tshs. 12,000,000/= 
- November 9: purchased office stationeries on cash Tshs. 700,000/= 
- November 10: purchased a new Office Equipment (photocopier machine) on credit from BMTL Ltd for Tshs. 6,000,000/= 
- November 28: partly paid Business Machines Ltd on photocopier Tshs. 3,000,000/= (on Invoice No. 39978).

The transactions are journalized as shown in the following general journal:

Table 12: Example of a general journal

<table>
<thead>
<tr>
<th>DATE</th>
<th>Account Name/Description</th>
<th>Post Ref.</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 7 Nov</td>
<td>Prepaid Rent</td>
<td></td>
<td>12,000,000</td>
<td></td>
</tr>
<tr>
<td>2. 9 Nov</td>
<td>Office Stationeries</td>
<td></td>
<td>700,000</td>
<td></td>
</tr>
<tr>
<td>3. 10 Nov</td>
<td>Office Equipment</td>
<td></td>
<td>6,000,000</td>
<td></td>
</tr>
<tr>
<td>4. 28 Nov</td>
<td>Cash</td>
<td></td>
<td>3,000,000</td>
<td></td>
</tr>
</tbody>
</table>
16.6 Opening and posting transactions to the general ledger

A ledger is simply a collection of all accounts. This is where one can find a summary of all the LGA’s accounts listed in the charts of accounts.

Posting means transferring information from the journal to the ledgers (i.e. to the account that it impacts).

A ledger is made up of debit and credit; therefore in opening a new account, the type of the transaction/account should determine the balance.

› Debit balance – goes for assets and expenses accounts.
› Credit balance – goes for liability and revenue accounts.

Table 13: Example format of a ledger

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Post Ref.</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

16.6.1 Opening a new ledger account

Before journal entries are posted, a general ledger account is opened for each account in the chart of accounts. In opening a general ledger account two do the following two steps:

› Write the account name on the top of the ledger.
› Write the account number on the ledger form.

The steps are performed each time a new account is needed.

16.6.2 Posting from journal to the general ledger

Posting from the journal to the general ledger is simply transferring the transaction in the journal to their proper accounts in the general ledger.

Note that the general journal collected all transactions, but did not organize similar transactions into the same location. Therefore posting organizes the transaction so that we are able to see cumulative effects on accounts like expenses, revenues etc.

Example: Take the previous example of the general journal and post the transactions to a few accounts in the general ledger.
Table 14: Example for posting from the journal to the general ledger

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Post Ref</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 Nov</td>
<td>Prepaid Rent</td>
<td>305</td>
<td>12,000,000</td>
<td></td>
<td>12,000,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>101</td>
<td></td>
<td>12,000,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Being payment of rent in advance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Nov</td>
<td>Office Stationeries</td>
<td>403</td>
<td>700,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>101</td>
<td></td>
<td>700,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Purchase of office stationeries on cash</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Nov</td>
<td>Office Equipment</td>
<td>532</td>
<td>6,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accounts Payable – BMTL ltd</td>
<td>701</td>
<td></td>
<td>6,000,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Being the purchase of photocopier on credit from BMTL ltd.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 Nov</td>
<td>Cash</td>
<td>101</td>
<td>3,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accounts Payable – BMTL ltd</td>
<td>701</td>
<td></td>
<td>3,000,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Being part payment to BMTL ltd</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The following steps have to be undertaken:

i. Start with the debit journal entry and enter the date of the journal entry in the date column of the ledger account (use date of the journal not date of posting);

ii. The description column is either left blank or fill in the reference number of the source document;

iii. In the ledger account posting reference column (i.e. Post. Ref.), identify where the journal entry is posted – enter a specific journal and the journal page number (e.g. general journal page 1 = GJ 1);

iv. Enter the debit column amount in the debit column of the ledger account;

v. Compute the balance of the account and write in the appropriate balance column (note the new posting may either increase or decrease the balance i.e. may make the balance a debit or credit);

vi. Return to the journal and in the Post. Ref. column enter the account number of the ledger account to which you have just posted the debit part of the journal entry;

vii. Repeat steps 1 – 6 for the credit part of the journal entry.

The flow of accounting data from the time a transaction occurs to its recording in the ledger may be described in 4 steps:

- Transaction occurs
- Document prepared,
- Entry recorded in journal, and
- Entry posted to ledger.

16.7 Review questions

- What do you understand by the term accounting cycle? Narrate the activities in the accounting cycle.
- Explain how a transaction passes from a source document, journal and ultimately to a ledger account.
- From the example of a journal above, post the remaining transactions into their respective ledger accounts.
17 Preparation Financial Statements and Closing the Accounts

17.1 Introduction

In the previous session, it was explained that the accounting cycle involves the following elements: analysis and recording of transactions from source documents, posting to the ledger, preparing a trial balance, preparing adjusting entries, and preparing financial statements.

17.2 Learning Objectives

This session aims at introducing the participants to the preparation of a trial balance, locating errors, correcting trial balance error, and posting such adjustments in the ledgers. After this session, it is expected that the participants should be able to:

- Prepare an adjusted trial balance;
- Find and correct trial balance errors;
- Post adjusting entries to the general ledger.

17.3 Definitions

What is a Trial Balance?

A trial balance is a listing of all accounts in a general ledger. It is a means of establishing the accuracy of the accounting equation, under which the total of debits entries equals the total of credit entries.


17.4 Extraction of un-adjusted trial balance

At the end of the accounting period (i.e. 30th June), an adjusted trial balance has to be prepared. It is called the un-adjusted trial balance because it is prepared before the adjusting entries. The un-adjusted trial balance serves the purpose of verifying that the LGA’s debits equal the credits.

Adding all the debit balances, then adding all the credit balances, and finally comparing the two sides to see if they are equal is called proving the ledger.
Table 15: Example of a trial balance

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>101</td>
<td>Cash in bank</td>
<td>21,125,000</td>
</tr>
<tr>
<td>105</td>
<td>Accounts receivable - City News</td>
<td>1,450,000</td>
</tr>
<tr>
<td>110</td>
<td>Accounts receivable – Green Stationers</td>
<td></td>
</tr>
<tr>
<td>115</td>
<td>Computer equipment</td>
<td>3,000,000</td>
</tr>
<tr>
<td>120</td>
<td>Office equipment</td>
<td>200,000</td>
</tr>
<tr>
<td>125</td>
<td>Survey equipment</td>
<td>12,000,000</td>
</tr>
<tr>
<td>201</td>
<td>Accounts payable – The Guardian newspaper</td>
<td>75,000</td>
</tr>
<tr>
<td>205</td>
<td>Accounts payable – Kili auto garage</td>
<td>11,650,000</td>
</tr>
<tr>
<td>301</td>
<td>Reserves</td>
<td>24,900,000</td>
</tr>
<tr>
<td>401</td>
<td>Revenue</td>
<td>2,650,000</td>
</tr>
<tr>
<td>501</td>
<td>Advertising expenses</td>
<td>75,000</td>
</tr>
<tr>
<td>505</td>
<td>Maintenance expenses</td>
<td>600,000</td>
</tr>
<tr>
<td>510</td>
<td>Rent expenses</td>
<td>700,000</td>
</tr>
<tr>
<td>515</td>
<td>Utilities expenses</td>
<td>125,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39,275,000</strong></td>
<td><strong>39,275,000</strong></td>
</tr>
</tbody>
</table>

17.5 Finding errors in the trial balance

Unfortunately, at times, your calculation of the trial balance shows that the books are not balanced (i.e. debits are not equal credits).

The following checklist presents tips on how to locate errors in the trial balance:
Table 16: Checklist of tips to locate errors in trial balance

<table>
<thead>
<tr>
<th>S/No.</th>
<th>Test to locate error in trial balance</th>
<th>Error found?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>YES</td>
</tr>
<tr>
<td>1</td>
<td>See if you have added correctly the debits and credit columns again.</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Find the difference between the debit and credit columns. If the amount is 10, 100, 1,000 and so on, you probably made and addition error. Add the columns again to find the error.</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Check if there is a transposition error i.e. if two digits within an amount are accidentally reversed, or transposed (e.g. 325 been written 352).</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Check if there is slide error i.e. if a decimal point is moved by mistake (e.g. 1,800 is written as 18,000).</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Make sure that you included all general ledger accounts in the trial balance.</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Check if all accounts have been recorded in the right columns.</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>If you still cannot find the error, recomputed the balance in each ledger account.</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Finally, check the general ledger accounts to verify that correct amounts are posted from the journal entries.</td>
<td></td>
</tr>
</tbody>
</table>

17.6 Correcting trial balance errors

When mistakes are made the trial balance has to be adjusted/corrected. The method for correcting an error depends on when and where the error is found.

There are three types of errors:

- Error in a journal entry that has not been posted;
- Error in posting to the ledger when the journal entry is correct;
- Error in a journal entry that has been posted.

If the journal entry is correct but is posted incorrectly to the ledger, you draw a single line through the incorrect item in the ledger and write the correction directly above it. But when an error in a journal entry is discovered after posting, make a correcting entry to fix the error.

Example:

- If on November 15th the accountant for Misufini DC found an error in a journal entry made on November 2. A Tshs. 100,000/= of a cheque to pay for the electricity bill was journalized and posted to the maintenance expense account by mistake;
- In this case, the Tshs. 100,000/credit to cash in bank account is correct, but the error is in the debit part of the transaction is incorrect (i.e. maintenance account is incorrectly debited).

The correcting entry should be recorded in the general journal as follows:
Table 17: Recording of a trial balance in the general journal

<table>
<thead>
<tr>
<th>General Journal</th>
<th>DATE</th>
<th>Account Name/Description</th>
<th>Post Ref.</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nov 15</td>
<td>Utilities Expense</td>
<td></td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Maintenance Expense</td>
<td></td>
<td></td>
<td>100,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Being correction of an error, see memorandum number ref...</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

17.7 Posting the correcting entry to the general ledger

Correcting entries need to be posted in the general ledger. Posting a correcting entry is similar to any other posting to the general ledger accounts. However, in the description column of the ledger accounts, the words correcting entry is written.

17.8 Preparing the adjusted trial balance

After the adjusting entries have been posted, you have to prepare an adjusted trial balance. This trial balance is called the adjusted trail balance because it is prepared after the adjusting entries have been posted to the ledger accounts.

17.9 Preparing the financial statements

The most important output of this cycle is the financial statement. The presentation of financial statements should be in conformance with IPSAS 1 – Presentation of Financial Statements. The following financial statements should be prepared:

- Statement of Financial Position;
- Statement of Financial Performance;
- Statement of Changes in Net Assets/Equity;
- Statement of Cash flows;
- Statement of Comparison of Budget and Actual Amounts.

17.10 Review Questions

- What is a trial balance?
- What is the purpose for drawing a trial balance?
- Explain the different types of errors that may cause a trial balance not to balance.
- How do you treat of the errors you have explained above?
18 Boards of Survey

18.1 Introduction

This session introduces to the participants the role and functioning of the boards of survey in the LGA controls, which is largely linked to session 12 on the stores management.

The main concentration of this session is on cash and non-current assets management.

18.2 Learning Objectives

It is expected that, at the end of the session, the participant will be able to:

- Understand the meaning and purpose of boards of survey;
- Understand the basic considerations for appointing the members of a board of survey;
- List the types of activities that the board of survey should perform;
- Understand the key considerations that the board of survey needs to keep in mind taking physical counts of the LGA’s stores.

18.3 Definitions

What is a board of survey?

A board of survey is a team of officials appointed by the Accounting Officer each year to conduct a physical inspection of the LGA’s stores with the view to recommend among other things stores to be disposed of and the respective methods of disposal.

What are stores?

As defined in session 12: “Stores are defined as supply of goods to the LGA”.

18.4 Membership of Board of Survey

The appointment of an LGA board of survey is given in Section 65 (1) of the Local Authority Financial Memorandum (2010).

In summary, the Memorandum stipulates that the Accounting Officer of the LGA will appoint the board of survey, which will have to be approved by the Finance Committee of the Council.
18.4.1 Eligible members of the board of survey

Boards of survey are usually composed of at least two to three members, including the one being designated as Chairperson.

It is essential to make sure that the appointed members do not have any conflict of interest with the activity to be reviewed (i.e. members should not have any direct responsibility for e.g. stores or cash balances to be checked).

According to Section 65(1) and Section 16(11) of the LAAM, the board of survey should be composed of the following members:

- An independent chairman; and
- Two other independent officials.

However, according to Section 16 (11) of the LAAM, the following persons should NOT be among the members of the board of survey:

- Councillors;
- Members of police and judiciary;
- Staff from the CAG; or
- Employees involved in operation of stores.

18.4.2 Appointing procedure

Boards of survey are normally appointed after the close of business of the last working day of each financial year or before the start of business on the first working day of the new financial year.

The appointing procedure includes the following steps:

- The Accounting Officer must notify the appointed officers in writing of their appointment (as Chairman and members) to the board of survey;
- The appointment letter should be also copied to other relevant officials including the Treasurer, administrators, and internal auditors;
- In case the appointed officer is unable to serve on the board, he/she should notify the appointing officer forthwith stating the reason for his/her inability to serve and if such reason is acceptable to the appointing officer, a replacement officer may be appointed.

18.5 Conduct of business of the board of survey

It is the requirement of both the Local Authorities Memorandum (section 65.1) and (section 16.11) that boards of survey may be formed to conduct physical survey of all stores belonging to the LGA.

However, in some places, boards of survey are also known to be involved in confirming cash balances and fixed assets of the organisation.

According to the LAAM the duties of the board of survey are to:

- Check the stores on hand and compare with ledger balances;
- Compile a list of discrepancies if any;
- Obtain explanation of surpluses and deficiencies found during checking;
- Record an opinion as to the condition and adequacy of storage facilities;
- Record details of any difficulties in carrying out their duties;
Report and recommend the method of disposal of any surplus and unserviceable stores produced to the board.

18.5.1 Inspection of Stores

Each year the Accounting Officer shall appoint a board of survey to inspect all the stores and prepare a report recommending among other things assets to be disposed of and the methods of disposal.

In doing such inspections, the board needs to pay attention to the following:

- The board should examine LGA stores and stores that have been reported to be damaged, defective, or otherwise unserviceable or obsolete;
- From such stores that the board recommends to be disposed, the board should also recommend the disposal method e.g.:
  - Sale by public auction;
  - Sale by tender after public advertisement;
  - Transfer to another department;
  - Defacing, dumping or destruction etc.
- Alternatively, if the board finds it fit, it may also recommend that the inspected stores to be repaired and retained by the LGA;
- The stores recommended for disposal should be stored in a separate place where they must be kept until further instructions and approval for their disposal are received.

18.6 Board of survey reports

- At the end of the survey, the board must prepare and submit its report to the appointing authority i.e. the Accounting Officer;
- The report of the board of survey must be prepared on the approved form and signed by the Chairman and all members of the board;
- Any attachments to the report must be signed and the report shall include any comment on matters arising from the survey which the board may consider relevant;
- The board of survey’s report shall be tabled at the relevant organs within the LGA until it is finally approved by the Council;
- The Accounting officer will ensure that the Council’s directives on the board of survey’s report are implemented.

18.7 Review questions

- What is a board of survey, and what are its duties?
- Mention the key considerations that the board of survey needs to keep in mind when taking a physical survey of the LGA’s stores.
19 IPSAS Introduction and Overview

19.1 Introduction

With this introductory session the foundation for later sessions is laid. The session is expected to cover an overview of reporting in the public sector with particular emphasis to LGAs, an introduction to IPSASs, the standard setting process by IPSASB, the scope and authority of IPSASs, the accrual and modified cash basis under IPSAS and General Purpose Financial Reports (GPFRs), an overview of all relevant IPSASs as well as conclusions and review questions.

19.2 Need for accounting standards for the public sector

The public sector is indeed under increased pressure for responsibility and accountability for public resources. The taxpayers, residents, watchdog groups, opposition parties and community awareness has brought about increased importance of accountability and disclosures of financial information in LGAs more than ever before.

Of course, with dynamics in business and social diversity, public sector organizations face accounting challenges just like commercial entities. Consider the filing of the bankruptcy petition by Detroit in July 2013, which is a large city in the United States. The Dar es Salaam city council was also dissolved in 2002 and a commission was formed.

In fact, failure of governments to manage their finances and resources and lack of proper reporting has dramatic consequences such as loss of democratic control, social unrest, and the failure of governments to meet their commitments today and in the future.

These problems and many more can partly be explained by the traditional cash-based accounting systems in public sector and a lack of standardized international reporting practices. This has necessarily called for a widely accepted set of rules, definitions, and guidelines for financial reporting in the public sector globally, which are expected to enhance transparency, accountability and improved quality of LGA reports.

It should be noted that the application of a cash-basis reporting by LGAs has not resulted in sufficient account for significant liabilities and assets, such as pensions and infrastructure developments, heritage assets and open spaces. In response to this situation, a recent trend is the development of uniform accrual-basis international accounting standards (IPSASs). The standards are developed by the IPSAS Board (IPSAS B) and applied by public sector entities in external reporting.

19.3 International public Sector Accounting Standards Board (IPSASB) and IPSASs

19.3.1 What is the IPSASB?

The IPSASB is an independent standard-setting board that develops high-quality IPSASs, guidance, and resources for use by public sector entities around the world for general purpose financial reporting.
The Board is one of four independent standard-setting boards that are supported by the International Federation of Accountants (IFAC), a worldwide organization for the accountancy profession, of which the National Board of Accountants and Auditors (NBAA) is a member.

The IPSASB aims to enhance the quality and transparency of public sector financial reporting by:

- Establishing high-quality accounting standards for use by public sector entities;
- Promoting the adoption and international convergence to IPSASs;
- Providing comprehensive information for public sector financial management and decision making and
- Providing guidance on issues and experiences in financial reporting in the public sector.

19.3.2 IPSASs standards setting process

IPSAS is a global set of accounting standards available to governments and the public sector as an internationally recognized format for external reporting. The standards prescribe the objectives and operating procedures, scope and authority of its application in the public sector.

IPSASs are primarily drawn from the International Financial Reporting Standards (IFRS) and are therefore converged with IFRS issued by the International Accounting Standards Board (IASB). The IPSASB attempts, wherever possible, to maintain the accounting treatment and original text of the IFRS unless there is a significant public sector issue which warrants a departure. Apart from accrual IPSASs the IPSASB have also Cash Basis IPSASs that includes mandatory and encouraged accrual disclosures sections. The IPSASB attempts to facilitate compliance with accrual based IPSASs through the use of transitional provisions in certain standards.

THE PROCESS:

The IPSASB follows a very structured and participatory process in the development of all IPSASs. This process provides the opportunity for all those interested in financial reporting in the public sector to make their views known to the board, and ensure that their views are considered in the standard-setting development process.

Consultations papers are issued that explore the subject in detail and provide the basis for further discussion, development, standard setting and policy formation. From the DPs, Exposure drafts (ED) of all proposed IPSASs are developed, usually with the input of a task-based group of IPSASB members, and are available for download from the website.

19.3.3 Scope of the IPSASs

IPSAS are meant for application for general purpose financial reports of all public sector entities except Government Business Enterprises which are required to comply with International Finance Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB).

Nevertheless the IPSAS can also be applied for specific purpose financial statements (i.e. FS tailored to meet their specific information).
IPSASs are applicable to all public sector entities including, ministries, central government, local government authorities, government agencies and commissions.

The term "public sector" refers to national governments, regional (such as state, provincial, territorial) governments, local (e.g., city, town and district council) governments and related governmental entities (e.g., agencies, boards, commissions and enterprises).

IPSASs include the following definition of GBEs: An entity with the power to contract in its own name. It has been assigned the financial and operational authority to carry on a business. It sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery and is not reliant on continuing government funding and is controlled by a public sector entity.

19.3.4 Development so far

Since 1997, the IPSAS Board (IPSASB) has developed and issued a suite of 32 accrual standards for countries moving toward full accrual accounting. These are expected to improve financial management and increase transparency and accountability in LGAs.

This part of the handbook covers some of these IPSASs and only those which are specifically relevant to the local government reporting environment. They include: IPSAS 1 - Presentation of Financial Statements; IPSAS 2 - Cash Flow Statements; IPSAS 3 - Net Surplus or deficit for the period, fundamental errors and changes in accounting policies; IPSAS 5 - Borrowing costs; IPSAS 11 - Construction contracts and IPSAS 12 - Inventories.

Additionally included are: IPSAS 14 - Events after reporting date and IPSAS 15 - Financial instruments: Disclosure & Presentation.

New IPSAS on financial instruments include: IPSAS 28 - presentations, IPSAS 29 - FI recognition and measurement and IPSAS 30 - FI disclosures; IPSAS 16 - Investment property; IPSAS 17 - Properties, Plant and Equipment; IPSAS 19 - Provisions, Contingent Liabilities and Contingent Assets; IPSAS 21 - Impairment of non-cash generating assets; IPSAS 26 - Impairment of impairment of cash-generating assets; IPSAS 23 - Revenue from non-exchange transactions; IPSAS 24 - Presentation of budget information in financial statements and IPSAS 31 - Intangibles.

Of course many governments, jurisdictions, and international institutions have already adopted IPSASs — many more are on the road to implementing the standards. Tanzania and its LGAs moved to accrual IPSASs in 2009.

19.4 Authority of IPSASs

The IPSASB appreciates the fact that within each jurisdiction, regulations may govern the issue of GPFRSs by public sector entities. These regulations may be in the form of statutory reporting requirements, financial reporting directives and instructions, and/or accounting standards promulgated.
It recognizes the right of governments and local standard setters (such as NBAA) to establish accounting standards and guidelines for financial reporting in their jurisdictions. However, IPSASs may be used as an important guide in developing new, or in revising the existing standards.

The board (IPSASB) further believes that the adoption and compliance to IPSASs, reporting and disclosure requirement will substantially improve the GPFRs by Local government authorities.

19.5 Why should a switch to accruals IPSAS be made?

The switch to accrual IPSASs is expected to provide better quality information to stakeholders, to improve effectiveness in financial resources management, to increase value for money, to reduce risk of manipulation, to enhance compatibility with the national accounts and to enhance users’ confidence on GPFRS.

19.6 Conclusions

From the above discussions, the following conclusions can be made:

- The adoption and application of IPSASs by LGAs/RS is expected to improve both the quality and comparability of financial information reported by LGAs around the world.
- Financial statements are described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.
- In the first adoption the IPSASs provide the transitional provisions that govern the length of time available to make the transition towards full accrual-based IPSASs reporting.

19.7 Review Questions

1. Is the reporting and accountability an issue in Local Government Authorities? Why?
2. The LGA are using accrual based IPSASs; are the IPSASs the only solution to LGAS reporting weaknesses?
3. What do you think are real benefits that will accrue from IPSASs reporting in LGA?
20 IPSAS 1 – Presentation of Published Financial Statements

20.1 Introduction

The LGAs are accountable for the resources entrusted to them to central government and citizens. They are responsible and accountable to taxpayers, rate payers, donor partners, legislature and community and other parties who have no direct access of the financial information of the entity. They are therefore required to prepare general purpose financial statements for public consumption. The presentation of these reports is governed by IPSAS 1 (primarily drawn from International Accounting Standard (IAS) 1- developed by IASB). It provides guidance on concepts, definitions, qualitative characteristics, and sample format for the published financial statements.

20.2 Learning objectives

At the end of this session the participants should be able to:

- Understand the relevant concepts under IPSAS 1;
- Understand the scope and objective of the standard;
- List the elements and Components of general purpose financial statements (as per IPSAS 1) for LGAs;
- Understand the format of presentation and minimum disclosures of financial statements;
- Understand basis for preparation of financial statements;
- Produce general purpose financial reports for their LGAs effectively, and
- Correctly make disclosures required.
20.3 Definition of relevant concepts (IPSAS 1, 2013)

The following terms are used in this standard with the meanings specified (IPSASB, 2013):

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Accrual basis</strong></td>
<td>means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue, and expenses.</td>
</tr>
<tr>
<td><strong>2. Assets</strong></td>
<td>are resources controlled by an LGA as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.</td>
</tr>
<tr>
<td><strong>3. Expenses</strong></td>
<td>are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.</td>
</tr>
<tr>
<td><strong>5. Liabilities</strong></td>
<td>are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.</td>
</tr>
<tr>
<td><strong>6. Material Omissions</strong> or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements.</td>
<td></td>
</tr>
<tr>
<td><strong>6. Net assets/equity</strong></td>
<td>is the residual interest in the assets of the entity after deducting all its liabilities.</td>
</tr>
<tr>
<td><strong>7. Notes</strong></td>
<td>provide narrative descriptions or disaggregation of items disclosed in those statements and information about items that do not qualify for recognition in those statements.</td>
</tr>
<tr>
<td><strong>8. Revenue</strong></td>
<td>is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.</td>
</tr>
</tbody>
</table>

20.4 Scope and objective of the standard

This standard applies to all general purpose financial statements to be prepared and presented under the accrual basis of accounting in accordance with IPSASs. It prescribes the format of presentation and minimum disclosure requirements in order to ensure comparability among similar entities’ and financial statements of previous periods. It does not apply to condensed interim financial information.

20.5 Objectives of Financial Statements

Financial statements are a structured representation of the financial results and position of the transactions undertaken by LGAs. The objectives are to provide information about the financial position, performance and cash flows of an LGA that is useful to a wide range of users in making and evaluating the results of the LGAs. A complete set of financial statements comprises the following:

- The statement of financial position, the statement of financial performance, the statement of changes in net assets, and a statement of approved budget and comparison to actual and notes (optional) (IPSAS 1);

- The statement of cash flows (IPSAS 2) and Councillors report (Tanzania Financial Reporting Standard (TFRS 1- directors report)).
20.6 Basic pillars in preparing and presentation of LGA GPFRs

20.6.1 Fair Presentation and Compliance with IPSASs

Fair presentation and compliance with IPSASs is an overriding premise in the preparation of financial information that present fairly the financial position, financial performance, and cash flows of an LGA.

It requires the faithful representation of the effects of transactions, other events, and conditions of LGAs in accordance with the IPSASs requirements. This is achieved by selecting and properly applying relevant accounting policies in accordance with IPSAS 3 and presenting information (including additional disclosures) in a manner that provides relevant, reliable, comparable, and understandable information by the management of the respective LGA in order to make an explicit and unreserved statement of compliance with IPSASs in the notes.

20.6.2 Going Concern Concept

The going concern concept is the assumption that the reporting entity will continue to exist for the foreseeable future. When preparing financial statements, an assessment of an LGA's ability to continue as a going concern shall be made.

A statement that the GPFRs are prepared on a going concern basis must be made in the notes.

20.6.3 Consistency of Presentation

In order to allow for comparability of financial statements, the presentation and classification of elements in the financial statements should be consistent from one period to another except where:

- There has been a significant change in the nature of the LGA's operations or classification of items which is considered more appropriate;
- Or an IPSAS requires a change in presentation or classification.

20.6.4 Materiality and aggregation

Each material class of similar items (such as expenses) should be presented together (i.e. aggregated) whereas those of dissimilar nature or function should be presented separately (except where they are immaterial).

This means to make a separate presentation of material items and aggregate immaterial amounts of a similar nature. This applies to both balance sheet and statement of financial performance.

20.6.5 Offsetting

Elements of financial statements shall not be offset unless required or permitted by an IPSAS or offsetting reflects the substance of the transaction or result in more relevant and reliable information.

General principles of offsetting:

- Offsetting is never allowed in statements of financial position, unless explicitly permitted by another standard.
In the statement of financial performance offsetting is not allowed unless it is permitted by another standard or is for similar transactions, immaterial gains or losses.

The offsetting of cash flows is dealt with in IPSAS 2: Cash Flow Statements.

20.6.6 Comparative Information

Except when an IPSAS permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the LGA reports.

20.7 Structure and contents of the set of financial statements

According to IPSAS 1 the GPFRs should show assets, liabilities, revenue, expenses and net assets of an LGA.

20.7.1 Identification of the financial statements

The financial statements of an LGA shall be identified clearly and distinguished from other information in the same published document by showing the following items:

- The name of the reporting LGA or other means of identification;
- The reporting date or the period covered by the financial statements;
- The presentation currency, as defined in IPSAS 4;
- The effects of changes in foreign exchange rates; and
- The level of rounding used in the financial statements.

20.7.2 Statement of financial position

The statement of financial position/balance sheet in the LGA provides information that assist users in assessing liquidity and solvency. It measures the financial position at a particular point in time.

Elements of the statement of financial position:

The major components of statement of financial position in the LGA are assets and liabilities and net assets. The LGA should provide current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position (IPSASB, 2013, Para.76-87). This classification is described below:

- Current assets: Assets expected to realize in the course of the operating cycle, held primarily for trading purposes, expected to be realized within 12 months and unrestricted cash or cash equivalents as per IPSAS 2. Current assets include assets in the Local Government (such as taxes receivable, user charges receivable, fines and regulatory fees receivable, inventories etc.).

- Current liabilities: Financial commitments, which are expected to be settled in the normal course of the operating cycle, or held primarily for trading purposes, or due to be settled within 12 months and the LGA does not have an unconditional right to defer.

- Non-current assets and liabilities: All those not classified as current as described above.

Recognition criteria for assets and liabilities:

Assets and liabilities are recognized when it is probable that an inflow/outflow of resources or service potential will result to/from the settlement of a present obligation and the amount at which the settlement/value can be measured reliably.
Because the LGA does not have share capital, it shall disclose net assets/equity, either on the face of the statement of financial position or in the notes, showing separately the following items: net assets at the reporting date, accumulated surpluses or deficits; reserves, including a description of the nature and purpose of each reserve within net assets/equity.

The format for statements of financial position is presented in appendix 1.

20.7.3 Statement of financial performance (surplus or deficit for the period)

The statement of financial performance measures the operational performance of the entity. It shows whether the LGA can sufficiently cover its operations given the available resources.

Elements in the statement of financial performance:

The main elements in this statement are all items of revenue and expense. These items are recognized in a period and are included in surplus or deficit, unless an IPSAS requires otherwise. When items of revenue and expense are material, their nature and amount shall be disclosed separately.

Circumstances that would give rise to the separate disclosure of items of revenue and expense include writing down value of PPE to a recoverable amount or recoverable service amount as appropriate, and disposals of items of property, plant and equipment.

The format statement of financial performance is presented in appendix 2.

20.7.4 Statement of changes in net assets/equity

Each LGA shall present a statement of changes in net assets showing on its face net assets as at the reporting period, surplus or deficit for the period and each item of revenue and expense for the period that, as required by other standards, is recognized directly in net assets and the total of these items.

20.7.5 Statement of cash flows

Cash flow information provides users of financial statements with a basis to assess (a) the ability of the entity to generate cash and cash equivalents, and (b) the needs of the entity to utilize those cash flows. IPSAS 2 sets out requirements for the presentation of the cash flow statement and related disclosures.

20.7.6 Explanatory notes & other disclosures

The notes shall:

(i) Present information about the basis of preparation of the financial statements and the specific accounting policies used;

(ii) Disclose the information required by IPSASs that is not presented on the face of other financial reports and

(iii) Provide additional information not provided elsewhere but that is relevant to an understanding of any of the LGA’s condition, performance and position. This information may include the domicile of LGA, its legal form and the jurisdiction within which it operates, a description of the nature of its operations and principal activities and a reference to the relevant legislation governing its operations.
In respect to disclosures of accounting policies, the following shall be disclosed:

(i) Summary of significant accounting policies;
(ii) The measurement basis (or bases) used in preparing the financial statements;
(iii) The extent to which the LGA has applied any transitional provisions in any IPSAS (e.g. with respect to PPE; and
(iv) Any other accounting policies used that are relevant to an understanding of the financial statements.

20.8 Review Questions

1. What are the main components of general purpose financial reports?
2. Is the current reporting framework in your LGA consistent with IPSASs requirements?
3. What is the information in the context of LGAs that should be reported on each component of general purpose financial statements?
4. IPSAS 1 provides compulsory disclosures in the financial statements; what are these disclosures? Mention any additional disclosure relevant to understanding of the LGA reports.
5. Explain issues for consideration toward full IPSASs compliant financial statements at your LGA.
21 IPSAS 2 – Statement of Cash Flows

21.1 Introduction

In making and evaluating decisions about the allocation of resources, such as the sustainability of the LGA’s activities (such as service delivery), users require an understanding of the timing and certainty of cash flows. Information about the cash flows of an LGA is useful in providing users of financial statements with information for both accountability and decision making purposes. The preparation of statements of cash flows is therefore important for LGAs and it is governed by IPSAS 2, which is primarily drawn from IAS 7, Cash Flow Statements, published by the IASB.

21.2 Learning Objectives

At the end of the session participants should be able to:

- Understand the concepts under IPSAS 2;
- Appreciate the scope and relevance of the standard in the LGAs;
- Understand the formats of cash flow statements;
- Identify categories of cash flows in LGAs;
- Report on the cash flows in the LGA;
- Account for non-cash transactions and
- Make relevant disclosure requirements.

21.3 Definition of relevant concepts (IPSAS 2, 2013):

The following terms are used in IPSAS 2 with the meanings specified (IPSASB, 2013):

1. **Cash**: comprises cash on hand and demand deposits.
2. **Cash equivalents**: short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
3. **Cash flows**: inflows and outflows of cash and cash equivalents.
4. **Financing activities**: activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.
5. **Investing activities**: the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
6. **Reporting date**: date of the last day of the reporting period to which the financial statements relate.
21.4 Scope and objective of the standard

This standard sets out requirements for the presentation of the cash flow statement and related disclosures. The statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date.

21.5 Statement of cash flows

The statement of cash flows is a statement of inflows and outflows of cash and cash equivalents. Users of financial information need information on the liquidity, viability and financial adaptability of entities. This information can be derived from cash flows statements.

The main objectives of the statement of cash flows are to enable users to project forward and be able to assess the ability of organization to generate future positive cash flows, assess the organization’s ability to meet its financial obligations when they fall due, assess the effect on the firm’s financial position of the investments undertaken during the financial year and to give explanations as to the reasons for differences between the profit and cash flows.

A cash flow statement is presented in three categories: (i) cash flows from operations, (ii) cash flows from financing activities (iii) and investing activities which are all relevant to the local government.

21.5.1 Cash flow types

The cash flow statement shall report cash flows during the period classified by operating, investing, and financing activities. These cash flow categories are described below:

Cash flow from operating activities: The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the LGA are funded: (a) By way of taxes, fines, penalties or (b) from the provision of goods and services provided.

Examples: Cash receipts from taxes, levies, and fines; cash receipts from grants or transfers and other appropriations made by central government; cash payments to suppliers for goods and services and cash payments to and on behalf of employees etc.

Cash flows from investing activities: This kind of information is important because the cash flows represent the extent to which cash outflows have been made for resources which are intended to contribute to the LGA's future service delivery.

Examples: Cash payments/receipt to acquire/sell property, plant and equipment, intangibles and other long-term assets.

Cash flows from financing activities: The separate disclosure of this information is necessary because it is useful in predicting claims on future cash flows by providers of capital to the entity.

Examples: Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short- or long-term borrowings and cash repayments of amounts borrowed.
21.5.2 Reporting cash flows from operating activities

An LGA should report cash flows from operating activities using either:

- The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed;
- Or the indirect method, whereby net surplus or deficit is adjusted for the effects of transactions of a non-cash nature (including any deferrals or accruals) or operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.

The Local Government Authorities in Tanzania use the indirect method for presenting the operating cash flows. However, they are encouraged to report cash flows from operating activities using the direct method (IPSAS 2: 28).

The current framework does not show the cash flow statement prepared using the direct method but the LGA may in future decide to report the operating cash flows using the indirect method which is recommended by IPSAS 2.

Cash flow statements are presented in appendix 3 and 4.

21.6 Disclosures requirements

The following shall be disclosed in the notes:

- The accounting policy adopted in accounting for cash flows;
- The composition of cash and cash equivalents;
- Any change in Property, Plant and Equipment or any other noncurrent assets.

21.7 Review Questions

1. Briefly identify the main activities to be reported in the statement of cash flows of LGAs.
2. What is a recommended method for reporting cash flows from operating activities in your LGA? Give reasons.
3. The following information is provided for ELGA 2. It is the statement of financial performance for the year ended 31 December 20X8.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>Tshs (in 000,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>7,180</td>
</tr>
<tr>
<td>Supplies and consumables used</td>
<td>(5,102)</td>
</tr>
<tr>
<td>Training costs</td>
<td>(211)</td>
</tr>
<tr>
<td>Management costs</td>
<td>(742)</td>
</tr>
<tr>
<td>Surplus from operating activities</td>
<td>1,125</td>
</tr>
<tr>
<td>Extraordinary item</td>
<td>(395)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(280)</td>
</tr>
<tr>
<td>Net surplus for the period</td>
<td>450</td>
</tr>
</tbody>
</table>
**ELGA 2– Statement of Financial Position as at 31 December 20x8 and 20X7**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>20X8</th>
<th>20X7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>422</td>
<td>288</td>
</tr>
<tr>
<td>Receivables</td>
<td>1,098</td>
<td>605</td>
</tr>
<tr>
<td>Investments</td>
<td>84</td>
<td>140</td>
</tr>
<tr>
<td>Inventory</td>
<td>61</td>
<td>142</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>1,665</td>
<td>1,175</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>1,069</td>
<td>857</td>
</tr>
<tr>
<td>Development expenditure</td>
<td>701</td>
<td>633</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>1,770</td>
<td>1,490</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>3,435</td>
<td>2,665</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>1,454</td>
<td>1,010</td>
</tr>
<tr>
<td>Provision for warranties</td>
<td>239</td>
<td>275</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>1,693</td>
<td>1,285</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>1,742</td>
<td>1,380</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions from Central Government</td>
<td>1,292</td>
<td>1,100</td>
</tr>
<tr>
<td>Accumulated surplus</td>
<td>450</td>
<td>280</td>
</tr>
<tr>
<td><strong>Net equity</strong></td>
<td>1,742</td>
<td>1,380</td>
</tr>
</tbody>
</table>

The following information is available:

i) Equipment, with an original cost of Tshs 239 and a net book value of Tshs 126 were sold for Tshs 90 during the year.

ii) The current asset investments fall within the definition of cash equivalents under IPSAS 2.

iii) The following information relates to Equipment:
iv) Development expenditure has not yet started being amortized.

**REQUIRED:**

Prepare a statement of cash flows for the year to 31 December 20X8 using the indirect method. Notes to the financial statements are also required.
22 IPSAS 12 – Inventory

22.1 Introduction

Inventories (in form of consumables, drugs, medical appliances and cereals) are important elements of the current assets in the LGAs. However, most of these inventories are distributed at no charge or for a nominal charge. IPSAS 12 clarifies the accounting and disclosures requirements of inventories.

22.2 Learning objectives

At the end of this session participants should be able to:

- Understand relevant concepts related to inventory;
- Appreciate the scope and relevance of the standard in LGA;
- Identify inventories relevant to LGA;
- Distinguish between property plant and equipment and inventory;
- Determine the costs of inventory and its allocation;
- Understand valuation and recognition criteria for inventory;
- Understand the accounting treatment of spare parts;
- Understand the accounting treatment of inventories, and
- Make relevant disclosures of inventory.

22.3 Definition of relevant concepts (IPSAS12, 2013)

The following terms are used in this standard with the meanings specified (IPSASB, 2013):

1. **Current replacement cost** is the cost the entity would incur to acquire the asset on the reporting date.
2. **Inventories** are assets in the form of materials or supplies to be consumed in the production process or distributed in the rendering of services, held for sale or distribution in the ordinary course of operations or in the process of production for sale or distribution.

22.4 Scope and objective of the standard

This standard prescribes the accounting treatment for inventories, including accounting for inventories, the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized.
22.4.1 Distinction between Inventory IPSAS 12 and PPE (IPSAS 17) relevance to the LGA

The distinction between inventory and property, plant and equipment is unclear to non-accountants as well as to accountants.

The IPSAS standards offer guidance on this distinction. Firstly, IPSAS 17 provides a transitional period for LGAs (of five years to comply fully) with the IPSASs first adoption. With PPE, there is no such grace period for inventory.

22.4.2 Control – key aspect in the definition of an asset

For an asset, the entity that controls it is the one that should report it. This is relevant to the LGAs in that most assets are acquired by ministries at central government level but used in LGAs.

**Definition of control in IPSAS:**
Control of an asset arises when the LGA can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

**Definition of assets:**
Assets are resources controlled by an LGA as a result of a past event and from which future economic benefits or service potential are expected to flow to the LGA.

The concept of control is of critical importance from an accounting perspective – as it is this control that defines in which entity such an asset must be accounted for and also bearing in mind that most assets of the LGA are acquired from no exchange deals. LGAs for example which have been divided into two, fail to determine which LGA shall report what.

22.4.3 Useful life

For PPE the useful life is more than one year with respect to inventory. The useful life is typically less than one year. Some items such as spare parts may also have useful lives of greater than one year but when considering the nature and purposes, for which they are acquired, they are classified as inventory.

22.5 Measurement of inventories

Inventories shall be measured at the lower of cost and net realizable value except where paragraph 16 or 17 of IPSAS 12 applies:

- Where inventories are acquired through a non-exchange transaction which is a case in most LGAs, their cost shall be measured at their fair value as at the date of acquisition.
- When an LGA holds inventory for distribution for free or at nominal charge or in use to produce goods to be distributed for free or in nominal amount – it will carry that inventory at the lower of cost and current replacement cost.

The cost of inventories should comprise: Costs of purchase; costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Abnormal amounts of wasted materials, labour or other costs, storage costs, administrative overheads that do not contribute to bringing inventories to their present location and condition and distribution costs are excluded from Inventory.
When inventories are purchased with deferred settlement terms, the difference between the purchase price for normal credit terms and the amount paid is recognized as interest expense over the period of financing.

When inventories are sold, exchanged, or distributed, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized.

- When there is no related revenue, the expense is recognized when the goods are distributed or the related service is rendered.
- The amount of any write-down of inventories and losses shall be recognized as an expense in the period in which they occur.
- The amount of a reversal of any write-down of inventories shall be recognized as a reduction in the amount of inventories recognized as an expense in the period when the reversal occurs.

22.6 Spare parts

Spare parts are often purchased with a new asset, or additional spare parts may be purchased in a separate transaction after an asset is purchased; each of these scenarios is considered as follows:

- Spare parts purchased with PPE will be accounted for in terms of the PPE;
- Spare parts purchased after PPE is acquired shall be included in the inventory at the amount for which they were purchased;
- When the spare parts are issued from stores to repair equipment, the amount will be expensed.

22.7 Disclosures requirements

The LGA should disclose the following in respect to inventories in its financial statements:

- The accounting policies adopted in valuing inventories;
- The total carrying amount of inventories and the carrying amount in classifications appropriate to the LGA;
- The amount of inventories recognized as an expense during the period;
- The amount of any write-down of inventories recognized as an expense in the period in accordance to IPSAS 12:42.

An example of a non-current assets register is presented in appendix 5.

22.8 Review Questions

1. What inventories do the LGA report on in their financial statements?
2. Briefly explain the accounting policy adopted by your LGA? Is it in compliance with IPSAS 2 requirements?
3. List the contents of an inventory register.
4. Explain accounting treatment of spare parts acquired by the LGA.
5. What are necessary disclosures in LGA reports that relate to inventory?
23 IPSAS 3 – Accounting Policies, Accounting Estimates and Errors

23.1 Introduction

LGAs operate in a dynamic environment. Financial data, principles, procedures and estimates may therefore need to be revised to current practices. IPSAS 3 provides guidance on how accounting policies should be established, treated when they need to be modified and accounting requirements for errors and revisions of estimates.

23.2 Learning objectives

At the end of this session participants should be able to:

- Understand relevant concepts under IPSAS 3;
- Understand the coverage and objective of this standard;
- Appreciate the relevance of the standard in LGAs;
- Select appropriate accounting policy;
- Use accounting policies;
- Revise accounting estimates;
- Correct errors in financial statements, and
- Make necessary disclosures.
23.3 Definition of relevant concepts (IPSAS 3, 2013)

The following terms are used in this standard with the meanings specified (IPSASB, 2013):

1. **Accounting policies** are the specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements. E.g. Inventories are carried at the lower of net realizable value or cost.

2. A change in an accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of and expected future benefits and obligations associated with assets and liabilities. E.g. A change from one basis of accounting to another basis of accounting.

3. **Impracticable**: Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

4. **Prospective application** of a change in the accounting policy and of recognizing the effect of a change in an accounting estimate is: applying the new accounting policy to transactions, other events, and conditions occurring after the date at which the policy is changed; recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change.

5. **Retrospective application** is applying a new accounting policy to transactions, other events, and conditions as if that policy had always been applied.

6. **Retrospective restatement** is correcting the recognition, measurement, and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

23.4 Scope and objective of the standard

The objective of this standard is to prescribe the criteria for selecting and changing accounting policies, together with the (a) accounting treatment and disclosure of changes in accounting policies, (b) changes in accounting estimates, and (c) the corrections of errors. It is intended to enhance the relevance and reliability of an entity’s financial statements and the comparability of those financial statements over time and with the financial statements of other entities.

23.5 Accounting policies, changes in accounting estimates and errors

23.5.1 Accounting policies

Management shall select the relevant accounting standards to be used in the preparation and presentation of financial statements. The selected accounting policies shall be used consistently for similar transactions, unless IPSAS requires or permits special categorization.

Where IPSAS do not provide adequate guidance on the accounting policies to be used, the respective LGA’s management shall use its judgment in developing and applying an accounting policy that will result in information that is reliable and relevant to the needs of the users.
When such judgment is exercised, management should consider the applicability of, the following sources in descending order:

- The requirements and guidance in IPSAS dealing with similar and related issues;
- The definitions, recognition and measurement criteria for element of GPFRs, and
- Pronouncements of other standard setting bodies and accepted as best practices.

### 23.5.2 Changes in accounting policies

An LGA shall change an accounting policy only if the change is required by an IPSAS, or will result in the financial statements providing more reliable and more relevant information about its financial results.

Generally changes in the accounting policy can occur if there has been a change in:

- Recognition, e.g. expenses are now recognized rather than assets or
- Presentation, e.g. depreciation is now included in cost of sales rather than administrative expenses or
- Measurement basis, stating assets at replacement cost rather than historical cost.

Application of Changes in Accounting Policies: Changes in accounting policy voluntarily shall be applied retrospectively, i.e. adjust the opening balance of each affected element and for the earliest period presented as if the new accounting policy had always been in use. However, if it is impracticable to apply the changes retrospectively state/disclose that fact.

The following disclosures are required in respect of changes in the accounting policy:

- The title of the standard; the nature and reason of the change in the accounting policy;
- The amount of the adjustment (if any);
- Financial statements of subsequent periods need not repeat these disclosures.

### 23.5.3 Changes in accounting estimates

As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Changes in accounting estimates resulting from new information or new developments and accordingly, are not correction of errors. In the LG perspective it may involve useful life of assets, bad debts arising from uncollected taxes and inventory obsolescence.

Changing accounting estimates shall be recognized prospectively by including it in surplus or deficit in the period of the change, or the future period if the change affects both. The change in accounting estimates is recognized by adjusting the carrying amount of the related elements in the period of change. For all other items the effect of the change shall be recognized prospectively.

### 23.5.4 Errors

Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. These errors may arise from mathematical mistakes; mistakes in applying accounting policies; oversights and misinterpretation of facts. It is important to note that financial statements do not comply with IPSASs if they contain either material errors or immaterial errors made intentionally.
Current and prior period errors:

- Current period errors: Potential current period errors discovered in that period and corrected before the financial statements are authorized for issue.
- Prior period errors: Omissions from and misstatements in the LGA’s financial statements for one or more prior periods arising from a failure to use or misuse of reliable information that was available and could reasonably be expected to be considered.

Correction of Prior Period Errors: An LGA shall correct the errors retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative figures of the elements of financial statement affected.

Accounting treatment: Restate comparative amounts for each prior period presented in which the error occurred for all elements affected: However, if it is practical to determine the period specific effects or the cumulative effect of the error, the LGA corrects the error from the earliest period/date practicable (and discloses that fact).

The correction of a prior period error is excluded from the statement of financial performance in which the error is discovered.

Disclosure requirement for prior period errors:

The LGAs shall disclose the following in respect of prior period errors:

- The nature of the prior period error;
- The amount of correction of each element of financial statement affected for each prior period presented;
- The amount of the correction at the beginning of the earliest prior period presented, and
- If retrospective restatement is impracticable disclose that fact;
- Do not repeat such disclosures in subsequent financial statements.

23.6 Review Questions

1. Briefly explain how one would develop and apply an accounting policy in the LGA.
2. Explain how the management of a decentralized LGA can develop an accounting policy when there is no proper guide by IPSASs.
3. Identify accounting policies that are associated with elements of financial reports at the LGA.
4. Determine whether the following are changes in the accounting policy or changes in accounting estimates in the LGA context:

- An entity has previously charged interest incurred in connection with the construction of tangible NCA to the income statement following the revision of IPSAS 5 (borrowing costs) and as per requirements of that standard. It now capitalizes that interest.
- An LGA previously depreciated vehicles using the reducing balance method at 40% p.a. It now uses the straight line method over a period of five years.
- An LGA has previously measured inventory/stock at weighted average cost (WAM). It now measures inventory using the FIFO method.
- An LGA engaging in construction contracts for the first time needs an accounting policy to deal with this.
- To provide more relevant information, items of PPE are now being measured at fair value, whereas they have previously been measured at cost.
24 IPSAS 17 – Property, Plant and Equipment

24.1 Introduction

Property Plant and Equipment (PPE) form a substantial part of non-current assets of LGAs. These assets include administrative buildings, school buildings, heritage assets, infrastructure assets, motor vehicles, hospitals and dispensaries which are controlled by the LGA. IPSAS 17 in which most concepts are borrowed from IAS 16 establishes the accounting treatment for PPE such as basis and timing of their initial recognition, subsequent measurement and disclosures required.

24.2 Learning Objectives

At the end of the session participants will be able to:

› Understand relevant concepts under IPSAS 17;
› Understand measurement of PPE at recognition and subsequently;
› Understand accounting treatments of infrastructure, self-constructed assets and heritage assets;
› Understand the classification of standby equipment, spares;
› Understand the depreciation method and account for depreciation;
› Understand de-recognition criteria for PPE in LGAs;
› Make necessary disclosure requirements.

24.3 Definition of relevant concepts (IPSAS 17, 2013)

1 Property, plant and equipment (PPE) are items that: (a) are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one reporting period.

2 Class of property, plant and equipment: Means a grouping of assets of a similar nature or function in an entity’s operations that is shown as a single item for the purpose of disclosure in the financial statements.

3 Recoverable amount: Is the higher of a cash-generating asset’s fair value less costs to sell and its value in use.

4 Recoverable service amount: Is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

5 Residual value: Is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

6 Useful life: (a) The period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.
24.4 Scope and objective of the standard

The standard establishes the accounting treatment for property, plant and equipment (PPE), including the basis and timing of their initial recognition, measurement, subsequent ongoing carrying valuation, depreciation, de-recognition and related disclosures.

However, it does not apply to: a) biological assets related to agricultural activity (see IPSAS 27 – Agriculture); or b) mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources.

24.5 Recognition and Measurement

The recognition criteria for Property, Plant and Equipment are:

- Probability that future economic benefits or service potential associated with the asset will flow to the LGA and its cost or fair value can be reliably measured.
- The risks (costs of repair and maintenance) and rewards (service potential or benefits) associated with the asset can pass to the LGA.

It should be noted that legal ownership of an item of PPE is not a requirement for recognition, but rather a control (i.e. substance over form).

24.5.1 Measurement at recognition

An item of PPE should initially be measured at its cost. The cash price equivalent or its fair value at the recognition includes purchase costs and directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. However, where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

For deferred payments, i.e. the payments beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit, unless such interest is recognized in the carrying amount of the item in accordance with the allowed alternative treatment in IPSAS 23, Borrowing Cost.

24.5.2 Measurement after recognition

LGAs can choose either the cost model or the revaluation model as its accounting policy for measurement of PPE after recognition. Whatever policy is adopted, it must be applied to an entire class of PPE (i.e. land, machinery, and motor vehicles).

Cost model: an item of PPE shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation model: an item of PPE whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

How to determine Fair Value:

Fair Value can be readily ascertainable by reference to quoted prices in an active and liquid market.
Subsequent costs relating to an item of PPE that has already been recognized should be added to the carrying amount of the asset.

However all other subsequent expenditures should be recognized as expenses in the period in which they are incurred. Nevertheless, the expenditure for major inspections should be recognized as an asset (component) and depreciated over the estimated period between inspections.

24.5.3 Measurement of cost in exchange transactions

Items of PPE acquired in exchange for a non-monetary asset (e.g. donated assets) or a combination of monetary and non-monetary assets shall be measured at fair value. If an LGA is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

24.6 Infrastructure assets, self-constructed and heritage assets

24.6.1 Infrastructure assets

These are assets which are specialised in nature. The LGA controls some of these assets such as road networks, sewage systems, and communication networks. These assets are classified as PPE and meet criteria for recognition. Recognize assets initially at cost, subsequently measure these assets at either cost model or revaluation model as any other item of PPE.

24.6.2 Self-constructed assets

Self-constructed assets take a substantial period to become complete to use for the intended purpose. The amount of these assets should be recognized in books stage-wise as follows:

- Preliminary Stage: Management first contemplates the acquisition or construction of a capital asset. Recognize-engineering studies, feasibility studies, designing of layout plans, etc.
- Pre-acquisition Stage: During this stage only those costs that are directly identifiable to the asset are capitalized.
- Acquisition or Construction Stage: In this stage the entity obtains ownership of the asset or obtains rights to use it, or construction has commenced. Recognize all costs directly associated with the specific assets.
- In-service Stage: The asset is substantially complete and ready for its intended use. Most costs, including all normal, recurring or periodic repairs, and maintenance, are charged to expense. However, costs of replacing an existing component, major maintenance expenses incurred on a component or acquiring a new component are capitalized.

24.6.3 Heritage assets

These are assets which are cultural or historical in nature such as historical buildings, mountains, hills and archives. IPSAS 17 do not make it mandatory for entities to recognize heritage assets as some may not meet the criteria for recognition or it may be difficult to determine its cost or fair value reliably. However, the best practice should be to make a disclosure if such assets are available and some economic benefits are accruing to LGAs.
24.7 Depreciation and depreciation methods

Depreciation is amortization of costs. Each part of PPE with a significant cost in relation to the total cost shall be depreciated separately except where they are grouped together. Land and buildings for example are accounted for separately:

- Start depreciation when asset is available for use by LGA and depreciate over useful life.
- Recognize depreciation charge for each period directly in statement of financial performance.
- Continue recognizing depreciation even if the fair value of the assets exceeds its carrying amount as long as the asset’s residual value does not exceed its carrying amount.
- Stop depreciating an asset when it is derecognized, or classified as held for sale.

Depreciation methods, residual value and useful life

LGA may choose among: (i) the straight line method and (ii) the diminishing balance method as its depreciation method. The selection of the method must reflect the pattern in which the asset’s service potential/benefits are expected to be consumed by the LGA and estimated useful life must consider capacity, wear and tear, technology changes, and changes in product demand, contractual or legal limits.

It is worth noting that the depreciation method, residual value and useful life should be reviewed annually. Any change would be a change in accounting estimate and accounted for prospectively (IPSAS 3).

24.8 De-recognition of Property Plant and Equipment

Derecognition means removal of an item of PPE from the LGA books. The carrying amount of an item of PPE shall be de-recognized (a) on disposal (e.g. by sale or by donation); or (b) when no future economic benefits or service potential is expected from its use. The gain or loss on de-recognition shall be included in the statement of financial performance but not as part of revenue.

24.9 Disclosures requirements

The LGA shall disclose the following with respect to each class of PPE recognized in the final statement:

- The measurement bases used for determining the gross carrying amount;
- The depreciation methods used (if carried at cost);
- The useful lives or the depreciation rates used;
- The reconciliation of amount at the beginning and at the end after yearly changes adjustments;
- The existence and amounts of restrictions on title, PPE pledged as securities for liabilities;
- The amount of contractual commitments for the acquisition of PPE;
- The amount of fully depreciated PPE but still in use (if any);
- Any advantage of the transitional provisions taken (e.g. as set IPSAS 17- Para 95 & 96).
24.10 Review Questions

1. Makumbusho District Council (MDC) is among the LGAs in Bongland a developing country. The council has been reporting on accrual based IPSASs since 2010. The following data have been obtained from the Council’s records.

- The final reports for the year ending 30th June 2012 indicated two market stalls in Keyway and Bulletproof wards as PPE; they also showed the staff houses for the district as investment property (staff pay a nominal rent below market price).
- The district has two cars which have been fully depreciated but are still in books and in use by the council. The newly appointed external auditor of the district raises some concern about whether the district should report donated assets and if so he is wondering what value will be used while the council did not pay anything on acquisition of these assets.
- The council has a two storey property in which one floor is used by the Education and Social Service Department as offices. This property was intentionally built for investment purposes, the final accounts accountant does not know whether this property should be reported as investment or PPE.
- Additionally, the council controls some road networks, bridges and one historical building near the council offices but they are not reflected in books.
- One final accounts accountant does not see the reason why the open spaces and undeveloped land owned and controlled by the council should be recorded in books.

REQUIRED: Show how you would deal with the above reporting issues and advise the DED and DT of MDC accordingly.

2. Explain the recognition criteria for PPE in LGA context.

3. Briefly explain the classes of the PPE in the context of the local government authorities.

4. What would the LGA be required to disclose in accordance to IPSAS 17?
25 IPSAS 5 – Borrowing Costs

25.1 Introduction

LGAs have capacity to borrow funds for various purposes, such as for the construction of investment properties. The borrowing costs had been as a practice expensed as incurred. It is of course a requirement that the borrowing costs should immediately be expensed except for qualifying assets which need to be capitalized as alternative treatment. IPSAS 5 which is mostly drawn from IAS 23 (by IASB) provides the guidance on dealing with the borrowing costs in LGAs.

25.2 Learning Objectives

At the end of this session participants should be able to:
- Understand relevant concepts under IPSAS 5;
- Understand the objectives of IPSAS 5;
- Understand the relevance of the standard in LGAs;
- Select and apply the appropriate policy on borrowing cost;
- Know measurements and appropriate accounting treatments of borrowing costs;
- Understand and make borrowing costs disclosures.

25.3 Definition of relevant concepts (IPSAS 5, 2013)

The following terms are used in this Standard with the meanings specified (IPSASB, 2013):

1. Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds. They include interest on bank overdrafts, short-term and long-term borrowings, amortization of discounts or premiums relating to borrowings and finance charges in respect of finance leases and service concession arrangements.
2. Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

25.4 Scope and objective of standard

IPSAS 5 prescribes the accounting treatment and disclosures for borrowing costs in the general purpose financial reports of LGA.

25.5 Accounting treatment

IPSAS 5 generally requires the immediate expensing of borrowing costs as follows: I.e. Borrowing costs should be recognized as an expense in the period in which they are incurred. However, IPSAS 5 permits, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.
25.5.1 Borrowing costs eligible for capitalization

LGAs should capitalize borrowing costs as follows:

- Funds borrowed specifically for a qualifying asset: Capitalize actual borrowing costs incurred less investment income on temporary investment of the funds.
- Funds borrowed generally: Capitalize weighted average of borrowing costs outstanding during the period (excluding borrowings specifically for a qualifying asset) multiplied by the expenditure on qualifying assets.
- However, the amount capitalized should not exceed the total borrowing costs incurred in the period.

25.5.2 Commencement of capitalization

Capitalization of relevant borrowing expenses shall be at the earlier of when: (i) expenditures for the asset are being incurred (ii) borrowing costs are being incurred; and (iii) activities that are necessary to prepare the asset for its intended use or sale are in progress.

25.5.3 When is capitalization suspended?

Capitalization can be suspended during extended periods when development is interrupted. Similarly, capitalization ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

25.6 Disclosures requirements

LGAs shall disclose the following in its GPFRs in accordance to IPSAS 5:

- The accounting policy adopted for borrowing costs;
- The amount of borrowing costs capitalized during the period (if any);
- The capitalization rate used to determine the amount of borrowing costs eligible for capitalization (when necessary to apply a capitalization rate to funds borrowed generally).

25.7 Review Questions

1. Do you have qualifying assets at your LGA?

2. Kipupwe Municipal Council borrowed TZS 800,000,000 in July 2013 for the construction of shopping malls in order to enhance its own source income. The interest expense is 15%. The construction started 6 months later and expects to take 4 years to be substantially complete. The council was granted one year grace period. However, the construction will stop for 6 months pending the rainy season in this council.

REQUIRED: From the facts above, answer the questions that follow:

(i) Does the borrowing cost payable by Kipupwe Municipal qualify for capitalization? Justify your answer.

(ii) When should capitalization start? Should capitalization continue when the council stops construction pending heavy rain encountered?

(iii) Calculate the amount of borrowing costs to be capitalized.

(iv) What are compulsory (must) disclosures in respect to borrowing costs in above scenario?
26 IPSAS 16 – Investment Property

26.1 Introduction

The activities and decisions of LGAs are diverse and becoming more closely to the commercial sector. Many LGAs have properties purposely constructed to earn rent or capital appreciation aimed to increase own source income though in some cases they may partly be used for administrative purposes.

The accounting treatment of these assets is different from the non-current assets dealt with in IPSAS 17 (PPE). This standard therefore has its background on IAS 40 developed by IASB, which provides a useful guide in classification, measurement, transfers and recognition related to investment property in LGAs.

26.2 Learning Objectives

At the end of the session participants should be able to:

- Comprehend relevant concepts under IPSAS 16;
- Define scope and objective of the standard;
- Understand the relevance of the standard in LGAs;
- Classify and measure investment property;
- Understand transfers between investment property and PPE;
- Understand the accounting treatment of investment property in constructions (W.I.P), and
- Understand the accounting treatment of investment properties and its disclosures.

26.3 Definition of relevant concepts (IPSAS 16, 2013)

The following terms are used in this standard with the following meanings (IPSASB, 2013):

1. The carrying amount (for the purpose of this standard) is the amount at which an asset is recognized in the statement of the financial position.

2. Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.

3. Investment property is the property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services, for administrative purposes or sale in the ordinary course of operations.

4. Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services, or for administrative purposes.
26.4 Scope and objective of the standard

This standard prescribes the accounting treatment related disclosure requirements of investments property in the local government.

IPSAS 16 do not deal with: Properties held for sale in the ordinary course of operations, or being constructed on behalf of third parties, or owner-occupied property, or work in progress, or property held to provide a social services or biological assets related to agricultural activity.

26.5 Classification of property as investment

The classification of an asset as investment property is dependent on the purpose of construction and whether the assets is expected to generate cash flows from rent and or from capital appreciation. Investment property therefore is expected to generate cash flows largely independently of the other assets held by an LGA.

Although property for service delivery or use for administrative purposes can also generate cash flows, this is incidental and not the primary purpose so they are classified as PPE and not investment.

Partly occupied property: If these portions could be sold separately (or leased out separately under a finance lease), then an LGA accounts for the portions separately (i.e. PPE and Investment Property). Else, if portions could not be sold separately: The property is investment property if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

When the LGA provides ancillary services to the occupants of the property, and they form substantial part of the arrangement such properties is accounted for as investment.

26.6 Recognition and measurement of investment property

Recognition criteria: Recognize when it is probable that the future economic benefits or service potential will flow to an LGA and cost or fair value of investment property can be measured reliably.

Measurement: Investment property shall be measured initially at its cost and subsequently at either cost or revalued amount. Where acquired through a non-exchange transaction it should be measured at its fair value as at the date of acquisition.

However the cost of self-constructed investment property shall be its cost at when construction is complete. Until that date, LGAs will continue to apply IPSAS 17 (PPE) and classify the construction as work in progress.

26.6.1 Measurement after recognition

An LGA shall choose the cost model or fair value model to measure the investment properties subsequently. The policy selected should be applied to the entire investment properties as follows:

- If it chooses the FV model: The best evidence is current prices in an active market for similar property in the same location and condition. A gain or loss arising from a change in the fair value of investment property shall be recognized in a statement of financial performance in the current period.
If an LGA is unable to measure fair value reliably: It shall measure that investment property using the cost model as in IPSAS 17 – PPE – until its disposal. The residual value of such property shall be assumed to be zero.

26.6.2 Transfers to and from investment property

The reclassification from PPE to IP or otherwise should be done by the LGA in the following circumstances:

- Commencement of owner-occupation, or end of owner occupation;
- Commencement of development with a view to sale, for a transfer from investment property to inventories; or
- End of construction or development, for a transfer from W.I.P (PPE) to investment property.

26.6.3 De-recognition

Investment property shall be de-recognized (removed from books/records) on disposal or when it is permanently withdrawn from use and no future economic benefits or service potential are expected from it or donated. Any gains or losses arising from the retirement or disposal of investment property shall be recognized in a surplus or deficit statement of an LGA.

26.7 Disclosures requirements

LGAs shall disclose the following in respect to the investment property:

- Whether it applies the fair value or the cost model;
- The methods and significant assumptions applied in determining the fair value (if carried at FV);
- Whether and to which extent the fair value is based on a valuation by an independent qualified value.

26.8 Review Questions

1. What types of investment properties can the LGAs hold?
2. What are main considerations in classifying the investment property in LGAs?
3. If the council has market stalls constructed to be used by the community, would that be classified as PPE or investment property? Explain the reasons for your choice.
4. What are the measurement issues of consideration at recognition and subsequently for an investment property in LGAs?
27 IPSAS 23 – Revenues from Non-Exchange Transactions

27.1 Introduction

LGAs as part of the public sector are established for provision of services to citizens in their jurisdiction. The services or goods are provided for free or at a nominal price and do therefore not involve quid pro quo. Since they are provided for free or at a very nominal amount they are referred to as non-exchange transactions. IPSAS 23 covers the revenue from non-exchange transaction such as taxes and transfers in the local government settings and how they are measured, classified, recognized, reported and disclosed in GPFRs.

27.2 Learning objectives

At the end of this session participants should be able to:

- Define relevant concepts under IPSAS 23;
- Know how classify revenue;
- Know the types of revenue from non-exchange transactions, and
- Measure, recognize and report revenue from non-exchange transactions, and
- Make relevant disclosures with regard to non-exchange transactions.

27.3 Definition of relevant concepts (IPSAS 23, 2013)
The following terms are used in this standard with the following meanings (IPSASB, 2013):

1. **Non-exchange transaction**: In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

2. **Conditions on transferred assets** are stipulations that specify that the future economic benefits or service potential embodied in the asset are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

3. **Fines** are economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

4. **Restrictions on transferred assets** are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

5. **Stipulations on transferred assets** are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

6. **Taxes** are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.

7. **Transfers** are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

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**27.4 Scope and objective of the standard**

The objective is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions.

**27.5 Typical non-exchange transactions**

None – Exchange Transactions are taxes and transfers (whether cash or noncash), including grants, debt forgiveness, fines, requests, gifts, donations, and goods and services in-kind.

Stipulations: Assets may be transferred with the expectation and or understanding that they will be used in a particular way and, therefore, that the recipient entity will act or perform in a particular way. Stipulations can either be conditions or restrictions.

**27.5.1 Analysis of the initial inflow of resources from non-exchange transactions**

An LGA shall recognize a transaction/element arising from non-exchange transactions as follows:

- Recognize an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria.
Control of an asset: Ability to exclude or regulate the access of others to the benefits of an asset. It distinguishes an entity's assets from those public goods that all entities have access to and benefit from.

- In case of debt forgiveness, recognize a decrease in liability rather than an asset.
- Measurement of assets on initial recognition: An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition. However, an inflow of resources from a non-exchange transaction recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.

27.6 Timing of revenue recognition

The timing of revenue recognition is determined by the nature of the conditions and their settlement as follows:

- Present obligations recognized as liabilities: A present obligation arising from a non-exchange transaction that meets the definition of a liability shall be recognized as a liability when it meets criteria for recognition.
- Recognition of revenue from taxes: An LGA shall recognize an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.
- Transfers: An LGA shall recognize an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. Transfers include grants, debt forgiveness, fines, bequests, gifts, donations, goods and services in-kind.
- Fines: Normally require an individual or entity to transfer a fixed amount of cash to the LGA and do not therefore impose any obligations which may be recognized as a liability. As such, fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

27.7 Disclosures requirements

LGAs shall disclose in the notes to the GPFRs in respect to revenue from non-exchange transactions the following:

- The accounting policies adopted;
- Revenue measurement basis;
- Amount of major classes of bequests;
- Gifts and donations, showing separately major classes of goods in-kind received.

27.8 Review Questions

1. What are the main types of non-exchange transactions in LGAs?
2. What are measurement bases for revenue from non-exchange transactions?
3. State the recognition criteria for different type of revenues from non-exchange transactions.
4. Point out accounting treatment for revenue from non-exchange transactions and its relevant disclosures.
28 IPSAS 24 – Presentation of Budget Information in Financial Statements

28.1 Introduction

One of the critical aspects of financial control and administration in LGAs is the approved budget which gives authority for spending and collection of public money. LGAs like any other government entity may choose to make publicly available their approved budget. This will make the respective LGA to be held publicly accountable for its compliance with and performance against it. IPSAS 24 gives guidance on how LGAs can present their budget information in financial statements.

28.2 Learning objectives

At the end of this session participants should be able to:

- Describe relevant concepts under IPSAS 24;
- Know the objectives of this standard;
- Present budgetary information in financial statements;
- Understand budgetary information which needs to be disclosed;
- Make other necessary budget disclosures.

28.3 Definition of relevant concepts (IPSAS 24, 2013)

1. Annual budget: An approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.

2. Appropriation: An authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority.

3. Approved budget: The expenditure authority derived from laws, appropriation bills, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period.

4. Budgetary basis: The accrual, cash, or other basis of accounting adopted in the budget that has been approved by the legislative body.

5. Final budget: The original budget, adjusted for all reserves, carry-over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative or similar authority, changes applicable to the budget period.

6. Multi-year budget: An approved budget for more than one year. It does not include published forward estimates or projections for periods beyond the budget period.

7. Original budget: The initial approved budget for the budget period.

8. Actual Amounts: This Standard uses the term actual or actual amount to describe the amounts that result from execution of the budget.
28.4 Scope and objective of the standard

The standard guides the LGA in presenting budget information for external users. It provides the guidance and information needed to be disclosed in the budget in the LGA GPFRs.

IPSAS 24 does not require approved budgets to be made publicly available, nor does it require that the financial statements disclose information about, or make comparisons with, approved budgets that are not made publicly available.

28.5 Presentation of a comparison of budget and actual amounts

LGAs may present a comparison of the budget amounts for which they are held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in GPFRs.

The comparison is based on the original and final budget amounts, the actual amounts on a comparable basis, and by way of note disclosure, an explanation of material differences between the budget and actual amounts. An LGA shall present a comparison of budget and actual amounts as additional budget columns in the primary financial statements only where the financial statements and the budget are prepared on a comparable basis.

When the budget and financial statements are not prepared on a comparable basis, a separate statement of comparison of budget and actual amounts to be produced and presented.

Budget documents may provide great detail about particular activities, programmes or entities. These details are often aggregated into broad classes under common budget heads, budget classifications or budget headings.

LGAs shall present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors by way of disclosure or separate report.

28.6 Disclosures requirements

LGAs that choose to publish budget information shall disclose:

- The budgetary basis and classification basis adopted in the approved budget;
- The period of the approved budget and the entities included in the approved budget;
- Explanation of material differences.

28.7 Review Questions

1. What is main budget information that needs to be reported by LGAs?
2. Explain different basis for preparation of budget information in LGAs.
3. Differentiate between “actual budget” and “final budget”.
4. Explain how an LGAs that chose to publish the budget information should present that information?
5. What are minimum disclosure requirements with regard to IPSAS 24?
29 IPSAS 21 – Impairments of Non-Cash Generating Assets

29.1 Introduction

The non-current assets controlled by either commercial or public sector entity are subject to impairment (reduced production or service delivery capacity) due to specific internal or external factors. In LGAs the non-cash generating assets’ service delivery capacity may be affected and therefore guidance on how it should be dealt with is needed.

IPSAS 21 which is drawn primarily from IAS – Impairment of Assets – published by the IASB sets the accounting treatment of impairment of non-cash generating assets in the LGAs, including indicators of impairment, recognition, measurement and minimum disclosures requirements.

29.2 Learning objectives

After this session participants should be able to:

- Define relevant concepts under IPSAS 21;
- Understand the objectives of IPSAS 21;
- Identify indicators for impairments at LGA;
- Measure recoverable service amounts;
- Account for impairment losses reversals (if any);
- Make relevant disclosures with regard to IPSAS 21.

29.3 Definition of relevant concepts (IPSAS 21, 2013)

1. Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation.

2. An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

3. Cash generating assets are assets held with the primary objective of generating a commercial return.

4. Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

5. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

6. Non-cash generating assets are assets other than cash-generating assets.

7. Value in use of non-cash generating asset is the present value of the asset’s remaining service potential.
29.4 Scope and objective of the standard

This standard describes the accounting treatment and minimum disclosures requirement for non-cash-generating assets. However, it excludes impairment of cash generating assets and current assets such as inventories.

29.5 Identifying that an asset may be impaired

The assessment of indicators for impairment of assets should be made at each reporting date by LGAs. If any of such indications exist, the respective LGA shall estimate the recoverable service amount of the asset.

Impairment Indicators: This can either be internal or external indicators:

- External indicators include: Cessation, or near cessation, of the demand or need for services provided by the asset, changes in central government policy or regulation.
- Internal sources of information include: Physical damage of an asset e.g. due to accident, assets becoming idle and evidence is available that indicates that the service performance of an asset is, or will be, significantly worse than expected.

29.6 Measuring recoverable service amount

The recoverable service amount is the higher of an asset’s fair value, less costs to sell, and its value in use. If either of these amounts exceeds the asset’s carrying amount, the asset is not impaired, and it is not necessary to estimate the other amount. For LGAs many non-cash-generating assets that are held to provide specialized services or public goods to the community, the value in use of the asset is likely to be greater than its fair value less costs to sell.

The value in use of a non-cash-generating asset is the present value of the asset’s remaining service potential to the LGA. It can be determined by the use of depreciated replacement cost, restoration cost or service units approach.

29.7 Recognizing and measuring an impairment loss

Impairment losses arise if the recoverable service amount of an asset is less than its carrying amount, which calls for the reduction to the recoverable service amount. Remember that no assets shall be carried in books for more than their recoverable value. The amount to be reduced as impairment should be recognized as a loss in the statement of financial performance.

However, subsequent depreciation after recognition of impairment shall be adjusted to allocate the asset’s revised carrying amount, less its residual value (if any), over its remaining useful life systematically.

29.8 Reversing an impairment loss

An impairment loss recognized in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable service amount.

A reversal of an impairment loss for an asset shall be recognized immediately in net surplus/deficit. After such a reversal of an impairment loss is recognized, allocate subsequent depreciation on a systematic basis over its remaining useful life.
29.9 Disclosures requirements

LGAs shall disclose the following for each class of assets:

- The amount of impairment losses recognized in the statement of financial performance;
- The amount of reversals of impairment losses (if any) recognized in net surplus/deficit during the period;
- The events and circumstances that led to the recognition or reversal of the impairment loss (if any);
- The nature of the asset and whether the recoverable service amount of the asset is its fair value less cost to sell or its value in use.

29.10 Review questions

1. Identify any five non cash generating assets in LGAs.
2. Explain how you would test for impairment of non-cash generating assets in LGAs.
3. What are the current practice at your LGA in dealing with the revenue from non-cash generating assets?
4. Explain main consideration in addressing the IPSAS 21 compliance gaps (if any) in LGAs.
30 IPSAS 26 – Impairments of Cash Generating Assets

30.1 Introduction

LGAs may have assets whose main purpose is to generate cash flows, popularly called cash generating assets. In the same way as in the commercial sector, these assets may be impaired and so the understanding of their accounting treatment is indispensable. IPSAS 26 therefore is meant to provide guidance on the accounting treatment of impairment of cash generating assets in the LGA context.

30.2 Learning objectives

At the end of this session participants should be able to:

- Define relevant concepts on the IPSAS 26;
- Understand the objective of IPSAS 26;
- Identify cash generating units in the LGA;
- Test, recognize, measure, and report impairment loss of a cash generating unit;
- Make minimum disclosures in relation to impairment.

30.3 Definition of relevant concepts (IPSAS 26, 2013)

The following terms are used in this Standard with the meanings specified (IPSASB, 2013):

1. A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

2. Recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use.

3. Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

4. Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation.

5. An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.
30.4 Scope and objective of the standard

IPSAS 26 prescribes the procedures that LGAs can apply to determine whether a cash-generating asset is impaired, when reversals of impairment are necessary, ensure proper recognition, accounting treatment and minimum disclosures with regard to impairment losses.

30.5 Impairment

LGAs shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, then it shall estimate the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for the individual asset. If not possible, the LGA determines the recoverable amount of the cash-generating unit to which the asset belongs.

An impairment loss shall be recognized for a cash-generating unit if, and only if, the recoverable amount of the unit is less than the carrying amount of the unit. This loss shall be allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit.

The reduction in carrying amounts (impairment loss) on individual assets is then recognized in the statement of financial performance. However, in allocating an impairment loss, an LGA shall not reduce the carrying amount of an asset below the highest of its fair value less costs to sell (if determinable), its value in use (if determinable) and zero.

30.6 Disclosures requirements

The following minimum disclosure requirements should be made in the financial statements:

► The criteria developed to distinguish cash-generating assets from non-cash-generating assets;
► The amount of impairment losses recognized in statement of financial performance for the period, and the line item(s) in which those impairment losses are included;
► The amount of reversals of impairment losses (if any) recognized in statement of financial performance (surplus or deficit) during the period and the line item(s) in which those impairment losses are reversed.

30.7 Review Questions

1. What are cash generating assets in LGAs?
2. Briefly explain the accounting treatment of impairment losses of cash generating assets.
3. What are the indicators of impairment of cash generating assets at LGAs?
4. Define reversals of impairment and state circumstances under which the reversal of impairment is necessary for cash generating asset in LGAs.
5. What are minimum disclosures requirements by LGAs in respect of IPSAS 26?
6. Assess the compliance of your LGA to IPSAS 26.
31 IPSAS 14 – Events after Reporting Period

31.1 Introduction

Some events or conditions occur after the reporting period but before the financial statements are issued for public use. In LGAs, the reporting period is 30th June and reports are issued for public on 30th September. The period between 30th June and 30th September is the after reporting period. An example of event after reporting period was in 2009, when the central government announced a transfer of secondary schools to PMO-RALG. Since this was announced after the preparation of reports but before they were issued for public consumption the treatment of such event was dealt with (supposed to be dealt with) in accordance to IPSAS 14, which is drawn primarily from IAS 10.

31.2 Learning objectives

At the end of the session participants should be able to:

- Understand relevant concepts under IPSAS 14;
- Define the objectives of this standard;
- Understand the relevance of the standard in the LGAs;
- Identify events after reporting in LGA (if any);
- Understand how to deal with events after the end of the reporting period;
- Adjust or disclose events after reporting date in accordance to IPSAS 14.

31.3 Definition of relevant concepts (IPSAS 14, 2013)

The following concepts are used in IPSAS 14 with the following meaning (IPSASB, 2013):

1. **Events after the reporting date**: are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorized for issue.

2. **Adjusting events after the reporting date**: Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date).

3. **Non-adjusting events after the reporting date**: Events that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).
31.4 Scope and objective of the standard

The standard gives guidance on when LGAs should adjust their financial statements for events after the reporting date, and the disclosures that they ought to make.

31.5 Adjustment of financial statements

Authorizing the financial statements for issue means the signing of GPFRs for public use. The date of authorization is a date when the financial reports are signed and authorized for public use.

LGAs shall adjust the amounts recognized in their financial statements to reflect adjusting events after the reporting date.

Examples:
(i) The settlement after the reporting date of a court case that confirms that the entity had an obligation at the reporting date and
(ii) The discovery of fraud or errors that show that the financial statements were incorrect.

LGAs should make no adjustments in their financial statements for non-adjusting events after the reporting date. Instead, the non-adjusting event should be disclosed if material for example includes change in fair value or destruction of an item of non-current assets.

31.6 Disclosure requirements

LGAs shall disclose:

- The date when the financial statements were authorized for issue and who gave that authorization.
- The fact that nobody has the power to amend the financial statements after issuance.

If an LGA receives information after the reporting date (such as the example of 2009 – refer to in the introduction) but before the financial statements are authorized for issue then it shall update disclosures.

An LGA shall disclose:

- Each material category of non-adjusting event after the reporting date;
- The nature of the event; and an estimate of its financial effect, or a statement that such an estimate cannot be made.

31.7 Review Questions

1. Differentiate between “adjusting events” and “non-adjusting event”.
2. What are the accounting treatments that are required in dealing with events after reporting period? Give examples of events that your LGA has encountered during the last 3 reporting periods.
3. What are main disclosures required by IPSAS 14 in dealing with non-adjusting events?
4. What do you consider to be IPSAS 14 compliance gaps in your financial statements?
5. How can the compliance gaps (identified in 5 above) be addressed?
32 IPSAS 31 – Intangible Assets

32.1 Introduction

Among the assets to be reported by LGAs are intangible assets such as computer software, accounting packages (e.g. EPICOR) and the likes. The categories, measurement, recognition, amortization and disclosures of those assets in LGAs are governed by the IPSAS 31 which is primarily drawn from IAS 38 developed by IASB.

32.2 Learning Objectives

At the end of this session the participants should be able to:
- Understand relevant concepts under IPSAS 31;
- Understand the objectives of this standard;
- Understand the relevance of the standard in the LGAs;
- Understand how to categorize and recognize intangible assets;
- Test for impairment and amortize the intangibles, and
- Make necessary disclosures in respect to intangibles.

32.3 Definition of relevant concepts (IPSAS 31, 2013)

The following definitions are provided in IPSAS handbook by IPSASB, 2013:
1. **Intangible asset**: An identifiable non-monetary asset without physical substance.
2. **Carrying amount** is the amount at which an asset is recognized after deducting any accumulated amortization and accumulated impairment losses.
3. **Amortization**: The systematic allocation of the depreciable amount of an intangible asset over its useful life.
4. **Research**: Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
5. **Development**: The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

32.4 Scope and objective of the standard

The standard prescribes the accounting treatment for intangible assets that are not dealt with specifically in other standards. It requires an LGA to recognize an intangible asset only if specified criteria are met. It further specifies measurement of the carrying amount of intangibles and specific disclosures required.
Intangibles assets relevant to LGAs include, computer and other software (e.g. EPICOR) acquired fishing licenses and list of users of a service.

32.5 Measurement and recognition

An intangible asset shall be recognized only if it is probable that the expected future economic benefits or service potential that are related to it will flow to the LGA and its cost or fair value can reliably be measured.

General measurement benchmarks for intangible assets as per IPSAS 31 are:

<table>
<thead>
<tr>
<th>Type</th>
<th>Recognition Measurement criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Separate acquisition</td>
<td>At cost (Purchase price, etc.)</td>
</tr>
<tr>
<td>Acquired through non-exchange/exchange transactions</td>
<td>At fair value (Active market price)</td>
</tr>
<tr>
<td>Internally generated goodwill</td>
<td>Not recognized</td>
</tr>
<tr>
<td>Internally generated intangible asset</td>
<td>As mentioned below</td>
</tr>
</tbody>
</table>

**Internally generated intangible asset**

Generally an internally generated intangible asset is not RECOGNISED due to uncertainty in determining its existence, ability to generate future benefits or service potential and the cost (fair value) of the asset reliably.

In assessing whether an internally generated intangible asset meets the criteria for recognition, consider the following:

**A research phase:** At this phase, no intangible asset shall be recognized at an LGA. Expense the expenditures on research when incurred.

**A development phase:** Recognize an intangible asset if an LGA has prospects to complete, has intention and ability to use/sell it and it is probable that the asset will generate economic benefits or service potentials.

Expenditures on an intangible item shall then be recognized as an expense when incurred unless it forms part of the cost of an intangible asset that meet the recognition criteria.

There is no further recognition as a cost to intangible assets for costs previously expensed under IPSAS 31.

32.6 Subsequent measurement of intangible assets

If LGAs control any intangible assets they may choose either the cost model or the revaluation model as its accounting policy.

- **Cost Model:** Carry an intangible asset at its cost less any accumulated amortization and any accumulated impairment losses at recognition.
- **Revaluation Model:** Carry the asset at a revalued amount, being its fair value (active market) at the date of the revaluation less any subsequent accumulated amortization.
32.7 Disclosures requirements

LGAs shall disclose the followings:

- The amortization methods used for intangible assets with finite useful lives;
- The gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;
- The line item(s) of the statement of financial performance in which any amortization of intangible assets is included, and
- A reconciliation of the carrying amount at the beginning and end of the period.

32.8 Review Questions

1. Outline the main intangibles assets relevant to LGAs.

2. What is the practice at your LGA for recognition, measurement and disclosures of intangibles?

3. Are there any compliance gaps in respect to intangibles reporting at your LGA? What will you do to reduce/eliminate the gap?

32.9 Overall review questions

1. The application of accrual basis in LGAs started since 2009; do you see any improvements in terms of quality of reports?

2. What are the bottlenecks towards implementation of the accrual based IPSASs in LGAs? What should be done?

3. Now that we are already in IPSASs implementation, what do you think are solutions to mitigating the bottlenecks you have mentioned above?
Appendices

Appendix I: Illustrative statement of financial position as per IPSAS 1

XG LGA, Statement of Financial Position as at December 31, 20X2 (In thousands of currency units)

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>X  X</td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Inventories</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Prepayments</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other current assets</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Investments in associates</td>
<td>X  X</td>
<td></td>
</tr>
<tr>
<td>Other financial assets</td>
<td>X  X</td>
<td></td>
</tr>
<tr>
<td>Infrastructure, plant and equipment</td>
<td>X  X</td>
<td></td>
</tr>
<tr>
<td>Land and buildings</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other non-financial assets</td>
<td>X  X</td>
<td></td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>X  X</td>
<td></td>
</tr>
<tr>
<td>Current portion of long-term borrowings</td>
<td>X  X</td>
<td></td>
</tr>
<tr>
<td>Short-term provisions</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Superannuation</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Long-term provisions</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Superannuation</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>NET ASSETS/EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital contributed by</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other government entities</td>
<td>X  X</td>
<td></td>
</tr>
<tr>
<td>Reserves</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Accumulated surpluses/(deficits)</td>
<td>X  X</td>
<td></td>
</tr>
<tr>
<td>Minority interest</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Total net assets/equity</strong></td>
<td>X X X</td>
<td>X X</td>
</tr>
</tbody>
</table>
### Appendix 2: Illustrative statement of financial performance – IPSAS 1

**XGLGA—Statement of Financial Performance for the Year Ended December 31, 20X2 (Illustrating the Classification of Expenses by Function) (TZS 000)**

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Fees, fines, penalties, and licenses</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Revenue from exchange transactions</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Transfers from other government entities</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other revenue</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General public services</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Defence</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Public order and safety</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Education</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Health</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Social protection</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Housing and community amenities</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Recreational, cultural, and religion</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Economic affairs</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Environmental protection</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Share of surplus of associates</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Surplus/(deficit) for the period</strong></td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Attributable to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owners of the controlling entity</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Minority interests</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>XX</td>
<td>XX</td>
</tr>
</tbody>
</table>
### Appendix 3: IPSAS 2 – Indirect method cash flow statement

**XGLGA Statement of Cash Flow for Year Ended 31 December 20X9**

<table>
<thead>
<tr>
<th>CASH FLOWS FROM OPERATING ACTIVITIES</th>
<th>2009 (TZS 000's)</th>
<th>2008 (TZS 000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus/(deficit)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Non-cash movements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Amortization</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Increase in provision for doubtful debts</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Increase in payables</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Increase in borrowings</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Increase in provisions relating to employee costs</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Gains/losses on sale of property, plant and equipment</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Gains/losses on sale of investments</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Increase in other current assets</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Increase in investments due to revaluation</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Increase in receivables</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Net cash flows from operating activities</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM INVESTING ACTIVITIES</th>
<th>2009 (TZS 000's)</th>
<th>2008 (TZS 000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of plant and equipment</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Proceeds from sale of plant and equipment</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Proceeds from sale of investments</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Purchase of foreign currency securities</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Net cash flows from investing activities</strong></td>
<td>(X)</td>
<td>(X)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM FINANCING ACTIVITIES</th>
<th>2009 (TZS 000's)</th>
<th>2008 (TZS 000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from borrowings</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Distribution/dividend to government</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Net cash flows from financing activities</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Net increase/(decrease) in cash and cash equivalents</strong></th>
<th>2009 (TZS 000's)</th>
<th>2008 (TZS 000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents at beginning of period</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of period</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
Appendix 4: IPSAS 2 – Direct method cash flow statement (Paragraph 27(a))

ELGA Cash Flow Statement for Year Ended December 31 20X2 (in thousands of currency units)

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Sales of goods and services</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Grants</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Interest received</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other receipts</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Payments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee costs</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Superannuation</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Suppliers</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Other payments</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Net cash flows from operating activities</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM INVESTING ACTIVITIES</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Purchase of plant and equipment</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Proceeds from sale of plant and equipment</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Proceeds from sale of investments</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Purchase of foreign currency securities</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Net cash flows from investing activities</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM FINANCING ACTIVITIES</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Proceeds from borrowings</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Distribution/dividend to government</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Net cash flows from financing activities</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Net increase/(decrease) in cash and cash equivalents</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of period</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
## Appendix 5: Non-current assets register

<table>
<thead>
<tr>
<th>S/N</th>
<th>Details of Asset</th>
<th>Details of Purchase</th>
<th>Details of cost of asset</th>
<th>Asset location/keeper</th>
<th>Disposal Details</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Asset No.</td>
<td>Description of Asset (including model Number)</td>
<td>Serial Number</td>
<td>Supplier</td>
<td>Manufacturer</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>7</td>
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<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
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</table>
Bibliography


